

FIRST DIVISION

[G.R. No. 188986, March 20, 2013]

**GALILEO A. MAGLASANG, DOING BUSINESS UNDER THE NAME
GL ENTERPRISES, PETITIONER, VS. NORTHWESTERN
UNIVERSITY, INC., RESPONDENT.**

D E C I S I O N

SERENO, C.J.:

Before this Court is a Rule 45 Petition, seeking a review of the 27 July 2009 Court of Appeals (CA) Decision in CA-G.R. CV No. 88989,^[1] which modified the Regional Trial Court (RTC) Decision of 8 January 2007 in Civil Case No. Q-04-53660.^[2] The CA held that petitioner substantially breached its contracts with respondent for the installation of an integrated bridge system (IBS).

The antecedent facts are as follows:^[3]

On 10 June 2004, respondent Northwestern University (Northwestern), an educational institution offering maritime-related courses, engaged the services of a Quezon City-based firm, petitioner GL Enterprises, to install a new IBS in Laoag City. The installation of an IBS, used as the students' training laboratory, was required by the Commission on Higher Education (CHED) before a school could offer maritime transportation programs.^[4]

Since its IBS was already obsolete, respondent required petitioner to supply and install specific components in order to form the most modern IBS that would be acceptable to CHED and would be compliant with the standards of the International Maritime Organization (IMO). For this purpose, the parties executed two contracts.

The first contract partly reads:^[5]

That in consideration of the payment herein mentioned to be made by the First Party (defendant), the Second Party agrees to furnish, supply, install and integrate the most modern **INTEGRATED BRIDGE SYSTEM** located at Northwestern University Mock Boat in accordance with the general conditions, plans and specifications of this contract.

SUPPLY & INSTALLATION OF THE FOLLOWING:

INTEGRATED BRIDGE SYSTEM

- A. 2-RADAR SYSTEM
- B. OVERHEAD CONSOLE MONITORING SYSTEM
- C. ENGINE TELEGRAPH SYSTEM

- D. ENGINE CONTROL SYSTEM
- E. WEATHER CONTROL SYSTEM
- F. ECDIS SYSTEM
- G. STEERING WHEEL SYSTEM
- H. BRIDGE CONSOLE

TOTAL COST:	PhP 3,800,000.00
LESS: OLD MARITIME EQUIPMENT TRADE-IN VALUE	1,000,000.00
DISCOUNT	<u>100,000.00</u>
PROJECT COST (MATERIALS & INSTALLATION)	<u>2,700,000.00</u>
(Emphasis in the original)	

The second contract essentially contains the same terms and conditions as follows:
[6]

That in consideration of the payment herein mentioned to be made by the First Party (defendant), the Second Party agrees to furnish, supply, install & integrate the most modern **INTEGRATED BRIDGE SYSTEM located at Northwestern University MOCK BOAT** in accordance with the general conditions, plans and specifications of this contract.

SUPPLY & INSTALLATION OF THE FOLLOWING:

1. ARPA RADAR SIMULATION ROOM

x x x x

2. GMDSS SIMULATION ROOM

x x x x

TOTAL COST: PhP 270,000.00

(Emphasis in the original)

Common to both contracts are the following provisions: (1) the IBS and its components must be compliant with the IMO and CHED standard and with manuals for simulators/major equipment; (2) the contracts may be terminated if one party commits a substantial breach of its undertaking; and (3) any dispute under the agreement shall first be settled mutually between the parties, and if settlement is not obtained, resort shall be sought in the courts of law.

Subsequently, Northwestern paid P1 million as down payment to GL Enterprises. The former then assumed possession of Northwestern's old IBS as trade-in payment for its service. Thus, the balance of the contract price remained at P1.97 million. [7]

Two months after the execution of the contracts, GL Enterprises technicians delivered various materials to the project site. However, when they started installing the components, respondent halted the operations. GL Enterprises then asked for an explanation. [8]

Northwestern justified the work stoppage upon its finding that the delivered

equipment were substandard.^[9] It explained further that GL Enterprises violated the terms and conditions of the contracts, since the delivered components (1) were old; (2) did not have instruction manuals and warranty certificates; (3) contained indications of being reconditioned machines; and (4) did not meet the IMO and CHED standards. Thus, Northwestern demanded compliance with the agreement and suggested that GL Enterprises meet with the former's representatives to iron out the situation.

Instead of heeding this suggestion, GL Enterprises filed on 8 September 2004 a Complaint^[10] for breach of contract and prayed for the following sums: P1.97 million, representing the amount that it would have earned, had Northwestern not stopped it from performing its tasks under the two contracts; at least P100,000 as moral damages; at least P100,000 by way of exemplary damages; at least P100,000 as attorney's fees and litigation expenses; and cost of suit. Petitioner alleged that Northwestern breached the contracts by ordering the work stoppage and thus preventing the installation of the materials for the IBS.

Northwestern denied the allegation. In its defense, it asserted that since the equipment delivered were not in accordance with the specifications provided by the contracts, all succeeding works would be futile and would entail unnecessary expenses. Hence, it prayed for the rescission of the contracts and made a compulsory counterclaim for actual, moral, and exemplary damages, and attorney's fees.

The RTC held both parties at fault. It found that Northwestern unduly halted the operations, even if the contracts called for a completed project to be evaluated by the CHED. In turn, the breach committed by GL Enterprises consisted of the delivery of substandard equipment that were not compliant with IMO and CHED standards as required by the agreement.

Invoking the equitable principle that "each party must bear its own loss," the trial court treated the contracts as impossible of performance without the fault of either party or as having been dissolved by mutual consent. Consequently, it ordered mutual restitution, which would thereby restore the parties to their original positions as follows:^[11]

Accordingly, plaintiff is hereby ordered to restore to the defendant all the equipment obtained by reason of the First Contract and refund the downpayment of P1,000,000.00 to the defendant; and for the defendant to return to the plaintiff the equipment and materials it withheld by reason of the non-continuance of the installation and integration project. In the event that restoration of the old equipment taken from defendant's premises is no longer possible, plaintiff is hereby ordered to pay the appraised value of defendant's old equipment at P1,000,000.00. Likewise, in the event that restoration of the equipment and materials delivered by the plaintiff to the defendant is no longer possible, defendant is hereby ordered to pay its appraised value at P1,027,480.00.

Moreover, plaintiff is likewise ordered to restore and return all the equipment obtained by reason of the Second Contract, or if restoration or

return is not possible, plaintiff is ordered to pay the value thereof to the defendant.

SO ORDERED.

Aggrieved, both parties appealed to the CA. With each of them pointing a finger at the other party as the violator of the contracts, the appellate court ultimately determined that GL Enterprises was the one guilty of substantial breach and liable for attorney's fees.

The CA appreciated that since the parties essentially sought to have an IBS compliant with the CHED and IMO standards, it was GL Enterprises' delivery of defective equipment that materially and substantially breached the contracts. Although the contracts contemplated a completed project to be evaluated by CHED, Northwestern could not just sit idly by when it was apparent that the components delivered were substandard.

The CA held that Northwestern only exercised ordinary prudence to prevent the inevitable rejection of the IBS delivered by GL Enterprises. Likewise, the appellate court disregarded petitioner's excuse that the equipment delivered might not have been the components intended to be installed, for it would be contrary to human experience to deliver equipment from Quezon City to Laoag City with no intention to use it.

This time, applying Article 1191 of the Civil Code, the CA declared the rescission of the contracts. It then proceeded to affirm the RTC's order of mutual restitution. Additionally, the appellate court granted P50,000 to Northwestern by way of attorney's fees.

Before this Court, petitioner rehashes all the arguments he had raised in the courts *a quo*.^[12] He maintains his prayer for actual damages equivalent to the amount that he would have earned, had respondent not stopped him from performing his tasks under the two contracts; moral and exemplary damages; attorney's fees; litigation expenses; and cost of suit.

Hence, the pertinent issue to be resolved in the instant appeal is whether the CA gravely erred in (1) finding substantial breach on the part of GL Enterprises; (2) refusing petitioner's claims for damages, and (3) awarding attorney's fees to Northwestern.

RULING OF THE COURT

Substantial Breaches of the Contracts

Although the RTC and the CA concurred in ordering restitution, the courts *a quo*, however, differed on the basis thereof. The RTC applied the equitable principle of mutual fault, while the CA applied Article 1191 on rescission.

The power to rescind the obligations of the injured party is implied in reciprocal obligations, such as in this case. On this score, the CA correctly applied Article 1191,