

### Title: Development Bank of the Philippines vs. Hon. Labor Arbiter Ariel C. Santos et al.

### Facts:

This case originated from two separate judgments by Labor Arbiters Manuel Caday and Teodorico Dogelio awarded various monetary benefits to the workers of Riverside Mills Corporation (RMC) against the company. With the judgments becoming final and executory, efforts to execute the awards through levying of RMC's properties ensued. However, the Development Bank of the Philippines (DBP) had previously foreclosed RMC's properties and obtained possession, preventing the auction of the levied properties intended to satisfy the labor awards.

The workers then sought recognition of their claim preferences over RMC's assets against DBP's claims in the NLRC, which was initially favored but later remanded for further proceedings. Labor Arbiter Ariel C. Santos eventually ruled in favor of the workers, declaring their wage claims to hold first preference over DBP's encumbrances, directing DBP to pay the monetary claims. DBP, disputing the applicability of Article 110 of the Labor Code in extra-judicial foreclosure contexts, raised the matter to the Supreme Court via a petition for certiorari.

### Issues:

1. Whether Article 110 of the Labor Code, giving workers' wages preference in case of an employer's bankruptcy, applies to extra-judicial foreclosure proceedings.
2. Whether the preference for workers' wage claims over the assets of a bankrupt employer requires a formal declaration of bankruptcy or a judicial liquidation proceeding.

### Court's Decision:

The Supreme Court, interpreting the provision in light of the Civil Code's broader framework on the preference and concurrence of credits, determined that Article 110's worker preference applies only in contexts where there's a formal declaration of bankruptcy or a judicial liquidation of the employer's business. Consequently, in the absence of such proceedings for RMC, the workers' claim preference as ruled by Arbiter Santos could not be upheld against DBP. The petition was granted, Santos' decision annulled and set aside, and the temporary restraining order made permanent, effectively prioritizing DBP's claims over the workers'.

### Doctrine:

The case reiterates the doctrine that the preference for workers' unpaid wages under

Article 110 of the Labor Code requires a formal declaration of bankruptcy or judicial liquidation of the employer's business. The provision cannot be interpreted in isolation but in conjunction with the Civil Code's scheme on the classification, concurrence, and preference of credits.

**### Class Notes:**

- **Article 110 of the Labor Code:** Establishes a preference for workers' claims for unpaid wages in the context of the employer's bankruptcy or liquidation.
- **Concurrence and Preference of Credits:** Under the Civil Code, a structured mechanism dictates the order and precedence of claims against a debtor's assets, with specific procedural requirements for asserting such preferences.
- **Supreme Court's Interpretation:** Article 110's preference for workers is contingent upon a formal bankruptcy declaration or judicial liquidation, highlighting the necessity of a comprehensive procedure that considers all creditors and the total assets available.
- **Implication for Workers' Rights:** The decision underscores the limitations of workers' preference for unpaid wages, particularly regarding the procedure through which an employer's insolvency is established.

**### Historical Background:**

The decision explored the intersection of labor rights and bankruptcy law, addressing the procedural nuances of enforcing workers' preference for unpaid wages. The case underscores the importance of procedural formalities in asserting claims against an insolvent employer, reflecting the balance between protecting workers' rights and adhering to established legal frameworks governing bankruptcy and creditor preference.