

THIRD DIVISION

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

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

D E C I S I O N

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:

A. THE HONORABLE COURT OF APPEALS GRAVELY ERRED AND ABUSED ITS DICRECTION **IN HOLDING THAT RESPONDENTS DID NOT ACT IN BAD FAITH.**

B. 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 Cagunon 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.