

THIRD DIVISION

G.R. No. 162802 – EDS MANUFACTURING, INC., Petitioner, v. HEALTHCHECK INTERNATIONAL, INC., Respondent.

Promulgated:

October 9, 2013

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Atcopiana

CONCURRING OPINION

LEONEN, J.:

I agree that Healthcheck International, Inc.'s violation of its contract with Eds Manufacturing, Inc. is substantial. Its violation is enough ground for Eds Manufacturing, Inc. to resolve (or rescind) the contract in accordance with Article 1191 of the Civil Code.

Our jurisprudence, however, is replete with rulings clarifying when the resolving party needs to obtain a judicial decree of resolution.

Indeed, We have held that the right to resolve under Article 1191 of the Civil Code must be invoked judicially.¹ Even if there is a stipulation in the contract that makes available to the parties the right to resolve, the resolving party must still apply to the court for a judicial decree of resolution.² The court decree is the operative act that produces the resolution, not the unilateral act of the resolving party.³ "It cannot be exercised solely on a party's own judgment that the other has committed a breach of the obligation."⁴

However, We have also held that failure to judicially resolve the contract does not invalidate the resolution and that the right to resolve need not be invoked judicially. This is based on Article 1191 which makes the power to resolve an implication of reciprocal obligations. This means that the power emanates from the quality of the obligation – not from a stipulation or judicial decree.

¹ *Rubio de Larena v. Villameva*, 53 Phil. 923 (1928); *Iringan v. Court of Appeals*, G.R. No. 129107, September 26, 2001, 366 SCRA 41, 47.

² *Id.* at 48.

³ *Id.*

⁴ *Philippine Amusement Enterprises, Inc. v. Natividad*, No. L-21876, September 29, 1967, 21 SCRA 284, 289 cited in *Tan v. Court of Appeals*, G.R. No. 80479, July 28, 1989, 175 SCRA 656, 662.

Thus interpreted, a party's failure to comply with what is incumbent upon him or her triggers the other party's right to consider the contract resolved even without instituting court action. If the party who failed to comply does not contest the resolution, then the contract is deemed resolved; the resolution produces legal effects.⁵

The courts step into the picture only when the party who allegedly violated the contract disputes the other party's unilateral resolution.⁶ In that case, the court determines whether there is indeed substantial breach of the contract to justify the party's unilateral resolution of the contract.

We held in *University of the Philippines v. De Los Angeles*:⁷

In other words, the party who deems the contract violated may consider it resolved or rescinded, and act accordingly, without previous court action, but it *proceeds at its own risk*. For it is only the final judgment of the corresponding court that will conclusively and finally settle whether the action taken was or was not correct in law. But the law definitely does not require that the contracting party who believes itself injured must first file suit and wait for a judgment before taking extrajudicial steps to protect its interest. Otherwise, the party injured by the other's breach will have to passively sit and watch its damages accumulate during the pendency of the suit until the final judgment of rescission is rendered when the law itself requires that he should exercise due diligence to minimize its own damages (Civil Code, Article 2203).

We see no conflict between this ruling and the previous jurisprudence of this Court invoked by respondent declaring that judicial action is necessary for the resolution of a reciprocal obligation, since in every case where the extrajudicial resolution is contested only the final award of the court of competent jurisdiction can conclusively settle whether the resolution was proper or not. It is in this sense that judicial action will be necessary, as without it, the extrajudicial resolution will remain contestable and subject to judicial invalidation, unless attack thereon should become barred by acquiescence, estoppel or prescription.⁸

There is, therefore, support in saying that a judicial decree is not necessary to constitute a valid resolution. It is only necessary when the ground for the resolution is in dispute. A judgment on the validity of the resolution settles whether the unilateral resolution is proper.

⁵ *Adelfa Properties, Inc. v. Court of Appeals*, G.R. No. 111238, January 25, 1995, 240 SCRA 565, 588; *See also Sps. Eduardo and Agustin v. CA*, G.R. No. 84751, June 6, 1990, 186 SCRA 375, 381.

⁶ *Adelfa Properties, Inc. v. Court of Appeals*, supra note 5, at 588.

⁷ G.R. No. L-28602, 146 Phil. 108 (1970).

⁸ *Id.* at 115.

In other words, while resolution may be valid even without a judicial decree, the other party may question in court the act of resolution in case of abuse by the resolving party. The party who unilaterally resolves a contract runs the risk of having his or her action corrected by the court by declaring it as invalid if he or she abuses or erroneously uses his or her power to resolve.

The application of power to resolve without judicial action is not limited to contracts that contain a stipulation to that effect. We have clarified that “x x x even without express provision conferring the power of cancellation upon one contracting party, the Supreme Court of Spain, in construing the effect of Article 1124 of the Spanish Civil Code (of which Article 1191 of our own Civil Code is practically a reproduction), has repeatedly held that a resolution of reciprocal or synallagmatic contracts may be made extrajudicially unless successfully impugned in court.”⁹ “x x x [A]bsent any provision providing for a right to rescind, the parties may nevertheless rescind the contract should the other obligor fail to comply with its obligations.”¹⁰

The invalidity of Eds Manufacturing, Inc.’s resolution of its contract with Healthcheck International, Inc. based on its failure to institute a judicial action for resolution is, therefore, disputable. Nevertheless, Eds Manufacturing, Inc.’s resolution is invalid because of its employees’ continued use of Healthcheck International, Inc.’s services even after the contract period. This contradicts the alleged intention to resolve the contract.

WHEREFORE, I vote to **AFFIRM** the Court of Appeals Decision dated November 28, 2003 and Resolution dated March 16, 2004.



MARVIC MARIO VICTOR FAMORCA LEONEN
Associate Justice

⁹ Id. at 116.

¹⁰ *Casiño, Jr. v. Court of Appeals*, G.R. No. 133803, September 16, 2005, 470 SCRA 57, 67-68 citing *Multinational Village Homeowners Association, Inc. v. Ara Security & Surveillance Agency, Inc.*, G.R. No. 154852, October 21, 2004, 441 SCRA 126, 135.