

# FIRST DIVISION

[ G.R. Nos. 200934-35, June 19, 2019 ]

**LA SAVOIE DEVELOPMENT CORPORATION, PETITIONER, VS.  
BUENAVISTA PROPERTIES, INC., RESPONDENT.**

## DECISION

**JARDELEZA, J.:**

This is a petition for review on *certiorari*<sup>[1]</sup> assailing the November 4, 2011 Decision<sup>[2]</sup> and February 24, 2012 Resolution<sup>[3]</sup> of the Court of Appeals (CA) in the consolidated cases of CA-G.R. SP Nos. 102114 and 104413. The assailed Decision and Resolution: (1) annulled the Resolution<sup>[4]</sup> of the Regional Trial Court of Makati-Branch 149 (Rehabilitation Court) reducing the penalty imposed against petitioner; and (2) annulled the Order<sup>[5]</sup> of the Rehabilitation Court preventing the implementation of the Decision of the Regional Trial Court of Quezon City-Branch 217 (QC RTC).

We partly modify the Decision of the CA and restate that a court-approved rehabilitation plan may provide for a reduction in the liability for contractual penalties incurred by the distressed corporation.

On May 7, 1992, Spouses Frisco and Amelia San Juan, and Spouses Felipe and Blesilda Buencamino (collectively, the landowners), through their attorney-in-fact Delfin Cruz, Jr., entered into a Joint Venture Agreement (JVA) with La Savoie Development Corporation (petitioner) over three parcels of land (the properties) located at San Rafael, Bulacan. Under the JVA, petitioner undertook to completely develop the properties into a commercial and residential subdivision (project) on or before May 5, 1995. If petitioner fails to do so within the schedule, it shall pay the landowners a penalty of P10,000.00 a day until completion of the project.<sup>[6]</sup> On May 26, 1994, the landowners sold the properties to Josephine Conde, who later assigned all her rights and interest therein to Buenavista Properties, Inc. (respondent).<sup>[7]</sup> Unfortunately, petitioner did not finish the project on time. Thus, it executed an Addendum to the JVA with respondent, extending the completion of the project until May 5, 1997.<sup>[8]</sup> However, petitioner still failed to meet the deadline.

On February 28, 1998, respondent filed a complaint for termination of contract and recovery of property with damages against petitioner before the QC RTC. The case was docketed as Civil Case No. Q-98-33682.<sup>[9]</sup> Petitioner failed to appear during pre-trial, and was declared in default.<sup>[10]</sup> Respondent presented its evidence *ex-parte*.<sup>[11]</sup>

Meanwhile, due to the 1997 Asian financial crisis, petitioner anticipated its inability to pay its obligations as they fall due; thus, on April 25, 2003, it filed a petition for

rehabilitation before the Regional Trial Court of Makati (Makati RTC).<sup>[12]</sup> On June 4, 2003, the Makati RTC issued an Order (Stay Order),<sup>[13]</sup> staying the enforcement of all claims, whether for money or otherwise, and whether such enforcement is by court action or otherwise, against petitioner. It appointed Rito C. Manzana as rehabilitation receiver.

Subsequently, petitioner filed a manifestation<sup>[14]</sup> dated June 21, 2003 before the QC RTC. It informed the court that a Stay Order was issued by the Makati RTC, and that respondent was included as one of the creditors in the petition for rehabilitation. It accordingly asked the QC RTC to suspend its proceedings.

It appears, however, that the QC RTC already rendered a Decision<sup>[15]</sup> on June 12, 2003 (QC RTC Decision), the dispositive portion of which reads:

WHEREFORE, judgment is hereby rendered in favor of the plaintiff [herein respondent] and against the defendant [herein petitioner]:

1. Terminating the Joint Venture Agreement and the Addendum to [the] Joint Venture Agreement x x x;
2. Ordering the defendant to deliver to the plaintiff possession of the Buenavista Park Subdivision together with all improvements thereon;
3. Ordering the defendant to pay the plaintiff the amount of Ten Thousand Pesos (P10,000.00) a day representing the penalty for each day of delay computed from March 3, 1998 (when this case was filed) and until paid.
4. Ordering the defendant to pay plaintiff the amount of One Hundred Thousand Pesos (P100,000.00) as and for attorney's fees.

Costs against the defendant.

SO ORDERED.<sup>[16]</sup>

Meantime, in its Order dated October 1, 2003, the Makati RTC lifted the Stay Order and dismissed the petition for rehabilitation. However, on appeal, the CA, in its Decision dated June 21, 2005, reversed the Makati RTC.<sup>[17]</sup> It remanded the case to the trial court for further proceedings.

Subsequently however, the rehabilitation receiver resigned, and petitioner filed an omnibus motion for appointment of a new receiver. Before the Makati RTC could act on the omnibus motion, the position of the Presiding Judge became vacant; thus, the Presiding Judge of Branch 61 heard the case. Thereafter, the case was transferred to the Rehabilitation Court. On September 21, 2006, the Rehabilitation Court appointed Anna Liza M. Ang-Co as petitioner's new rehabilitation receiver.<sup>[18]</sup>

Meanwhile, respondent moved for the execution of the QC RTC Decision.<sup>[19]</sup> On November 21, 2007, the QC RTC issued a writ of execution to Deputy Sheriff

Reynaldo Madolaria (Sheriff Madolaria). In turn, petitioner filed before the Rehabilitation Court an extremely urgent motion for the issuance of an order to prohibit deputy Sheriff Madolaria of the QC RTC from enforcing the writ of execution.  
[20]

In its December 28, 2007 Order,<sup>[21]</sup> the Rehabilitation Court directed Sheriff Madolaria to: (a) stop the execution of the QC RTC Decision; (b) return and restore the ejected residents of the subject property; and (c) lift the notices of garnishment and notices of levy upon personal as well as real properties of petitioner.<sup>[22]</sup> Respondent challenged this Order in its petition for *certiorari* before the CA docketed as CA-G.R. SP No. 102114.<sup>[23]</sup>

In the interim, petitioner entered into separate Compromise Agreements with two of its creditors - Home Guaranty Corporation (HGC) and Planters Development Bank. The Rehabilitation Court approved the agreements over the opposition of respondent. Petitioner filed an Amended Revised Rehabilitation Plan (ARRP), proposing the condonation of all past due interest, penalties and other surcharge, *dacion en pago* arrangement to settle obligation with HGC, including respondent's claim against petitioner. The rehabilitation receiver filed her recommendation with the Rehabilitation Court.<sup>[24]</sup>

On June 30, 2008, the Rehabilitation Court issued a Resolution<sup>[25]</sup> approving the ARRP with modifications. Among others, it reduced into half the amount of penalty stated in the QC RTC Decision, viz.:

4. x x x

- d. **It appears that the impose (*sic*) penalty of P10,000.00 for each day of delay, from the time this petition was filed on April 25, 2003 up to the conclusion of this rehabilitation plan is quite unconscionable and unreasonable considering that petitioner is under rehabilitation, hence the same shall not be considered for payment under this rehabilitation plan.** Moreover, under the wisdom of the Supreme Court in the case of Filinvest Land, Inc. vs. Court of Appeals, (G.R. No. 138980, September 20, 2005), it reduced the penalty from P3.99 million to P1.881 million. (Also in the case of Domel Trading Corporation vs. Court of Appeals, G.R. No. 84848, September 22, 1999; and Antonio Lo vs. Court of Appeals, G.R. No. 141434, February 9, 1998). **Thus, the penalty for payment under this plan for Buenavista Properties is P5,000.00 per day of delay from March 3, 1998 up to June 4, 2003 only (date of Stay Order).**<sup>[26]</sup> (Emphasis supplied.)

Respondent questioned the June 30, 2008 Resolution of the Rehabilitation Court in its petition for review before the CA, docketed as CA-G.R. SP No. 104413. The CA consolidated CA-G.R. SP Nos. 102114 and 104413 in a Resolution dated August 12, 2008.<sup>[27]</sup>

The CA granted respondent's petition under CA-G.R. SP No. 102114. It annulled the

December 28, 2007 Order of the Rehabilitation Court, which enjoined Sheriff Madolaria from implementing the writ of execution issued by the QC RTC. The CA ruled that the Rehabilitation Court does not have the power to restrain or order a co-equal court to desist from executing its final and executory judgment because that power lies with the higher courts. It, however, noted that the QC RTC should have exercised prudence in issuing the writ of execution since there is a standing Stay Order on all claims against petitioner, and the judgment in Civil Case No. Q-98-33682 falls within the term "claim" as provided under Section 6(c) of Presidential Decree No. (PD) 902-A.<sup>[28]</sup> The writ of execution was thus issued in violation of the Stay Order.<sup>[29]</sup>

On the other hand, the CA partly granted respondent's petition under CA-G.R. SP No. 104413. The CA rejected respondent's claim that the Rehabilitation Court lost jurisdiction when it did not act upon the petition for rehabilitation within the time provided in the 2000 Interim Rules of Procedure on Corporate Rehabilitation (Interim Rules).<sup>[30]</sup> It stated that Rule 4, Section 11 of the Interim Rules allows for extensions of time in resolving petitions for rehabilitations. In fact, the Office of the Court Administrator favorably acted upon the extensions of time sought by the Rehabilitation Court.<sup>[31]</sup>

The CA, however, agreed with respondent that the Rehabilitation Court cannot modify the final judgment of the QC RTC with respect to the amount of penalty to be paid by petitioner. It ruled that the Rehabilitation Court could suspend the payment of the claim or provide an extended period of payment. Further, the CA observed that respondent's claim for penalties is based on the JVA. It held that the Rehabilitation Court cannot change the rate of penalty without impairing the stipulation between the parties. Accordingly, the CA annulled the ARRP insofar as it reduced the amount of penalty.<sup>[32]</sup> Petitioner sought partial reconsideration, which the CA denied.

In this petition, we resolve: (1) whether CA erred in annulling the June 30, 2008 Resolution of the Rehabilitation Court insofar as it reduced by half the amount of penalty adjudged in the QC RTC Decision; and (2) whether the CA erred in annulling the December 28, 2007 Order of the Rehabilitation Court preventing Sheriff Madolaria from implementing the QC RTC Decision.

Inextricably related with the first issue is the nature of the QC RTC Decision. Respondent submits that the QC RTC Decision had already attained finality, thus the Rehabilitation Court cannot reduce the penalty imposed. It insists that the cram down power of the Rehabilitation Court is irrelevant and inapplicable.<sup>[33]</sup> A preliminary question, upon which the resolution of the first issues depends on, therefore arises—whether the QC RTC Decision attained finality.<sup>[34]</sup>

On the second issue, petitioner contends that the Rehabilitation Court had the right to assert itself and enjoin the execution of the QC RTC Decision because it was rendered in violation of the Stay Order. According to petitioner, respondent pursued the case in the QC RTC to gain illicit advantage over the other creditors of petitioner. Petitioner avers that the CA should have instead nullified the writ of execution, or the improper levies made by Sheriff Madolaria pursuant to the writ.<sup>[35]</sup>

For its part, respondent relies on our Resolution<sup>[36]</sup> in *La Savoie Development Corporation v. Buenavista Properties, Inc.* In that case, petitioner raised the issue of whether the Stay Order binds respondent. Respondent alleges that we sustained the jurisdiction of the QC RTC and upheld the decision of that court in Civil Case No. Q-98-33682.<sup>[37]</sup> Hence, petitioner is precluded from raising for adjudication any issue relative to the Stay Order and its effects, because our February 19, 2007 Resolution has become the law of the case.<sup>[38]</sup>

We find the petition partly meritorious.

## I

Republic Act No. 10142 or the Financial Rehabilitation and Insolvency Act of 2010 (FRIA) defines "rehabilitation" as the restoration of the debtor to a condition of successful operation and solvency, if it is shown that its continuance of operation is economically feasible and its creditors can recover by way of the present value of payments projected in the plan, more if the debtor continues as a going concern than if it is immediately liquidated.<sup>[39]</sup> We explained the essence of corporate rehabilitation in *Philippine Asset Growth Two, Inc. v. Fastech Synergy Philippines, Inc.*,<sup>[40]</sup> viz.:

[C]orporate rehabilitation contemplates a continuance of corporate life and activities in an effort **to restore and reinstate the corporation to its former position of successful operation and solvency, the purpose being to enable the company to gain a new lease on life and allow its creditors to be paid their claims out of its earnings.** Thus, the basic issues in rehabilitation proceedings concern the viability and desirability of continuing the business operations of the distressed corporation, all with a view of effectively restoring it to a state of solvency or to its former healthy financial condition through the adoption of a rehabilitation plan.<sup>[41]</sup> (Emphasis in the original; citations omitted.)

Corporate rehabilitation traces its roots to Act No. 1956 or the Insolvency Law of 1909. The amendatory provisions of PD 902-A, clothed the Securities and Exchange Commission (SEC) with jurisdiction to hear petitions of corporations for declaration of state of suspension of payments. Such jurisdiction was, however, transferred to the Regional Trial Court in 2000. Presently, the FRIA is the prevailing law on corporate rehabilitation.<sup>[42]</sup> In this case, since the petition for rehabilitation was filed on April 25, 2003, the provisions of PD 902-A, as amended, and the Interim Rules apply.

Section 6(c) of PD 902-A, as amended, provides that "upon appointment of a management committee, rehabilitation receiver, board or body, pursuant to this Decree, all actions for claims against corporations, partnerships or associations under management or receivership pending before any court, tribunal, board or body shall be suspended accordingly." Similarly, Section 6, Rule 4 of the Interim Rules states that if the court finds the petition for rehabilitation to be sufficient in form and substance, it shall, not later than five days from the filing of the petition, issue an order which, *inter alia*, stays the enforcement of all claims against the debtor, its guarantors and sureties not solidarity liable with the debtor. The purpose of the suspension is to prevent a creditor from obtaining an advantage or preference