

ALMEDA DEVELOPMENT & EQUIPMENT CORP. AND LAURENCE P. ALMEDA, PETITIONERS, VS. METRO MOTORS SALES INC. AND RAY MORENO, RESPONDENTS.

G.R. NO. 152948. September 27, 2006

Ponente: CARPIO MORALES, J.

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CARPIO MORALES, J.:

Assailed by petitioners, Almeda Development & Equipment Corporation (ADEQUIP) and its President Laurence P. Almeda (Almeda), via Petition for Review is the Court of Appeals Decision of September 24, 2001 reducing the actual damages and deleting the moral and exemplary damages, attorney's fees and litigation expenses awarded to them by the Regional Trial Court (RTC) of Makati in a case for breach of contract and damages.

Respondent Metro Motor Sales, Inc. (Metro Motors), through its Special Accounts Manager co-respondent Ray Moreno (Moreno), pre-sold on April 1, 1993 to petitioner ADEQUIP one (1) unit Nissan Vanette 1993 model, preferably white in color, for P530,000 plus charges. On even date, petitioner Almeda deposited the amount of P50,000 with Metro Motors representing downpayment. The parties agreed that the vehicle would be delivered on April 7, 1993.[1]

Respondents, however, failed to deliver the vehicle on the agreed date, drawing petitioners to file on April 27, 1993 with the RTC of Makati a complaint against respondents for breach of contract and damages.

Claiming good faith, respondents proffered that respondent Moreno was of the honest belief that the vehicle would be available by April 7, 1993 as he was expecting an allocation within that period from the assembler, Nissan Motors Philippines, Inc. (NMPI), but that the latter failed to meet its production targets.

By Decision of September 4, 1995,[2] Branch 142 of the Makati RTC, finding that respondents were in bad faith, ordered them to jointly and solidarily pay the following:

- a] To ADEQUIP, as actual damages, the interest on P50,000.00 at the legal rate of 12% per annum from 28 April 1993 when the complaint was served upon defendants until the principal sum was refunded upon court order on 7 November 1994.
- b] To LAURENCE ALMEDA, the amount of FIFTY THOUSAND PESOS (P50,000.00) as moral damages.
- c] To both plaintiffs, the sum of ONE HUNDRED THOUSAND PESOS (P100,000.00) as exemplary damages.
- d] To both plaintiffs, the sum of FIFTY THOUSAND PESOS (P50,000.00) by way of reasonable attorney's fees and litigation expenses.[3] (Emphasis and underscoring supplied)

On appeal, the Court of Appeals, by Decision of September 24, 2001,[4] reversed that of the trial court, it crediting respondents' claim that their failure to deliver the vehicle was due to the limited production capacity of NMPI. And finding no sufficient evidence to declare respondents in bad faith, the appellate court modified the

decision of the trial court by deleting the award of moral and exemplary damages, attorney's fees, and litigation expenses and reducing the rate of interest on the P50,000 downpayment from 12% to the legal rate of 6% per annum.

Hence, arose the present petition for review, raising the following assignment of errors:

- THE HONORABLE COURT OF APPEALS GRAVELY ERRED AND ABUSED ITS DISCRETION IN HOLDING THAT RESPONDENTS DID NOT ACT IN BAD FAITH.
- THE HONORABLE COURT OF APPEALS GRAVELY ERRED AND GRAVELY ABUSED ITS DISCRETION IN MODIFYING THE DECISION DATED SEPTEMBER 4, 1995 OF THE REGIONAL TRIAL COURT, RESULTING IN
- THE DELETION OF THE AWARD OF MORAL AND EXEMPLARY DAMAGES INCLUDING ATTORNEY'S FEES AND LITIGATION EXPENSES.
- THE REDUCTION OF INTEREST PAYMENT FROM 12% TO 6% PER ANNUM. (Emphasis supplied)

To give rise to the award of moral damages in breach of contract cases, the defendant must have acted in bad faith, must be found guilty of gross negligence amounting to bad faith, or must have acted in wanton disregard of contractual obligations.

So *Cagungan v. Planters Development Bank*[5] instructs:

In culpa contractual or breach of contract, as in the case before us, moral damages are recoverable only if the defendant has acted fraudulently or in bad faith, or is found guilty of gross negligence amounting to bad faith, or in wanton disregard of his contractual obligations. (Underscoring supplied)

Bad faith does not simply connote bad judgment or negligence. It involves a dishonest purpose or some moral obliquity, a breach of a known duty through some motive or interest or ill will that partakes of the nature of fraud.[6]

It was thus incumbent for petitioners to show that not only did respondents fail to deliver the vehicle on the date promised - a fact that is not disputed - but also that the promise was made with fraudulent intent.

To prove their thesis that respondents knew all along that they could not fulfill their commitment to deliver the vehicle by April 7, 1993, petitioners banked on the testimonies of petitioner Laurence Almeda and his brother Allan Almeda who both claimed that Manuel Tuason Garcia (Garcia), the Sales Manager of respondent Metro Motors, told them that respondent Moreno should not have promised to deliver the vehicle on April 7, 1993 as they had a "backlog" of deliveries until June that year.

At the witness stand, however, Garcia denied the brothers Almeda's allegation, he claiming that he merely told petitioner Almeda that "there [was] no unit available for delivery on that day,"[7] April 7, 1993.

Another witness for respondents, Aurelio Coronel, then logistics supervisor of Metro Motors who was in charge of inventory of vehicles, declared that when respondent Moreno asked him on April 1, 1993 about the availability of a white unit, he (Coronel) inquired from the Nissan plant which committed to deliver some units on the first week of April 1993.[8] Of the only six units which arrived on April 7, 1993, however, only one was white, petitioners' preferred color. That white unit could not be delivered to petitioners, however, because there was an earlier order for the same color by one Ramon Ayo.[9]

That respondents' failure to deliver the vehicle as promised was indeed attributable to the inability of NMPI to meet its production targets, rather than on any fraudulent intent on the part of respondents, the apology of NMPI

captioned "Why The Nissan Plant Doors Have Not Closed Since November Last Year . . . And Why You Don't Have Your Nissan Vanette Yet"[10] which was published in a newspaper on June 6, 1993, is a mute witness. The apology read:

Normally, our plant doors in Quezon City close at seven every day. Just like any other car plant in the country. But from November of 1992, when we started building the Nissan Vanette Wide Cabs which hit the roads in March of this year, that routine has changed.

You see, at launch time, we did have - ready in our Nissan dealer showrooms - hundreds of units of the Nissan Vanette.

Within two weeks that big number was sold out!

So, we worked doubletime. And workers and engineers were placed on extended hours. To put more Nissan Vanette wide cabs on the road.

Every week we rolled out big batches of our Vanette. In the same week, these drive out of the stores with their new happy owners.

And this has been the same story. Week after week after week.

Naturally, long lines have formed outside our dealer shops.

But, while a long waiting line may be the highest form of compliment, it is never our intention to keep you waiting

x x x

We're truly sorry the wait is taking some time.

x x x

Again Our Deepest Apologies.

The apology, clearly addressed to all those who ordered or pre-purchased Nissan Vanette vehicles, indicates that petitioners and dealer-respondent Metro Motors were not the only ones affected by the delay.

While petitioners assert that the apology could not have covered the transaction subject of this case, it having been published two months after the agreed date of delivery, it is evident therefrom that the delays referred to began long before its publication on June 6, 1993.

That respondents, thru Garcia 1) promptly replied to petitioner Almeda's letter to Metro Motors protesting "the manner in which [it] conducts business and treats its clients,"[11] by letter of April 12, 1993, informing him that the vehicle manufacturer, NMPI, was unable to deliver the unit in time and assuring him that "his order shall be served within fifteen (15) working days,"[12] and thru Moreno 2) later informed Almeda, by letter of May 3, 1993,[13] that a "Savanah Beige" unit was already available and requested "confirmation by paying the balance within three (3) days from receipt [t]hereof" negate any impression of bad faith on their (respondents') part.

Petitioner Almeda admitted not to have claimed the available unit for the reason that "[t]he letter stating that [respondents] can deliver the unit was way over the 15 working days already." [14] Assuming that working days exclude Saturdays and Sundays, however, the fifteenth working day from April 12, 1993 falls exactly on May 3, 1993, the date of Moreno's letter. At all events, even if working days did not exclude Saturdays and Sundays, as petitioner Almeda evidently understood the April 12, 1993 letter, a few days delay is not necessarily reflective of bad faith.

Since, contrary to petitioners' claim, respondents did not willfully, maliciously, and persistently renege on their obligation to deliver the vehicle, the Court of Appeals did not err in holding that these were no sufficient evidence of bad faith. The appellate court's deletion of the award of moral and exemplary damages, attorney's fees and litigation expenses was thus in order.[15] And so was its reduction of the interest rate from 12% to 6%, it being in

accordance with the guideline laid down in *Eastern Shipping Lines, Inc. v. Court of Appeals*[16] on the imposition of interest on actual or compensatory damages arising from a breach of an obligation, not constituting a loan or forbearance of money, to wit:

X X X X

2. When an obligation, not constituting a loan or forbearance of money, is breached, an interest on the amount of damages awarded may be imposed at the discretion of the court at the rate of 6% per annum. . [17]
(Emphasis supplied)

WHEREFORE, the Petition is DENIED.

Costs against petitioners.

SO ORDERED.

Quisumbing, (Chairperson), Carpio, Tinga, and Velasco, Jr., JJ., concur.

[1] Vehicle Sales Confirmation issued by Metro Motors, records, p. 58.

[2] Records, pp. 170-183.

[3] Rollo, p. 59.

[4] CA rollo, p. 142-148. Penned by Associate Justice Juan Q. Enriquez, Jr. with the concurrence of Justices Ruben T. Reyes and Mercedes Gozo- Dadole.

[5] G.R. No. 158674, October 17, 2005, 473 SCRA 259, 271-272.

[6] *Ford Philippines, Inc. v. Court of Appeals*, G.R. No. 99039, February 3, 1997, 267 SCRA 320, 328

[7] TSN, November 7, 1994, p. 23.

[8] TSN, August 9, 1994, p. 9.

[9] Vehicle Sales Confirmation, Exhibit "7" for the defendants (records, p. 229).

[10] Exhibit "1," records, p. 184.

[11] Exhibit "D," records, p. 61.

[12] Exhibit "E," records, p. 62.

[13] Exhibit "4," records, p. 187.

[14] TSN, February 3, 1994, p. 20.

[15] *Legaspi v. CA*, 226 Phil. 24, 32 (1986); *Valiant Machinery v. NLRC*, 322 Phil. 407, 414 (1996).

[16] G.R. No. 97412, July 12, 1994, 234 SCRA 78, 96.

[17] *Id.* at 96.

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