



Republic of the Philippines
Supreme Court
Manila

FIRST DIVISION

**VETERANS PHILIPPINE SCOUT
SECURITY AGENCY, INC.,**
Petitioner,

G.R. No. 190907

Present:

LEONARDO-DE CASTRO, J.,*
Acting Chairperson,
BERSAMIN,
DEL CASTILLO,
VILLARAMA, JR., and
PERLAS-BERNABE,** JJ.

- versus -

**FIRST DOMINION PRIME
HOLDINGS, INC.,**
Respondent.

Promulgated:

23 AUG 2012

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DECISION

VILLARAMA, JR., J.:

Before us is a petition for review on certiorari under Rule 45 of the 1997 Rules of Civil Procedure, as amended, seeking to reverse the August 24, 2009 Decision¹ and December 17, 2009 Resolution² of the Court of Appeals (CA) in CA-G.R. SP No. 105894. The CA had reversed and set aside the Decision³ of the Regional Trial Court (RTC), Branch 76, of Quezon City, insofar as it held that the dismissal of petitioner's amended complaint was without prejudice.

The antecedent facts of the case are as follows:

* Designated Acting Chairperson of the First Division per Special Order No. 1226 dated May 30, 2012.

** Designated Acting Member of the First Division per Special Order No. 1227 dated May 30, 2012.

¹ *Rollo*, pp. 60-73. Penned by Associate Justice Juan Q. Enriquez, Jr. with Associate Justices Pampio A. Abarintos and Francisco P. Acosta concurring.

² *Id.* at 75-76.

³ *Id.* at 271-272. Penned by Presiding Judge Alexander S. Balut.

Petitioner Veterans Philippine Scout Security Agency, Inc. (Veterans) is a corporation duly organized and existing under Philippine laws. It is engaged in the business of providing security services.

Respondent First Dominion Prime Holdings, Inc. (FDPHI), on the other hand, is a holding investment and management company which owns and operates various subsidiaries and affiliates. Among its subsidiaries are Clearwater Tuna Corporation, Maranaw Canning Corporation and Nautica Canning Corporation, collectively referred to as the FDPHI Group of Companies. Said companies are engaged in the production of canned tuna.

On February 15, 2001, respondent FDPHI and its aforementioned subsidiaries jointly filed before the RTC of Pasig City, Branch 158 a Petition for Rehabilitation.⁴ Said petition was docketed as Civil Case No. 68343. Attached to the petition was a Schedule of Debts and Liabilities as of January 31, 2001 showing that Clearwater Tuna Corporation (Clearwater) had an outstanding indebtedness to petitioner in the total amount of ₱356,842.42.⁵ Said amount represents the security services rendered by petitioner to Clearwater pursuant to a Contract of Guard Services⁶ between petitioner and Inglenook Food Corporation (Clearwater's former name) for the latter's manufacturing facility at the Navotas Fish Port Complex.

After finding the petition sufficient in form and substance, the Rehabilitation Court issued a Stay Order⁷ on February 22, 2001. The dispositive portion of the order reads:

WHEREFORE, the Petition being sufficient in form and substance, a stay order pursuant to Section 6, Rule 4 of the Interim Rules of Procedure on Corporate Rehabilitation is issued as follows:

(a) Staying enforcement of all claims, whether for money or otherwise and whether such enforcement is by court action or otherwise, including the extra-judicial foreclosure proceedings in EJP Case No. 01-02, entitled "Metropolitan Bank and Trust Co. vs. Nautica Canning Corporation", of the Regional Trial Court of General Santos City, against petitioner FDPHI Group of Companies, comprising of petitioners First

⁴ Id. at 77-105.

⁵ Records, Vol. I, p. 149.

⁶ *Rollo*, pp. 132-136. The contract for security services is dated September 8, 1996.

⁷ Records, Vol. I, pp. 150-163.

Dominion Prime Holdings, Inc., and its subsidiaries, petitioners Nautica Canning Corporation, Maranaw Canning Corporation and Clearwater Tuna Corporation, their guarantors and sureties not solidarily liable with the petitioners;

(b) Prohibiting petitioner FDPHI Group of Companies from selling, encumbering, transferring, or disposing in any manner any of its properties, except in the ordinary course of business;

(c) Prohibiting petitioner FDPHI Group of Companies from making any payment of its liabilities outstanding as [of] the date of filing of the Petition;

x x x x

Mr. Monico V. Jacob is appointed rehabilitation receiver who can assume the position upon his taking an oath and after posting a bond in the amount of Five Hundred Thousand (₱500,000.00) Pesos, executed in favor of petitioner FDPHI Group of Companies, to guarantee that he will faithfully discharge his duties and the orders of this Court.

Let this Stay Order be published in a newspaper of general circulation in the Philippines once a week for two (2) consecutive weeks from date of the Order.

All creditors and all interested parties (including the Securities and Exchange Commission) are directed to file and serve on the petitioner FDPHI Group of Companies, their verified comment on, or opposition to, the Petition, with supporting affidavits and documents, not later than ten (10) days before the date of the initial hearing. x x x⁸

The FDPHI Group of Companies caused the publication of the stay order to give notice to the whole world of the filing and pendency of the rehabilitation proceedings. Thereafter, after due proceedings, the Rehabilitation Court approved the rehabilitation plan submitted by FDPHI and its subsidiaries. On October 24, 2003, the Rehabilitation Court likewise issued an Order⁹ approving the Amended Rehabilitation Plan for the FDPHI Group of Companies. The *fallo* of the October 24, 2003 Order reads:

WHEREFORE, petitioners' Motion to Amend their Rehabilitation Plan is GRANTED and the Amended Rehabilitation Plan (as of August 26, 2003) which is attached as Annex "A" and made integral part of this Order is APPROVED.

All provisions of the original Rehabilitation Plan approved by this Court on February 22, 2002 that are not inconsistent or incompatible with the said Amended Rehabilitation Plan (as of August 26, 2003) shall remain in effect.

Consequently, petitioners are strictly enjoined to abide by the

⁸ Id. at 161-163.

⁹ Id. at 188-202.

terms and conditions of the original Rehabilitation Plan approved on February 22, 2002 as amended by the Amended Rehabilitation Plan (as of August 26, 2003), and they shall, in consultation with the Rehabilitation Receiver, unless directed otherwise, submit a quarterly report on the progress of the implementation of the Rehabilitation Plan.

The Rehabilitation Receiver is directed to furnish all the concerned parties including the Securities and Exchange Commission, copies of this Order and its Annex "A" within ten (10) days from October 28, 2003. He will then furnish this Court proof of service of his undertaking.

SO ORDERED.¹⁰

Subsequently, petitioner filed a Complaint¹¹ for Sum of Money and Damages against Clearwater and/or Atty. Jacob in his capacity as appointed Receiver before the Metropolitan Trial Court (MeTC), Branch 31, of Quezon City. The complaint, which was filed on May 27, 2004, was docketed as Civil Case No. 32932. Essentially, petitioner sought to recover from Clearwater the amount of ₱372,219.80 representing the unpaid security services rendered by petitioner from January 16, 2000 to January 31, 2001 pursuant to their contract. On May 24, 2005, the MeTC dismissed the complaint for failure to prosecute,¹² but later reinstated the same upon motion for reconsideration by petitioner.¹³

On October 20, 2005, petitioner filed an Amended Complaint¹⁴ for Sum of Money and Damages against herein respondent FDPHI averring that Clearwater had changed its business name to First Dominion Prime Holdings, Inc.

Respondent FDPHI filed a Motion to Dismiss¹⁵ anchored on the following grounds: (1) petitioner's claim for payment of security services is barred by *res judicata*; (2) the filing of the complaint constitutes forum shopping; and (3) the complaint fails to state a cause of action against respondent FDPHI. Respondent asserted that petitioner's claim is barred as the same had been settled, determined and finally adjudicated in the

¹⁰ Id. at 202.

¹¹ Id. at 2-7.

¹² Id. at 59.

¹³ Id. at 69-71.

¹⁴ Id. at 80-86.

¹⁵ Id. at 106-118.

Amended Rehabilitation Plan approved by the Rehabilitation Court and that the filing of the complaint constitutes forum shopping since petitioner was fully aware of the pendency of the rehabilitation proceedings involving Clearwater in Civil Case No. 68343. Respondent likewise argued that the complaint failed to state a cause of action against respondent FDPHI since as shown in the allegations in the amended complaint itself, as well as the annexes attached thereto, the obligation sought to be enforced by petitioner is not an obligation contracted by respondent FDPHI but by Clearwater under its former name Inglenook Food Corporation.

Petitioner thereafter duly filed its Comment and/or Opposition to the Motion to Dismiss to which respondent filed a reply.

On April 23, 2007, the MeTC issued a Resolution¹⁶ granting respondent's motion to dismiss. In dismissing the amended complaint, the trial court noted that despite the publication and notice of the petition for rehabilitation in Civil Case No. 68343, petitioner had not filed any comment or opposition to the petition nor participated in the proceedings. Hence, petitioner was bound by the Rehabilitation Court's February 22, 2001 stay order staying enforcement of all claims against the FDPHI Group of Companies as well as the October 24, 2003 Order approving the Amended Rehabilitation Plan which had already become final. Furthermore, the trial court was convinced that the Amended Complaint failed to state a cause of action against respondent. The trial court noted that the contract for security services was entered into by petitioner and Inglenook Food Corporation, now Clearwater. Respondent FDPHI had no participation whatsoever nor had respondent benefitted from the said contract. The MeTC was also not persuaded by petitioner's claim that respondent FDPHI acted as an "umbrella company" of all the other corporations which filed a petition for rehabilitation.

Aggrieved, petitioner sought reconsideration of the said Resolution,

¹⁶ Records, Vol. II, pp. 388-393.

but the MeTC denied the same for lack of merit in a Resolution¹⁷ dated October 23, 2007. The MeTC likewise denied petitioner's alternative prayer that the dismissal be declared to be without prejudice, stressing that the dismissal of the case was not merely for failure to state a cause of action but also for having been barred by the Rehabilitation Court's Stay Order and by its Order finally approving the Amended Rehabilitation Plan.

Unsatisfied, petitioner appealed to the RTC. On June 4, 2008,¹⁸ the RTC partially granted petitioner's appeal. While the RTC dismissed the Amended Complaint for failure to state a cause of action, nevertheless, it found that the dismissal is without prejudice to petitioner's reinstitution of a separate action for the enforcement of its claim because purportedly, the Stay Order and the approved Amended Rehabilitation Plan for the FDPHI Group of Companies "cannot operate to deprive [petitioner's] right to present its own case or have the effect of stifling such right."¹⁹

Respondent FDPHI moved for partial reconsideration of the RTC decision insofar as it declared the dismissal of the Amended Complaint to be "without prejudice," but the motion was denied in an Order²⁰ dated October 7, 2008. Thus, respondent FDPHI appealed to the CA.

On August 24, 2009, the CA as aforesaid, reversed the trial court's June 4, 2008 Decision and October 7, 2008 Order. The CA agreed with the ruling of the MeTC that the issuance of a stay order and the appointment of a rehabilitation receiver in the petition for rehabilitation jointly filed by FDPHI and its subsidiaries including Clearwater stayed the enforcement of all claims, including petitioner's money claim. Pertinently, the CA ruled that:

Hence, considering that the obligation under the Contract of Guard Services was contracted solely by Clearwater under its former name, Inglenook Food Corporation, and since the claim is recognized and admitted as debt of Clearwater in the Rehabilitation Proceedings,

¹⁷ Id. at 529-532.

¹⁸ Records, Vol. III, pp. 728-729.

¹⁹ Id. at 729.

²⁰ Id. at 787.

respondent has no cause of action to bring a separate suit for collection of sum of money against petitioner.

WHEREFORE, premises considered, the petition is hereby GRANTED. The Decision of the RTC, Branch 76, Quezon City dated June 4, 2008 and the Order dated October 7, 2008, in Civil Case No. Q-07-61692 are hereby REVERSED and SET ASIDE. The Resolutions dated April 23, 2007 and October 23, 2007 of the MTC, Branch 31, Quezon City, in Civil Case No. 32932 are hereby AFFIRMED.

SO ORDERED.²¹

Petitioner sought reconsideration of the CA decision, but its motion was denied by the CA in the assailed Resolution²² dated December 17, 2009.

Hence, this petition.

Petitioner contends that the dismissal of the Amended Complaint against respondent FDPHI does not bar petitioner from instituting an action for collection of money against Clearwater. Petitioner faults the CA for ruling that Clearwater's debt to petitioner was already covered by the Amended Rehabilitation Plan and insists that said debt was not included in the schedule of payments under the Amended Rehabilitation Plan. According to petitioner, the Amended Rehabilitation Plan only pertains to respondent FDPHI and Maranaw Canning Corporation, which remains operational. It is not applicable to Clearwater considering that there was no mention of how the plan will operate to benefit Clearwater and its creditors. Purportedly, Clearwater's petition for rehabilitation was not pursued or was in effect denied. And the amended plan not being applicable to Clearwater, petitioner argues that its approval will not preclude petitioner from instituting a separate action to enforce its claim.

Respondent FDPHI counters that in the corporate rehabilitation proceedings for the FDPHI Group of Companies, petitioner's claim had already been passed upon by the Rehabilitation Court and factored into the approved Amended Rehabilitation Plan as among its unsecured debts.

²¹ *Rollo*, p. 72.

²² *Id.* at 75-76.

Hence, it cannot be the subject of a separate action.²³ Respondent avers that petitioner is barred from asserting its payment for security services with Clearwater since the subject claim is already recognized and admitted in the approved rehabilitation plan which is under implementation. Thus, respondent asserts that the CA was correct in holding that the existence of the rehabilitation proceedings effectively barred petitioner from enforcing its money claim against Clearwater. To respondent, a separate action by petitioner would only result in multiplicity of suits which the law abhors. Respondent stresses that any and all claims against the FDPHI Group of Companies, including that of petitioner, are stayed and barred until the termination of rehabilitation proceedings pursuant to Sections 6 and 11 of the Interim Rules of Procedure on Corporate Rehabilitation.

The issue to be resolved in this case is whether the CA erred in ruling that petitioner's action to enforce the payment of the unpaid security services is covered by the Amended Rehabilitation Plan such that petitioner can no longer institute a separate action to collect the same.

We deny the petition.

First of all, it must not be overlooked that petitioner initially filed its complaint against Clearwater but its complaint was dismissed for failure to prosecute. Petitioner amended its complaint and impleaded respondent FDPHI as defendant, on its own allegation that Clearwater had changed its name to herein respondent First Dominion Prime Holdings, Inc. However, as can be gleaned from the records and pleadings of the parties, respondent FDPHI and Clearwater are two separate corporate entities and the obligation petitioner seeks to enforce was not contracted between petitioner and respondent FDPHI but by petitioner and Clearwater under its former name, Inglenook Foods Corporation. For this reason, both the trial court and the appellate court are in agreement that the Amended Complaint fails to state a cause of action against respondent FDPHI. On this ground alone, the

²³ Id. at 445.

Amended Complaint filed by petitioner against respondent FDPHI was properly dismissed. Indeed, while respondent FDPHI may be the parent company of Clearwater, these two corporations have distinct and separate juridical personalities and therefore respondent FDPHI cannot be held liable for the debts of its subsidiary Clearwater nor can respondent FDPHI assume the liabilities of Clearwater. As aptly found by the CA:

Clearwater and [FDPHI] have been organized as separate corporate entities, as evidenced by their respective Certificates of Filing of Amended Articles of Incorporation on file with the Securities and Exchange Commission. The filing of petitioner of Joint Petition for Rehabilitation for the FDPHI Group of Companies cannot in any way be taken as an assumption by petitioner of any liability of Clearwater. It must be noted that in the Consolidated Inventory of Assets and Consolidated Schedule of Accounts Receivables of the FDPHI Group of Companies, Clearwater holds assets entirely separate from its parent company.²⁴

Now as to the issue of whether the existence of the corporate rehabilitation proceedings of the FDPHI Group of Companies has the effect of barring petitioner from asserting its claim for the payment of security services against Clearwater by reason of the approved Amended Rehabilitation Plan, we rule in the affirmative.

An essential function of corporate rehabilitation is the mechanism of suspension of all actions and claims against the distressed corporation upon the due appointment of a management committee or rehabilitation receiver.²⁵ Section 6(c) of PD 902-A mandates that upon appointment of a management committee, rehabilitation receiver, board, or body, all actions for claims against corporations, partnerships or associations under management or receivership pending before any court, tribunal, board, or body shall be suspended. The actions to be suspended cover all claims against a distressed corporation whether for damages founded on a breach of contract of carriage, labor cases, collection suits or any other claims of pecuniary nature. Jurisprudence is settled that the suspension of proceedings referred to in the law uniformly applies to “all actions for claims” filed against the corporation, partnership or association under management or receivership,

²⁴ Id. at 22.

²⁵ *Castillo v. Uniwide Warehouse Club, Inc.*, G.R. No. 169725, April 30, 2010, 619 SCRA 641, 647.

without distinction, except only those expenses incurred in the ordinary course of business.²⁶ The stay order is effective on all creditors of the corporation without distinction, whether secured or unsecured.

Thus, petitioner's action to collect the sum owed to it is not exempted from the coverage of the stay order. The enforcement of petitioner's claim through court action is likewise suspended to give way to the speedy and effective rehabilitation of the FDPHI Group of Companies.

The justification for the suspension of actions or claims, without distinction, pending rehabilitation proceedings is to enable the management committee or rehabilitation receiver to effectively exercise its/his powers free from any judicial or extrajudicial interference that might unduly hinder or prevent the "rescue" of the debtor company.²⁷ To allow such other actions to continue would only add to the burden of the management committee or rehabilitation receiver, whose time, effort and resources would be wasted in defending claims against the corporation instead of being directed toward its restructuring and rehabilitation.²⁸ It is worthy to note that the stay order remains effective during the duration of the rehabilitation proceedings.

However, in an attempt to exempt its money claim from the coverage of the rehabilitation proceedings, petitioner claims that Clearwater was denied rehabilitation and asserts that the Amended Rehabilitation Plan did not include Clearwater's obligation to petitioner. This contention, however, is bereft of merit.

Nothing in the records of the case supports petitioner's claim that the petition for rehabilitation of Clearwater was denied or was not pursued. On the contrary, the rehabilitation proceedings involved all the petitioning corporations, *i.e.*, FDPHI, Maranaw Canning Corporation, Clearwater Tuna

²⁶ *Molina v. Pacific Plans, Inc.*, G.R. No. 165476, August 15, 2011, 655 SCRA 356, 364.

²⁷ *Pacific Wide Realty & Development Corporation v. Puerto Azul Land, Inc.*, G.R. Nos. 178768 & 180893, November 25, 2009, 605 SCRA 503, 518.

²⁸ *Negros Navigation Co., Inc. v. Court of Appeals, Special Twelfth Division*, G.R. Nos. 163156 & 166845, December 10, 2008, 573 SCRA 434, 451-452.

Corporation and Nautica Canning Corporation. The stay order issued by the rehabilitation court also stayed the enforcement of all the claims against FDPHI and its subsidiaries including Clearwater. More, the approved Amended Rehabilitation Plan covered all the debts of the FDPHI Group of Companies. The fact that Clearwater was not specifically mentioned in the Amended Rehabilitation Plan does not mean the denial of its rehabilitation. A careful perusal of the Amended Rehabilitation Plan would show that all the assets and liabilities of FDPHI and its subsidiaries undergoing rehabilitation were collectively managed and a payment scheme was introduced for the settlement of all of the FDPHI Group's secured and unsecured creditors. The *Breakdown and Management of the First Dominion Group's Secured and Unsecured Debt*²⁹ in the Amended Rehabilitation Plan provides:

3.3. The First Dominion Group's Unsecured Debt to the bank and trade creditors in the aggregate sum of P2,392,095,015.94 shall be managed as follows:

3.3.1. One percent (1%) of the First Dominion Group's Unsecured Debt, or **₱23,920,950.16**, shall be paid pro rata, in cash up front **30 days from Infusion Date** to the unsecured creditors by [the Joint Venture Corporation].

x x x x

3.3.2. A portion of the First Dominion Group's Unsecured Debt amounting to not more than **₱67 Million** shall be converted into common shares of the JVC, each having a par value of **₱1.00**, and shall be issued to the unsecured creditors; Provided, that the total of these common shares shall not exceed 25% of all issued common shares inclusive of those issued under this clause.

x x x x

3.3.3. A portion of the First Dominion Group's Unsecured Debt amounting to not more than **₱300 Million** shall be converted into Mandatory Convertible Preferred Shares of the JVC, to be issued to and prorated among the unsecured creditors.

x x x x

3.4. The balance of First Dominion Group's Unsecured Debt **after the cash payment and the issuance of common and preferred shares to the unsecured creditors** shall be restructured and paid by First Dominion Group under the following terms and conditions:

²⁹ Records, Vol. I, pp. 168-170.

x x x x (Emphasis in the original)

Thus, contrary to petitioner's claim, Clearwater's debt to petitioner pursuant to their security services was already included as it was specifically included as part of the unsecured debts of the FDPHI Group in the Amended Rehabilitation Plan. The Amended Rehabilitation Plan also provides for a debt-to-equity conversion in favor of the creditors which led to the incorporation of a Joint Venture Corporation (JVC) as vehicle for the repayment of the obligations of the FDPHI Group of Companies.

More importantly, Section 20 of the 2008 Rules of Procedure on Corporate Rehabilitation provides:

SEC. 20. *Effects of Rehabilitation Plan.* – The approval of the rehabilitation plan by the court shall result in the following:

- (a) **The plan and its provisions shall be binding upon the debtor and all persons who may be affected thereby, including the creditors, whether or not such persons have participated in the proceedings or opposed the plan or whether or not their claims have been scheduled;**
- (b) The debtor shall comply with the provisions of the plan and shall take all actions necessary to carry out the plan;
- (c) Payments shall be made to the creditors in accordance with the provisions of the plan;
- (d) Contracts and other arrangements between the debtor and its creditors shall be interpreted as continuing to apply to the extent that they do not conflict with the provisions of the plan; and
- (e) Any compromises on amounts or rescheduling of timing of payments by the debtor shall be binding on creditors regardless of whether or not the plan is successfully implemented. (Emphasis ours.)

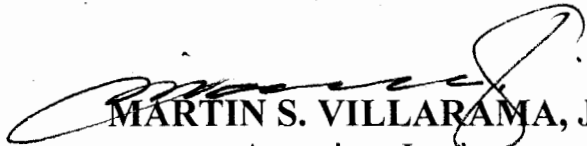
To stress, the rehabilitation plan, once approved, is binding upon the debtor and all persons who may be affected by it, including the creditors, whether such persons have or have not participated in the proceedings or have opposed the plan or whether their claims have or have not been scheduled. With the approval by the Rehabilitation Court of the plan for the FDPHI Group of Companies, there is nothing left to be done but to enforce the terms and schedule of payment as provided in the said plan.

At the time petitioner filed the complaint before the trial court, the Amended Rehabilitation Plan had been under implementation for two years already. We note that various checks³⁰ had been tendered to petitioner in connection with the implementation of the plan but these were refused by petitioner. To this date, the Court has not received any notice of termination of the rehabilitation proceedings. Thus, to allow petitioner to separately enforce its claim for unpaid security services while there is an ongoing implementation of the rehabilitation plan would violate the provisions of the law.


WHEREFORE, the present petition for review on certiorari is **DENIED** for lack of merit. The Decision dated August 24, 2009 and Resolution dated December 17, 2009 of the Court of Appeals in CA-G.R. SP No. 105894 are hereby **AFFIRMED**.

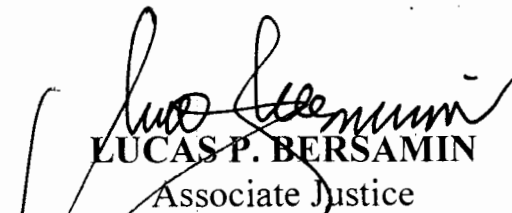
Costs against petitioner.

SO ORDERED.


MARTIN S. VILLARAMA, JR.
Associate Justice

WE CONCUR:


TERESITA J. LEONARDO-DE CASTRO
Associate Justice
Acting Chairperson


LUCAS P. BERSAMIN
Associate Justice


MARIANO C. DEL CASTILLO
Associate Justice

Ms. Perl
ESTELA M. PERLAS-BERNABE
Associate Justice

ATTESTATION

I attest that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

Teresita Leonardo de Castro
TERESITA J. LEONARDO-DE CASTRO
Associate Justice
Acting Chairperson

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution and the Division Acting Chairperson's Attestation, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

Antonio T. Carpio
ANTONIO T. CARPIO
Senior Associate Justice
(Per Section 12, R.A. 296,
The Judiciary Act of 1948, as amended)