



Republic of the Philippines  
Supreme Court  
Manila

FIRST DIVISION

PUERTO AZUL LAND, INC.,  
Petitioner,

G.R. No. 184000

Present:

- versus -

PACIFIC WIDE REALTY  
DEVELOPMENT  
CORPORATION,\*

Respondent.

SERENO, C.J., Chairperson,  
LEONARDO-DE CASTRO,  
BERSAMIN,  
PEREZ, and  
PERLAS-BERNABE, JJ.

Promulgated:

**SEP 17 2014**

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DECISION

**PERLAS-BERNABE, J.:**

Assailed in this petition for review on *certiorari*<sup>1</sup> are the Decision<sup>2</sup> dated February 21, 2008 and the Resolution<sup>3</sup> dated July 22, 2008 of the Court of Appeals (CA) in CA-G.R. SP No. 92691 which set aside the Decision<sup>4</sup> dated December 13, 2005 of the Regional Trial Court of Manila, Branch 24 (RTC) in Civil Case No. 04-110914, thereby dismissing the revised rehabilitation plan of petitioner Puerto Azul Land, Inc. (PALI).

\* Substituted as party-respondent in lieu of Cameron Granville Asset Management (SPV-AMC), Inc. (See Court Resolution dated April 15, 2009; *rollo*, p. 237.)

<sup>1</sup> Id. at 12-46.

<sup>2</sup> Id. at 51-67. Penned by Associate Justice Ramon M. Bato, Jr. with Associate Justices Jose C. Mendoza (now a member of this Court) and Marlene Gonzales-Sison, concurring.

<sup>3</sup> Id. at 68-69.

<sup>4</sup> Id. at 132-145. Penned by Judge Antonio M. Eugenio, Jr.

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## The Facts

PALI is a domestic corporation engaged in the business of developing the Puerto Azul Complex located in Ternate, Cavite into a “satellite city,” described as a “self-sufficient and integrated tourist destination community with residential areas, resort/tourism, and retail commercial centers with recreation areas like golf courses, jungle trails, and white sand lagoons.”<sup>5</sup> To finance the full operation of its business, PALI obtained loans in the total principal amount of ₱640,225,324.00 from several creditors, among which were East Asia Capital, Export and Industry Bank (EIB), Philippine National Bank, and Equitable PCI Bank (EPCIB), secured by real estate owned by PALI and by accommodation mortgagors under a Mortgage Trust Indenture.<sup>6</sup>

Foreseeing the impossibility of meeting its debts and obligations to its creditors as they fall due, PALI, on September 14, 2004, filed a Petition for Suspension of Payments and Rehabilitation<sup>7</sup> before the RTC, docketed as Civil Case No. 04-110914, attributing its financial difficulties to: (a) the denial by the Philippine Stock Exchange of its application for the public listing of its shares of stock which resulted in the loss of potential investors and real estate buyers; (b) the 1997 Asian financial crisis; and (c) the real estate bubble burst.<sup>8</sup> Attached to PALI’s petition was its proposed Rehabilitation Plan.<sup>9</sup>

On September 17, 2004, the RTC, finding PALI’s petition to be sufficient in form and substance, issued a Stay Order<sup>10</sup> pursuant to Section 6, Rule 4 of the Interim Rules on Corporate Rehabilitation<sup>11</sup> (Interim Rules), among others, (a) staying the enforcement of all claims against the debtor, its guarantors, and sureties not solidarily liable with the debtor, (b) prohibiting PALI from making any payment of its liabilities outstanding as of the date of filing of the petition, (c) prohibiting PALI from selling, encumbering, transferring, or disposing any of its properties except in the ordinary course of business, and (d) appointing Mr. Patrick V. Caoile as Rehabilitation Receiver, conditioned upon his posting of a bond in the amount of ₱1,000,000.00.

During the initial hearing, PALI adduced evidence showing compliance with the jurisdictional requirements. Thereafter, the RTC heard the comments and opposition of the creditors to the petition and the Rehabilitation Plan.<sup>12</sup> Later, creditor EPCIB was substituted by Cameron Granville Asset Management (SPV-AMC), Inc. (CGAM).<sup>13</sup>

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<sup>5</sup> Id. at 14-15.

<sup>6</sup> Id. at 52.

<sup>7</sup> Id. at 70-76.

<sup>8</sup> Id. at 71.

<sup>9</sup> Id. at 52 and 73. See also id. at 146-166.

<sup>10</sup> Id. at 77-80.

<sup>11</sup> A.M. No. 008-10-SC (2000).

<sup>12</sup> *Rollo*, pp. 133-134.

<sup>13</sup> Id. at 134.

On April 20, 2005, the Rehabilitation Receiver filed his Rehabilitation Report and Recommendation,<sup>14</sup> recommending PALI's rehabilitation over its dissolution and liquidation, followed by a Revised Rehabilitation Plan on June 9, 2005.<sup>15</sup>

### **The RTC Ruling**

In a Decision<sup>16</sup> dated December 13, 2005, the RTC approved PALI's Revised Rehabilitation Plan under the following terms and conditions:

1. The creditors shall have, as first option, the right to be paid with real estate properties being offered by the petitioner in *dacion en pago*, which shall be implemented under the following terms and conditions:

a) The properties offered by the petitioner shall be appraised by three appraisers, one to be chosen by the petitioner, a second to be chosen by the bank creditors and the third to be chosen by the Receiver. The average of the appraisals of the three (3) chosen appraisers shall be the value to be applied in arriving at the *dacion* value of the properties. In case the *dacion* amount is less than the total of the secured creditor's principal obligation, the balance shall be restructured in accordance with the schedule of payments under option 2, paragraph (a). In case of excess, the same shall [be] applied in full or partial payment of the accrued interest on the obligations. The balance of the accrued interest, if any, together with the penalties shall [be] condoned.

2. Creditors who will not opt for *dacion*, shall be paid in accordance with the restructuring of the obligations as recommended by the Receiver as follows:

a) The obligations to secured creditors will be subject to a 50% haircut of the principal, and repayment shall be semi-annually over a period of 10 years, with 3-year grace period. Accrued interests and penalties shall be condoned. Interest shall be paid at the rate of 2% p.a. for the first 5 years, and 5% p.a. thereafter until the obligations are fully paid. The petitioner shall allot 50% of its cash flow available for debt service for secured creditors. Upon completion of payments to government and employee accounts, the petitioner's cash flow available for debt service shall be used until the obligations are fully paid.

b) One half (1/2) of the principal of the petitioner's unsecured loan obligations to other creditors shall be settled through non-cash offsetting arrangements, with the balance payable semi-annually over a period of 10 years, with 3-year grace period, with interest at the rate of 2% p.a. for the first 5 years and 5% p.a. from the 6<sup>th</sup> year onwards until the

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<sup>14</sup> Id. at 81-112 (with Annexes).

<sup>15</sup> Id. at 113-131.

<sup>16</sup> Id. at 132-145.

obligations are settled in full. Accrued interest and penalties shall be condoned.

c) Similarly, one half (1/2) of the petitioner's obligations to trade creditors shall be settled through non-cash offsetting arrangements. The cash payments shall be made semi-annually over a period of 10 years on a *pari passu basis* with the bank creditors, without interest, penalties and other charges of similar kind.<sup>17</sup>

Dissatisfied, CGAM filed a petition for review before the CA, docketed as CA-G.R. SP No. 92691, objecting to the approval of PALI's Revised Rehabilitation Plan on the following grounds: (a) insufficiency in the substance of the petition; (b) the Revised Rehabilitation Plan was not approved within 180 days from the date of the initial hearing; (c) the 50% "haircut" reduction on the principal obligation and the condonation of penalties and interests violated the constitutional guarantee against non-impairment of contracts; and (d) the Revised Rehabilitation Plan does not give due regard to the interests of the secured creditors.<sup>18</sup>

CGAM was later substituted by its assignee, herein respondent Pacific Wide Realty Development Corporation (PWRDC),<sup>19</sup> in the proceedings before the CA.

### **The CA Ruling**

In a Decision<sup>20</sup> dated February 21, 2008, the CA granted PWRDC's petition for review and reversed the December 13, 2005 RTC Decision, thereby dismissing PALI's petition for rehabilitation.

It held that the causes of PALI's inability to pay its debts were not alleged in the petition with sufficient particularity as to have allowed the RTC to properly evaluate whether or not to issue a Stay Order and eventually approve its rehabilitation.<sup>21</sup> It further ruled that when the RTC approved PALI's Revised Rehabilitation Plan on December 13, 2005, the mandatory 180-day period allowed under the rules for the approval or disapproval of the same had already lapsed, warranting the dismissal of the petition for rehabilitation.<sup>22</sup> It also found the 50% "haircut" reduction on the principal loan and the condonation of penalties and interests to be an impairment of the parties' loan agreements.<sup>23</sup>

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<sup>17</sup> Id. at 142-144.

<sup>18</sup> Id. at 22.

<sup>19</sup> See footnote 1 in the CA Decision; id. at 51.

<sup>20</sup> Id. at 51-67.

<sup>21</sup> Id. at 60.

<sup>22</sup> Id. at 61-62.

<sup>23</sup> Id. at 62-63.

PALI moved for reconsideration which the CA denied in a Resolution<sup>24</sup> dated July 22, 2008, prompting the filing of the instant petition.

PALI invokes a liberal construction of the provisions of the Interim Rules, and cites Sections 5(d), 6(c), and 6(d) of Presidential Decree No. 902-A whose objectives are to effect a feasible and viable rehabilitation and to give enough breathing space for the management committee or rehabilitation receiver to make the business viable anew.<sup>25</sup> It also posits that the CA erred in construing the 180-day period under Section 11, Rule 4 of the Interim Rules to be mandatory, stating that the purpose and intent of the rules should have been considered.<sup>26</sup> Finally, it asserts that the approved Revised Rehabilitation Plan is neither unreasonable nor prejudicial to the interests of its creditors, adding that PALI's rehabilitation is the best way to protect the interests of all parties concerned and its continued operation remains the only viable and feasible solution to meet the desired objectives.<sup>27</sup>

Significantly, another PALI creditor, EIB, filed a petition for review before the CA, docketed as CA-G.R. SP No. 92695,<sup>28</sup> contesting the same December 13, 2005 RTC Decision. The CA, however, dismissed the petition and affirmed the aforesaid RTC Decision. Consequently, EIB's assignee, PWRDC, elevated the matter to the Court, docketed as **G.R. No. 180893**, and was consolidated with **G.R. No. 178768**, a related case also commenced by PWRDC essentially involving the coverage of the RTC's Stay Order over the security posted by an accommodation mortgagor.<sup>29</sup>

The Court resolved both cases in a Decision<sup>30</sup> dated November 25, 2009, ruling: (a) in G.R. No. 180893, that there was nothing unreasonable or onerous in PALI's Revised Rehabilitation Plan nor was there a violation of the non-impairment clause, in effect upholding the RTC's approval of PALI's rehabilitation;<sup>31</sup> and (b) in G.R. No. 178768, that the RTC committed no reversible error when it removed TCT No. 133164 from the coverage of the Stay Order since the Interim Rules only covers the suspension of the enforcement of all claims against the debtor, its guarantors, and sureties not solidarily liable with the mortgagor, and is silent on the enforcement of claims against accommodation mortgagors.<sup>32</sup>

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<sup>24</sup> Id. at 68-69.

<sup>25</sup> Id. at 27-28.

<sup>26</sup> Id. at 35-36.

<sup>27</sup> Id. at 40-41.

<sup>28</sup> See CA Decision dated May 17, 2007 penned by Associate Justice Lucenito N. Tagle with Associate Justices Amelita G. Tolentino and Mariflor Punzalan-Castillo, concurring; id. at 167-179.

<sup>29</sup> G.R. No. 178768 stemmed from CA-G.R. SP No. 91996 wherein the CA through a Decision dated March 16, 2007 nullified the RTC's Order dated October 19, 2005, also in Civil Case No. 04-110914, declaring that the properties covered by Transfer Certificate of Title No. (TCT) 133164, one of the properties mortgaged to secure PALI's loans belonging to an accommodation mortgagor (*i.e.*, Ternate Utilities, Inc.), was subject to and covered by the Stay Order dated September 17, 2004. (See *Pacific Wide Realty and Development Corporation v. Puerto Azul Land, Inc.*, G.R. Nos. 178768 and 180893, November 25, 2009, 605 SCRA 503.)

<sup>30</sup> Id.

<sup>31</sup> Id. at 516-517.

<sup>32</sup> Id. at 521-522.

### **The Issue Before the Court**

The core issue for resolution is whether or not the CA erred in reversing the December 13, 2005 RTC Decision, thereby dismissing PALI's Revised Rehabilitation Plan.

### **The Court's Ruling**

The Court finds in favor of PALI.

As adverted to earlier, the validity of PALI's rehabilitation was already raised as an issue by PWRDC and resolved with finality by the Court in its November 25, 2009 Decision in G.R. No. 180893 (consolidated with G.R. No. 178768). The Court sustained therein the CA's affirmation of PALI's Revised Rehabilitation Plan, including those terms which its creditors had found objectionable, namely, the 50% "haircut" reduction of the principal obligations and the condonation of accrued interests and penalty charges. The relevant portion of the Court's ruling reads:

In G.R. No. 180893, the rehabilitation plan is contested on the ground that the same is unreasonable and results in the impairment of the obligations of contract. PWRDC contests the following stipulations in PALI's rehabilitation plan: fifty percent (50%) reduction of the principal obligation; condonation of the accrued and substantial interests and penalty charges; repayment over a period of ten years, with minimal interest of two percent (2%) for the first five years and five percent (5%) for the next five years until fully paid, and only upon availability of cash flow for debt service.

We find nothing onerous in the terms of PALI's rehabilitation plan. The Interim Rules on Corporate Rehabilitation provides for means of execution of the rehabilitation plan, which may include, among others, the conversion of the debts or any portion thereof to equity, restructuring of the debts, *dacion en pago*, or sale of assets or of the controlling interest.

The restructuring of the debts of PALI is part and parcel of its rehabilitation. Moreover, per findings of fact of the RTC and as affirmed by the CA, the restructuring of the debts of PALI would not be prejudicial to the interest of PWRDC as a secured creditor. Enlightening is the observation of the CA in this regard, viz.:

There is nothing unreasonable or onerous about the 50% reduction of the principal amount when, as found by the court *a quo*, a Special Purpose Vehicle (SPV) acquired the credits of PALI from its creditors at deep discounts of as much as 85%. Meaning, PALI's creditors accepted only 15% of their credit's value. Stated otherwise, if PALI's creditors are in a position to accept 15% of their credit's value, with more reason that they should be able to accept 50% thereof as full settlement by their debtor. x x x.<sup>33</sup>

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<sup>33</sup> Id. at 516.

Since the issue on the validity, as well as regularity of the December 13, 2005 RTC Decision approving PALI's Revised Rehabilitation Plan had already been resolved, the Court, in line with the *res judicata* principle, is constrained to grant the present petition and, consequently, reverse the assailed CA decision.

*Res judicata* (meaning, a “matter adjudged”) is a fundamental principle of law which precludes parties from re-litigating issues actually litigated and determined by a prior and final judgment.<sup>34</sup> It means that “a final judgment or decree on the merits by a court of competent jurisdiction is conclusive of the rights of the parties or their privies in all later suits on all points and matters determined in the former suit.”<sup>35</sup>

*Res judicata* has two (2) concepts. The first is “bar by prior judgment” in which the judgment or decree of the court of competent jurisdiction on the merits concludes the litigation between the parties, as well as their privies, and constitutes a bar to a new action or suit involving the same cause of action before the same or other tribunal. The second is “conclusiveness of judgment” in which any right, fact or matter in issue directly adjudicated or necessarily involved in the determination of an action before a competent court in which judgment is rendered on the merits is conclusively settled by the judgment therein and cannot again be litigated between the parties and their privies whether or not the claim, demand, purpose, or subject matter of the two actions is the same.<sup>36</sup>

**There is a bar by prior judgment where there is identity of parties, subject matter, and causes of action between the first case where the judgment was rendered and the second case that is sought to be barred.**<sup>37</sup> There is conclusiveness of judgment, on the other hand, where there is identity of parties in the first and second cases, but no identity of causes of action.<sup>38</sup>

As may be gleaned from the foregoing antecedents, the present case and G.R. No. 180893 involve the same parties, *i.e.*, PWRDC and PALI, the same subject matter, *i.e.*, PALI's rehabilitation, and the same causes of action, *i.e.*, the alleged violation of PWRDC's rights as creditor by virtue of the RTC's approval of PALI's Revised Rehabilitation Plan. Thus, with the identity of all three (3) elements present in the previously decided case and this one, it is then clear that the principle of *res judicata* should heretofore apply. Accordingly, the Court's November 25, 2009 Decision in G.R. No. 180893 (consolidated with G.R. No. 178768) bars the re-litigation of the

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<sup>34</sup> *Union Bank of the Phil. v. ASB Development Corp.*, 582 Phil. 559, 579 (2008).

<sup>35</sup> See *Pryce Corporation v. China Banking Corporation*, G.R. No. 172302, February 18, 2014, citing *Antonio v. Sayman Vda. de Monje*, G.R. No. 149624, September 29, 2010, 631 SCRA 471, 479-480.

<sup>36</sup> *Borra v. CA*, G.R. No. 167484, September 9, 2013, 705 SCRA 222, 236-237, citing *Antonio v. Sayman Vda. de Monje*, *id.* at 480-481.

<sup>37</sup> *Borra v. CA*, *id.* at 236.

<sup>38</sup> *Id.* at 237.

issue of the validity and regularity of the approved Revised Rehabilitation Plan between PWRDC and PALI. As the plan's validity had already been upheld, PWRDC is now bound by such adverse ruling which had long attained finality. As a result, the CA Decision opposite to the aforestated Court Decision should be set aside, and the petition herein be granted.


**WHEREFORE**, the petition is **GRANTED**. The Decision dated February 21, 2008 and the Resolution dated July 22, 2008 of the Court of Appeals in CA-G.R. SP No. 92691 are hereby **SET ASIDE**.

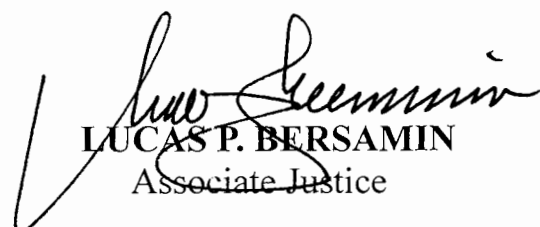
**SO ORDERED.**


  
**ESTELA M. PERLAS-BERNABE**  
Associate Justice

**WE CONCUR:**

  
**MARIA LOURDES P. A. SERENO**  
Chief Justice

  
**TERESITA J. LEONARDO-DE CASTRO**  
Associate Justice

  
**LUCAS P. BERSAMIN**  
Associate Justice

  
**JOSE PORTUGAL BEREZ**  
Associate Justice

### **CERTIFICATION**

Pursuant to Section 13, Article VIII of the Constitution, 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.

  
**MARIA LOURDES P. A. SERENO**  
Chief Justice