

DIGILINE, INC., PETITIONER, VS. WID ELECTRIC & TECHNICAL SERVICES CO., INC., RESPONDENT.

Ponente: DE GUIA-SALVADOR, R., J.

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DE GUIA-SALVADOR, R., J.:

Filed pursuant to Rule 42 of the 1997 Rules of Civil Procedure, the appeal at bench seeks the reversal and setting aside of the Decision[1] dated April 15, 2013 of the Regional Trial Court of Quezon City, Branch 222 (court a quo), in Civil Case No. Q-09-64488, which affirmed the Decision[2] dated December 2, 2008 of the Metropolitan Trial Court of Quezon City, Branch 37.

The Facts

Markonsult, Inc. (Markonsult) entered into a contract with the International Broadcasting Corporation (IBC 13) for the latter's computerization project for a total sum of One Million Four Hundred Ninety Seven Thousand One Hundred Fifty Pesos (P1,497,150.00).³ In turn, Markonsult contracted the services of respondent WID Electric and Technical Services Co., Inc. (WID Electric) to supply the hardware and software components for the said computerization project. Pursuant thereto, WID Electric delivered to IBC 13 all the computers and servers needed for the project and likewise engaged the services of Digiline, Inc. (Digiline) to supply the following software systems, namely: (i) Accounting Software; (ii) Personnel Information System; (iii) Time and Attendance; (iv) Payroll System; and (v) Stock Inventory System, for a total sum of Three Hundred Thirty Five Thousand Five Hundred Pesos (P335,500.00). On August 14, 2003, Digiline accepted the undertaking and committed to finish the software phase within an eighty day period or until December 3, 2003. Thereafter, WID Electric paid the full contract price to Digiline.[4]

However, problems arose due to Digiline's failure to finish the software systems within the agreed time frame. Hence, WID Electric sent letters to Digiline complaining about the delay and requesting it to give the computerization project preferential attention. Furthermore, a meeting between the representatives of WID Electric and Digiline was held on June 17, 2004 wherein the parties discussed the modifications to the software systems, as well as the remedial measures that will enable the completion of the project without any further delay. Subsequently, Digiline sent to WID Electric a Letter dated June 23, 2004, confirming the matters discussed in the June 17 meeting and likewise promising to "xxx provide you [WID Electric] the SRS [software systems] for PIS [Personnel Information Sheet] and TIS [Time and Attendance Sheet] by Friday, June 25, 2004 for your transmittal to IBC 13." [5] This promise notwithstanding, Digiline failed to comply with its undertaking. Hence, on June 30, 2004, WID Electric wrote to Digiline warning the latter that IBC 13 has threatened to cancel the computerization project due to the delays in the completion of the software systems.[6] Another letter was sent on July 8, 2004 requesting for the immediate submission of the other software systems.[7]

Meanwhile, on July 9, 2004, IBC 13 sent a letter to Markonsult demanding the immediate completion of the project under threats of cancellation thereof. The same demand was forwarded by WID Electric to Digiline on July 15, 2004, accompanied by a warning that the penalties, damages and charges due to the cancellation of the contract shall be imposed against Digiline.[8] On August 3, 2004, IBC 13 made good its threat and cancelled the

contract. Hence, WID Electric demanded from Digiline the return of the full payment (P335,500.00) it had made to the latter, but the same was unheeded.[9]

On April 27, 2005, WID Electric filed a Complaint[10] for Recovery of Sum of Money before the Metropolitan Trial Court of Quezon City (MeTC) praying for the return of the amount of P335,500.00 that it paid to Digiline for the software systems. WID Electric likewise sought to recover P55,000.00 as recoupment of the lost income due to the aborted transaction; P100,000.00 as moral and exemplary damages; P33,550.00 as attorney's fees; as well as the costs of suit.[11]

On August 17, 2005, Digiline filed its Answer,[12] asserting that the Complaint states no cause of action and claiming that it was not a party to the main contract between IBC 13 and Markonsult, much less was a contract forged between it and IBC 13. Furthermore, it avers that the percentage of work it delivered to WID Electric evinces its desire to comply with its obligations to the latter. In fact, the delay in the completion of the software system was attributable to WID Electric and IBC 13, the latter not being able to formulate its requirements or provide sufficient and complete information regarding its desired processes, and imposing modifications midway through the project's development.

On December 2, 2008, the Metropolitan Trial Court (MeTC) ruled in favor of WID Electric, finding that the pieces of evidence it presented are more preponderant than those submitted by Digiline. Furthermore, the MeTC refused to give credence to the claims of Digiline that it was asked to do things not originally included in the contract, thereby causing delay in the completion of the project. Anent this claim, the trial court held that Digiline should have notified WID Electric of its refusal to comply with the additional obligations/modifications to justify its non-performance thereof. There being no objections, it was bound to comply with the contract according to its tenor. The MeTC rendered its decision, the dispositive portion of which reads:

"WHEREFORE, judgment is hereby rendered in favor of the plaintiff and against the defendant, ordering the latter to pay the plaintiff:

The amount of Three Hundred Thirty Five Thousand Five Hundred Pesos (Php335,500.00) Pesos, plus interest at the rate of 12% per annum to be computed from the filing of this complaint until the whole amount shall have been paid;

The amount of Thirty Three Thousand Five Hundred Fifty (Php33,550.00) Pesos for and as attorney's fee; and

The costs of suit.

SO ORDERED."[13]

Aggrieved by the Decision, Digiline filed an appeal before the court a quo.[14]

The RTC Decision

On April 15, 2013, the court a quo rendered the assailed Decision,[15] affirming the ruling of the MeTC, succinctly ratiocinating in this wise:

xxx xxx xxx

"Foremost, the Court notes that assuming there were modifications to the contract between the parties as contended to by defendant-appellant [Digiline], the same does not alter the ultimate conclusion that [Digiline] failed to completely fulfill its obligation to plaintiff-appellee [WID Electric]. Further, the Court opines that the meeting on June 17, 2004 between the parties effectively novated their original agreement as to the terms and conditions thereof, particularly the time when [Digiline] should fulfill his end of the contract.

Under the original contract[,] which is the Purchase Order, the parties agreed on a period of eighty (80) days or until December 3, 2003 for the completion of the project. The Court notes that the parties did not accomplish

the aforesaid deadline and the issue of whose fault is that has in the mind of the Court, been rendered moot by the subsequent meeting of the parties on June 17, 2004, wherein the parties agreed to a June 25, 2004 deadline for [Digiline] to completely comply with his [sic] obligations. Thus, considering that the purchase price was already fully paid and was not amended by the parties, [Digiline's] failure to deliver the SRS for PIS, TAS and Payroll System on the period agreed upon constitutes failure to fulfill its obligation.

[Digiline's] argument that it is neither privy to the contract between Markonsult, Inc and IBC 13 nor between Markonsult, Inc and [WID Electric] is misplaced. First, it cannot deny that it is fully aware that [WID Electric's] contract with it is an adjunct of the latter's project involving IBC 13."[16] xxx (Emphasis supplied)

xxx xxx xxx

The Issues

Undeterred, Digiline filed the instant Petition for Review,[17] seeking the reversal of the ruling of the court a quo, on the following errors, to wit:

I. xxx "THE LOWER COURTS COMMITTED SERIOUS AND REVERSIBLE ERROR IN FINDING THE PETITIONER LIABLE TO RETURN THE MONEY PAID FOR SERVICES RENDERED, DUE TO THE CANCELLATION OF THE CONTRACT BETWEEN MARKONSULT INC AND IBC 13 WHICH PETITIONER IS NOT A PARTY TO;

II. xxx THE LOWER COURTS COMMITTED SERIOUS AND REVERSIBLE ERROR IN ATTRIBUTING DELAY ON THE PART OF THE PETITIONER WITHOUT TAKING INTO CONSIDERATION THE SUBSEQUENTLY ISSUED MODIFICATIONS LIST PETITIONER HAD TO INTEGRATE TO AN ALREADY COMPLETE SOFTWARE SYSTEM;

III. xxx THE LOWER COURTS COMMITTED SERIOUS AND REVERSIBLE ERROR IN FINDING THE PETITIONER LIABLE TO PAY THE RESPONDENT THE FULL AMOUNT OF THREE HUNDRED THIRTY FIVE THOUSAND PESOS DESPITE HAVING COMPLIED SUBSTANTIALLY WITH THE UNDERTAKING BASED ON THE ORIGINAL AGREEMENT, UNDER THE PRINCIPLE OF QUANTUM MERUIT."[18]

The crux of the matter rests on whether or not Digiline is liable to return the full amount of the contract price (P335,500.00) based on its failure to complete the software phase of the IBC 13 computerization project.

Digiline maintains that it should not be held responsible for the cancellation of the contract as it was not a party thereto, and had no privity with either IBC 13 or Markonsult, who are the main parties to the computerization project. Moreover, Digiline avers that the delay in the completion of the project was due to the modifications suddenly imposed by WID Electric and IBC 13.[19] Lastly, Digiline asserts that the amount it received from WID Electric was given in payment of the services it rendered in the development of the software systems. Similarly, the amount of work it performed shows that it substantially complied with its obligation in good faith, and pursuant to Article 1234 of the New Civil Code,[20] it may recover as though there had been a strict and complete fulfillment of its obligation, less the damages suffered by WID Electric. Digiline likewise asserts that the principle of quantum meruit applies for which it may recover a reasonable value for the services it rendered.[21]

On the other hand, respondent WID Electric did not file its Comment.[22]

The Court's Ruling

Upon a meticulous scrutiny of the records, We find the instant appeal bereft of merit.

Digiline was Subcontracted by WID
Electric to Develop the Software

Systems for the Computerization Project of IBC 13

Digiline was subcontracted by WID Electric to provide the software systems for the computerization project of IBC 13. Notably, as can be gleaned from the records, Digiline was well aware that the software systems were being developed by it for IBC 13. In fact, the Purchase Order given by WID Electric to Digiline described the project as the "IBC Software Development".[23] Similarly, the correspondence between Digiline and WID Electric contained references to the fact that the software systems were being created for IBC 13.[24] Furthermore, Digiline had meetings with IBC 13.[25] Accordingly, as the software developer, Digiline directly communicated with IBC 13 to know the latter's requirements and needs.[26] No less than Digiline admitted that it worked in close conjunction with the personnel of IBC 13.[27] WID Electric and Digiline were even called to a meeting by the representatives of IBC 13, including its lawyer, wherein the latter expressed strong doubt that Digiline could finish the program considering its delay in the submission of the software systems, despite the written promise of its general manager.[28] In addition, WID Electric frequently transmitted IBC 13's demands/requests to Digiline. When the project started to suffer from delays, WID Electric notified Digiline that "IBC 13 was pushing for the timely completion of the PIS [Personnel Information Sheet], TAS [Time and Attendance Sheet] and Payroll systems xxx." [29] Similarly, when IBC 13 threatened Markonsult/WID Electric of the cancellation of the project, WID Electric immediately notified Digiline thereof.[30]

Digiline Delayed in the Completion of the Software Systems Thereby Prompting IBC 13 to Cancel the Contract for the Computerization Project

The proximate cause that led to the cancellation of the computerization project was the non-completion of the software systems by Digiline. Particularly, in a Letter dated August 4, 2004, WID Electric notified Digiline's General Manager that in a meeting held with IBC 13, the following lapses were observed, among others, that (i) "the software development project started in July 2004 and remained unfinished to date; (ii) after working for over a year, it is only now that [software systems] are prepared; (iii) while software developer GM [general manager] promised to provide SRS on June 25, 2004, they completed them after a long 28 days; (iv) meetings on the project were often cancelled by the non-availability of the software developer who has not made any technical visit this year. Considering that simple SRS could not be submitted on time and had to be late by 28 days and considering the non-availability of the software developers, client [IBC 13] strongly doubts software developer can finish programs in 48 days. xxx Client therefore elected to cancel project rather than suffer further delay." [31] Evidently, the reason behind the cancellation of the computerization project was Digiline's failure to complete the software programs on time.

Furthermore, no less than Digiline admits its failure to complete the software programs, yet shifts the blame to the modifications imposed by IBC 13/WID Electric midway in the project.[32] Digiline claims that the imposition of modifications "rendered it impossible and futile" for it to complete the project.[33]

We are not persuaded. Digiline was notified by WID Electric as early as May 31, 2004 of IBC 13's desired modifications on the software systems. Subsequently, on June 17, 2004, a meeting was held between Digiline and WID Electric to discuss possible remedial measures to hasten the completion of the project without further delay. Significantly, at no point during the meeting did Digiline object to the modifications or assert its inability to fulfill them. Clearly, its silence on the matter shows its acquiescence to the imposed modifications. In fact, in a Letter dated June 25, 2004, it signified its agreement to the matters discussed in the June 17 meeting. As correctly noted

by the MeTC, Digiline could have easily objected to the modifications to free it from the obligation of complying with the varied terms of the contract. Its failure to do so proves its assent thereto. In fact, Digiline and WID Electric agreed to a fresh period for the submission of the software systems, yet Digiline nonetheless failed to deliver them.

Digiline is Liable To Return the Full
Amount of P335,500.00 to WID Electric

Lastly, Digiline refuses to return the P335,500.00 paid to it by WID Electric, asserting its entitlement thereto under Article 1234 of the New Civil Code and the principle of quantum meruit.

Article 1234 of the New Civil Code does not apply in the instant case. Article 1234 provides that "if the obligation has been substantially performed in good faith, the obligor may recover as though there has been strict and complete fulfillment, less damages suffered by the obligee," given that the latter is benefitted by the former's substantial performance.[34] Essentially, Article 1234 requires an attempt in good faith by the obligor to perform, without any willful or intentional departure therefrom. Specifically, the deviation from the obligation must be slight, and the omission or defect must be technical and unimportant, and must not pervade the whole or be so material that the object which the parties intended to accomplish in a particular manner is not attained. Conversely, the non-performance of a material part of the contract will prevent the performance from amounting to a substantial compliance. Hence, Article 1234 rightfully applies to a situation where the obligor admits breaching the contract after honestly and faithfully performing all the material elements thereof except for some technical aspects that cause no serious harm to the obligee.[35]

Digiline cannot seek refuge under the principle of substantial performance. It cannot be overemphasized that Digiline was subcontracted for the development of a software system, wherein an unfinished program is inoperable and useless to IBC 13 since the latter cannot run an incomplete program. Hence, unless completed, whatever work the former rendered is of no use to the latter. In fact, Digiline removed all the software they developed on the computers of IBC 13 upon the latter's cancellation of the project.[36] Evidently, Digiline's incomplete performance constituted a material breach of the contract, which adversely affected the nature of the obligation that it promised to deliver and the benefits that IBC 13 expected to receive after the former's full compliance, thereby defeating the main purpose of the contract.[37]

Substantial performance works in the sense that by reason of the inconsequential nature of the breach or omission, the law deems the performance as substantial, making it the obligee's duty to pay.[38] The compulsion of payment is predicated on the substantial benefit derived by the obligee from the partial performance.[39] Although compelled to pay, the obligee is nonetheless entitled to an allowance for the sum required to remedy omissions or defects and to complete the work agreed upon.[40] Conversely, the principle of substantial performance is inappropriate when the incomplete performance constitutes a material breach of the contract.[41] A contractual breach is material if it will adversely affect the nature of the obligation that the obligor promised to deliver, the benefits that the obligee expects to receive after full compliance, and the extent that the non-performance defeated the purposes of the contract.[42] Accordingly, for the principle embodied in Article 1234 to apply, the failure of Digiline to comply with their commitment should not defeat the ultimate purpose of the contract.[43]

Neither does the principle of quantum meruit apply in the instant case. Quantum meruit is used to determine the obligor's compensation in the absence of a written agreement for that purpose and hence justifies the payment of a reasonable value for services rendered,[44] to prevent undue enrichment based on the equitable postulate that it is unjust for a party to retain benefit without paying for it.[45] Unless completed, the software systems Digiline was

bound to provide was useless. To reiterate, Digiline removed all the software they developed on the computers of IBC 13 upon the latter's cancellation of the project.[46] Hence, no benefit accrued in favor of IBC 13 which would have authorized the payment of a reasonable amount to Digiline. There was no possibility of unjust enrichment.

Essentially, WID Electric's complaint filed with the trial court is one for the rescission of its contract with Digiline, as it seeks the return of the payment WID Electric had made to Digiline due to the latter's failure to comply with its obligations. It is a rescission under Article 1191 of the Civil Code.[47] The Supreme Court had stated:

"Rescission creates the obligation to return the object of the contract. It can be carried out only when the one who demands rescission can return whatever he may be obliged to restore. Rescission abrogates the contract from its inception and requires a mutual restitution of the benefits received."[48]

In the case at bar, Digiline had removed all the software installed on the computers of IBC 13. And since such software, even if left installed, would remain of no use to IBC 13 due to Digiline's failure to complete the same, then it is only incumbent on Digiline to return the amounts paid by its client WID Electric for Digiline's failure to fulfill its obligations under the contract.

From the foregoing disquisition, We find that the court a quo committed no error in affirming the MeTC decision. Indeed, Digiline is obliged to return the amount of P335,500.00 paid to it by WID Electric due to its failure to deliver the software systems in the IBC 13 computerization project. The award of attorney's fees in the amount of P33,550.00 is likewise affirmed considering that Digiline acted in gross and evident bad faith in refusing to satisfy WID Electric's valid claim, and the same award is just and equitable under the circumstances.[49]

Time and again, We have ruled that the conclusions and findings of fact of trial courts are entitled to great weight and respect on appeal.[50] They are not to be disturbed except for the most compelling reason[51] such as (1) when the conclusion is a finding grounded entirely on speculation, surmises or conjectures; (2) when the inference made is manifestly mistaken, absurd or impossible; (3) when there is grave abuse of discretion; (4) when the judgment is based on a misapprehension of facts; or (5) when the trial court has ignored or overlooked certain facts or circumstances, of weight and significance which, if considered, would alter the result of the case.[52] The same rule applies insofar as the trial court's evaluation of the witnesses' testimonies is concerned.[53] Our perusal of the record yielded no strong and cogent reason as would warrant a departure from the foregoing principles.

WHEREFORE, premises considered, the instant appeal is hereby DENIED for lack of merit. The appealed Decision dated April 15, 2013 of the court a quo in Civil Case No. Q-09-64488 is hereby AFFIRMED.

SO ORDERED.

Rosario, and Dimagiba, JJ., concur.

[1] Rollo, pp. 24-29

[2] Id., pp. 30-33

[3] Id., p. 36

[4] Id., pp. 44; 45

[5] Id., p. 52

[6] Id., pp. 37; 53

[7] Id., pp. 37; 54

[8] Id., pp. 37-38

[9] Id., p. 38

[10] Id., pp. 36-40. The case was filed before the Metropolitan Trial Court of Quezon City, Branch 37 and was docketed as Civil Case No. 34441

[11] Id., p. 39

[12] Id., pp. 69-74

[13] Id., pp. 188-191

[14] Id., pp. 150-151

[15] Id., pp. 24-29

[16] Id., p. 28

[17] Id., pp. 3-18

[18] Id., pp. 9-10

[19] Id., pp. 13-14

[20] Id., p. 15

[21] Id., p. 16

[22] Id., p. 180. Resolution of this Court dated March 5, 2014 noting Respondent WID Electric's non-compliance with the November 22, 2013 Resolution (Rollo, p. 176) requiring it to file its Comment, and thus submitting the Petition for Review for Decision without the respondent's Comment.

[23] Id., p. 35

[24] Id., pp. 43; 46; 47-51; 53; 54; 57; 58

[25] Id., p. 52

[26] Id., p. 101

[27] Id., pp. 82-83

[28] Id., p. 106

[29] Id., p. 103

[30] Id., pp. 103-104

[31] Id., p. 58

[32] Id., p. 85

[33] Id., p. 14

[34] Edgardo L. Paras, Civil Code of the Philippines: Annotated, 1994, pp. 344-345

[35] International Hotel Corporation vs. Joaquin, Jr. and Suarez, G.R. No. 158361, April 10, 2013

[36] Supra. note 1, p. 108

[37] Supra note 36

[38] International Hotel Corporation vs. Joaquin, Jr. and Suarez, supra.

[39] Id.

[40] Id.

[41] Id.

[42] Id.

[43] Id.

[44] Id.

[45] Philippine National Bank vs. Shellink Planners, Inc., G.R. No. 154428, October 20, 2005

[46] Supra. note 1, p. 108

[47] Rivera vs. Del Rosario, G.R. No. 144934, January 15, 2004;

Art. 1191. The power to rescind obligations is implied in reciprocal ones, in case one of the obligors should not comply with what is incumbent upon him.

The injured party may choose between the fulfillment and the rescission of the obligation, with the payment of damages in either case. He may also seek rescission, even after he has chosen fulfillment, if the latter should become impossible.

The court shall decree the rescission claimed, unless there be just cause authorizing the fixing of a period.

This is understood to be without prejudice to the rights of third persons who have acquired the thing, in accordance with articles 1385 and 1388 and the Mortgage Law. (1124)

[48] Philippine National Bank vs. Shellink Planners, Inc., supra., citing Supercars Management and Development Corporation v. Filemon Flores, 487 Phil. 259, 269 (2004).

[49] Article 2208 of the New Civil Code:

In the absence of stipulation, attorney's fees and expenses of litigation, other than judicial costs, cannot be recovered, except:

xxx xxx xxx

(2) When the defendant's act or omission has compelled the plaintiff to litigate with third persons or to incur expenses to protect his interest;

xxx xxx xxx

(5) Where the defendant acted in gross and evident bad faith in refusing to satisfy the plaintiff's plainly valid, just and demandable claim;

xxx xxx xxx

(11) In any other case where the court deems it just and equitable that attorney's fees and expenses of litigation

should be recovered.

xxx xxx xxx

[50] AHS/Philippines, Inc. vs. Court of Appeals, 257 SCRA 319, 329

[51] Heirs of Felicidad Canque vs. Court of Appeals, 275 SCRA 741, 751

[52] Far East Bank and Trust Company vs. Court of Appeals, 256 SCRA 15, 19

[53] National Power Corporation vs. Court of Appeals, 223 SCRA 649, 655

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