

## THIRD DIVISION

[ G.R. No. 110203, May 09, 2001 ]

**DEVELOPMENT BANK OF THE PHILIPPINES, PETITIONER, VS.  
COURT OF APPEALS, MANILA MANOR HOTEL, INC., AND  
SPOUSES GREGORIO AND LUZ DIZON, RESPONDENTS.**

### D E C I S I O N

#### **PANGANIBAN, J.:**

The doctrine of *res judicata* bars the relitigation of the same cause of action over the same subject matter by substantially the same litigators. This principle frees the parties from undergoing all over again the rigors of unnecessary suits and repetitious trials. At the same time, it prevents the clogging of court dockets. Equally important, it stabilizes rights and promotes the rule of law.

#### The Case

Before us is a Petition for Review under Rule 45 of the Rules of Court, seeking the reversal of the December 28, 1992 Decision<sup>[1]</sup> of the Court of Appeals in CA-GR CV No. 05542. The dispositive portion of the assailed Decision reads as follows:

"WHEREFORE, the order appealed from is hereby REVERSED and SET ASIDE and Civil Case No. 84-24513 for annulment and damages is hereby reinstated. Let the records thereof be remanded to the court a quo for further proceedings. No costs."<sup>[2]</sup>

Also challenged is the May 11, 1993 CA Resolution denying the Motion for Reconsideration.

The instant case originated from the Order<sup>[3]</sup> dated March 14, 1985, issued by the Regional Trial Court (RTC) of Manila (Branch 17). On the ground of *res judicata*, the trial court dismissed Civil Case No. 84-24513 entitled, "*The Manila Manor Hotel, Inc. v. The Development Bank of the Philippines*." Ruled the RTC:

"Wherefore, the Order dated December 19, 1984 is hereby reconsidered and set aside, and this case is DISMISSED. No special pronouncement as to cost of suit."<sup>[4]</sup>

#### The Facts

On May 21, 1984, Manila Manor Hotel, Inc. filed before the RTC of Manila a Complaint for Annulment and Damages (Civil Case No. 84-24513) against the

Development Bank of the Philippines (DBP).<sup>[5]</sup> On August 10, 1984, DBP filed a Motion to Dismiss on the ground of *res judicata*.<sup>[6]</sup> It argued that in Special Proceeding No. 83-17979 entitled "*Gregorio Dizon, et al., v. DBP, et al.*," the December 8, 1983 Order<sup>[7]</sup> of the RTC of Manila (Branch 33) had dismissed the legally identical action for failure to prosecute on the part of therein plaintiffs (the spouses Dizon).<sup>[8]</sup> This earlier civil case, a Petition for Declaratory Relief, had been filed on June 6, 1983.<sup>[9]</sup>

On September 12, 1984, the RTC (Branch 17) granted the Motion to Dismiss Civil Case No. 84-24513.<sup>[10]</sup>

On October 19, 1984, Manila Manor Hotel, Inc. filed a Motion for Reconsideration, which the trial court<sup>[11]</sup> granted on December 19, 1984, in these words:

"After due consideration of the plaintiff's motion for reconsideration dated August 4, 1984 which shows that for one reason the dismissal order dated December 8, 1983 in Civil Case No. 83-17979 could not be taken to have the effect of an adjudication upon the merit, and therefore, *res judic[a]ta* will not lie, the order dated September 12, 1984 dismissing the complaint in the instant case is hereby reconsidered and set aside."<sup>[12]</sup>

Subsequently, Petitioner DBP (defendant therein) filed its own Motion for Reconsideration<sup>[13]</sup> of the December 19, 1984 Order. After hearing the parties, the trial court, on March 14, 1985, set aside its December 19, 1984 Order and, once again, dismissed Civil Case No. 84-24513.<sup>[14]</sup>

### Ruling of the Court of Appeals

The Court of Appeals ruled that *res judicata* cannot bar the Manila Manor Complaint. *First*, it opined that there was no identity of parties between Special Proceedings No. 83-17979 for declaratory relief and Civil Case No. 84-24513 for annulment and damages. *Second*, it also held that there was no identity of subject matter and cause of action between the two cases. It declared: "No amount of reconciliation and/or interpretation of the allegations and prayers of the two (2) cases could justify a conclusion that the Special Proceedings (No. 83-17979) for declaratory relief under Rule 64 of the Rules of Court, which merely seeks a declaration of the rights and duties of the Dizon spouses and the DBP under the mortgage contract and Presidential Decree No. 385, apparently x x x non-adversarial proceedings and the Civil Case for annulment and damages, a highly contentious [case] are one and identical to the other." It added that the evidence that would sustain the civil case was "not necessarily the same evidence that would have been presented in the Special Proceedings for declaratory relief had [the latter] not been dismissed on a technicality."

Hence, this Petition.<sup>[15]</sup>

Petitioner submits the following grounds for reversing the assailed CA Decision:

"I

Whether or not the Respondent Court abused its discretion when it whimsically and capriciously disregarded its earlier finding that there [was] here a commingling of personalities of the spouses (Gregorio & Luz Dizon) and the Manila Manor Hotel, Inc. x x x[, a] finding [that] made possible the allowance of an otherwise filed-out-of-time Appellant's Brief.

"II

Whether or not the Respondent Court erred when it said that there [was] no identity of parties in the instant case.

"III

Whether or not the Respondent Court erred when it said that there [was] no identity of cause of action in the instant case.

"IV

Whether or not the Respondent Court erred in its appreciation and application of the cases it cited in its questioned decision."<sup>[16]</sup>

In the main, petitioner asks the Court to determine whether *res judicata* is a bar to the complaint filed by Manila Manor Hotel in Civil Case No. 84-24513.

The Court's Ruling

The Petition is meritorious.

Main Issue:  
*Res Judicata*

*Res judicata* or bar by prior judgment is a doctrine which holds that a matter that has been adjudicated by a court of competent jurisdiction must be deemed to have been finally and conclusively settled if it arises in any subsequent litigation between the same parties and for the same cause.<sup>[17]</sup> Thus, "[a] final judgment on the merits rendered by a court of competent jurisdiction is conclusive as to the rights of the parties and their privies and constitutes an absolute bar to subsequent actions involving the same claim, demand, or cause of action."<sup>[18]</sup> *Res judicata* is based on the ground that "the party to be affected, or some other with whom he is in privity, has litigated the same matter in a former action in a court of competent jurisdiction, and should not be permitted to litigate it again."<sup>[19]</sup>

It frees the parties from undergoing all over again the rigors of unnecessary suits and repetitive trials. At the same time, it prevents the clogging of court dockets. Equally important, it stabilizes rights and promotes the rule of law.

For the doctrine to apply, four requisites must be met: (1) the former judgment or order must be final; (2) it must be a judgment or an order on the merits; (3) it must have been rendered by a court having jurisdiction over the subject matter and the parties; and (4) there must be, between the first and the second actions, identity of parties, of subject matter and of cause of action.<sup>[20]</sup>

We believe that all four requisites have been satisfied in the present case.

*First Requisite:*

*Finality of the RTC Order*

The December 8, 1983 Order issued by the RTC of Manila (Branch 33) dismissing Special Proceedings No. 83-17979 was a final order. As explained in *De Ocampo v. Republic*:

"An order is deemed final when it finally disposes of the pending action so that nothing more can be done with it in the lower court (*Mejia v. Alimorong*, 4 Phil. 572; *Insular Government v. Roman Catholic Bishop of Nueva Segovia*, 17 Phil. 487; *People v. Macaraig*, 54 Phil. 904). In other words, a final order is that which gives an end to the litigation (*Olsen & Co. v. Olsen*, 48 Phil. 238). The test to ascertain whether an order is interlocutory or final is: does it leave something to be done in the trial court with respect to the merits of the case? If it does, it is interlocutory; if it does not, it is final. (*Moran*, Comments on the Rules of Court, Vol. 1, 3rd ed. pp. 806-807). A final order is that which disposes of the whole subject-matter or terminates the particular proceedings or action, leaving nothing to be done but to enforce by execution what has been determined (2 Am Jur., section 22, pp. 861-862). *Reyes v. De Leon*, G.R. No. L-3720, June 24, 1952)."<sup>[21]</sup>

An order of dismissal of a complaint is a final disposition because, after its issuance, nothing else need be done by the trial court in respect to the merits of the case.

*Second Requisite:*

*Judgment on the Merits*

Petitioner contends that the December 8, 1983 Order had the effect of an adjudication upon the merits. We agree. Section 3, Rule 17 of the Rules of Court<sup>[22]</sup> in effect at the time, provided:

"SEC. 3. *Failure to prosecute.* -- **If plaintiff fails to appear at the time of the trial**, or to prosecute his action for an unreasonable length of time, or to comply with these rules or any order of the court, the action may be dismissed upon motion of the defendant or **upon the court's own motion**. This dismissal shall have the effect of **an adjudication**

**upon the merits**, unless otherwise provided by court." (emphasis supplied)

Because the trial judge did not state that the dismissal was without prejudice, it is therefore clear, following the above-mentioned provision, that the Order was an adjudication upon the merits.

*Third Requisite:*

*Court of Competent Jurisdiction*

The RTC of Manila (Branch 33), which issued the December 8, 1983 Order of dismissal, had jurisdiction to hear and decide the Petition for Declaratory Relief<sup>[23]</sup> filed by the spouses Dizon. *Ergo*, it also has the power to order the dismissal of the action when warranted by the circumstances.

*Fourth Requisite:*

*Identity of Parties, Subject*

*Matter and Cause of Action*

In Special Proceedings No. 83-17979, the petitioners were Spouses Gregorio V. Dizon and Luz Mojares-Dizon, while the respondents were the Development Bank of the Philippines and the City Sheriff of Manila. The subject matter was the mortgage contract executed by the Dizon spouses and the DBP for the construction of the Manila Manor Hotel. The cause of action was the declaration of the rights and duties of petitioners and respondents under Presidential Decree No. 385 and the said mortgage contracts.

In Civil Case No. 84-24513, the litigants were the Manila Manor Hotel, Inc. as the plaintiff and the DBP as the defendant. The subject matter was the validity of the extrajudicial foreclosure of the properties mortgaged as security for the loan to build the Manila Manor Hotel. The cause of action was the annulment of the sale at public auction of the mortgaged properties and the consequent nullity of the certificate of sale issued by the sheriff in favor of the defendant.

We believe that there is an identity of parties, subject matter, and cause of action between the Special Proceedings (first case) and the Civil Action (second case). Although the parties to the two civil cases are not exactly the same, we believe that there is substantial identity to warrant the application of *res judicata*. In *Republic v. Court of Appeals*, the Court stressed that substantial identity of parties was enough, as follows:

"For purposes of *res judicata*, only substantial identity is required and not absolute identity. Parties in both cases need not be physically identical provided that there is privity between the parties or their successors-in-interest subsequent to the commencement of the previous cause of action, litigating for the same thing, title or capacity. The Court of Appeals correctly found in our view, that since all the aforecited cases