

STA. CECILIA SAWMILLS, INC., PETITIONER, VS. HON. UNION C. KAYANAN, IN HIS CAPACITY AS PRESIDING JUDGE, BRANCH IV, QUEZON CFI AT CALAUAG, QUEZON; PEDRO PICA, JR.; AND FRANCISCO ...

G.R. No. L-30064. November 26, 1970

Ponente: RUIZ CASTRO, J.

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RUIZ CASTRO, J.:

In 1964 the Sta. Cecilia Sawmills, Inc. (hereinafter referred to as Sta. Cecilia), due to its critical fiscal posture, entered into a management contract captioned "Lease of Services with Profit Participation," with the Veneer Trading and Development Corporation (hereinafter referred to as Veneer). Contrary to the expectations of Sta. Cecilia, however, the agreement proved to be another unrewarding financial venture. As a result, Sta. Cecilia found itself not only in deeper financial distress but as well threatened with foreclosure of mortgage over its assets.

Late in October, 1965 Sta. Cecilia filed with the Court of First Instance, Quezon Province, a complaint against Veneer, the latter's president, Robert Siy, and its vice-president, secretary and treasurer, Roberto Sabido, principally for the annulment and/or reformation of the management contract. Sta. Cecilia prayed for (a) the return to it of "the possession of its veneer and cold press mills and all its related facilities, including the possession of the land on which they are located;" (b) the appointment of a receiver of its "veneer and cold press mills including its funds, export receipts and receivables and the business of said mills;" and (c) the issuance of a writ of preliminary injunction. Veneer, Siy and Sabido filed a joint answer to Sta. Cecilia's complaint.

In the first week of December, 1965 Pedro Pica, Jr., a logging contractor, filed a complaint-in-intervention for the payment to him of an amount corresponding to unpaid "Credit Memos" and unredeemed "Logs Received Invoices" allegedly issued to him by Veneer as Sta. Cecilia's administrator. Sta. Cecilia and Veneer duly filed their respective answers to Pica's complaint-in-intervention.

In mid-December, 1965 Sta. Cecilia, in pursuance of its complaint, filed a petition for the appointment of Eugenio G. Palileo as receiver. Sta. Cecilia sought to place under receivership its own properties then in the possession, administration and control of Veneer, in the belief that the said properties were "in danger of being lost, removed or materially injured" unless the lower court appointed a receiver to guard and preserve them. Subsequently, the lower court granted Sta. Cecilia's petition and appointed Palileo as receiver.

In the second week of April, 1967 the lower court, upon representations of Sta. Cecilia, relieved Palileo as receiver. Thereafter, Jorge B. Siacunco, appointed judicial receiver by the lower court in May, 1967 in place of Palileo, took charge of all the properties of Sta. Cecilia placed under receivership.

In late April, 1967 Francisco Dee, another logging contractor, filed his complaint-in-intervention for the collection of an amount corresponding to unpaid "Credit Memos" and unredeemed "Logs Received Invoices"

allegedly issued in his favor by Veneer acting as Sta. Cecilia's administrator. Sta. Cecilia and Veneer duly filed their respective answers to Dee's complaint-in-intervention.

In mid-November, 1967 Sta. Cecilia, on the one hand, and Veneer, Siy and Sabido, on the other, entered into a compromise agreement. The parties agreed, inter alia, on:

1. The termination of the management contract;
2. The delivery to Sta. Cecilia of the possession and administration of its veneer and cold press mills, together with all the equipment, machineries and other related facilities, and the land occupied by the said equipments subject matter of the management contract; and
3. The dismissal by Sta. Cecilia of its complaint against Veneer, Siy and Sabido, and, likewise, the dismissal by the latter of their respective counterclaims against the former.

The parties filed the said compromise agreement, dated November 15, 1967, with the lower court in late December, 1967, for approval.

In February, 1968 the intervenors Pica and Dee filed their respective oppositions to the approval of the aforementioned compromise agreement. Sta. Cecilia moved to dismiss the complaints in intervention respectively filed by Pica and Dee. Subsequently, Pica and Dee filed their oppositions to Sta. Cecilia's motion.

In late March, 1968 Siacunco, in his capacity as judicial receiver, filed with the lower court an annual report for the year 1967. In October of the same year, Pica filed a motion with the lower court praying for the removal of Siacunco as receiver and for the submission by Siacunco of a report on certain log exportations Sta. Cecilia had allegedly made. In early December, 1968 Pica followed up the said motion with a supplemental motion wherein he reiterated his prayer for the immediate removal of Siacunco as receiver.

In the third week of December, 1968 Sta. Cecilia filed with the lower court a motion to terminate and/or dissolve receivership on the following grounds:

"(a) There is now no more controversy between plaintiff and defendants by reason of their having entered into a compromise agreement, notwithstanding the same has not been judicially approved;

"(b) There being no longer any controversy or no more 'case' so to speak between plaintiff and defendants, receivership ought to be at once terminated, the same being merely an ancillary remedy which could not exist independently of the main case which is already compromised;

"(c) Receivership ought further to be terminated by virtue of the return by defendants to plaintiff of the possession and administration of the latter's property under receivership."

Apparently, Sta. Cecilia found out that the receivership of its own properties, rather than providing the panacea for its financial ills, only served to aggravate its fast-declining fiscal condition. The receivership of its properties, according to Sta. Cecilia, resulted in tremendous losses.

Thereupon, the lower court set the motion to terminate and/or dissolve receivership for hearing on December 20, 1968 and January 9, 1969. At the hearing of the said motion on December 20, Veneer, Siy and Sabido "remained neutral" and disavowed any "interest whatsoever whether the receivership is terminated or not, or whether the receiver is removed or changed." However, they changed their stand at the January 9, 1969 hearing by announcing before the lower court their assent to the proposed termination of the receivership.

On January 10, 1969, the lower court issued an order

- 1) Denying the motion filed by Sta. Cecilia for the termination and/or dissolution of the receivership;

- 2) Discharging Siacunco as receiver; and
- 3) Asking the intervenors to recommend a competent person to succeed Siacunco.

As to Sta. Cecilia's application for the termination of the receivership, the lower court stated that

"... its termination at this stage would cause greater injury and will imperil the interests of intervenors whose rights deserve as much consideration from the Court as those of the person requesting for receivership..."

Whereupon, on January 17, 1969, Sta. Cecilia lodged with this Court the instant petition for certiorari and/or prohibition with preliminary injunction, alleging that the Hon. Union C. Ka-yanan, presiding judge of the lower court, committed grave abuse of discretion in refusing to terminate the receivership of its own properties. Sta. Cecilia asked for the termination of the receivership, arguing that no legal and practical necessity warrants the continuation of the receivership because

"(1) the main complaint on the basis of which the receivership was ordered as an ancillary relief has been finally settled and terminated by the Compromise Agreement entered into by the principal parties - plaintiff and defendants;

"(2) the complaints in intervention of respondents-intervenors are pure unsecured money claims and have no direct bearing on the properties originally placed under receivership;

"(3) the continuation of the receivership has worked and continues to work damage and pre-judice to petitioner, owner of the properties, as the receivership has resulted in heavy losses during its operation; (and)

"(4) these damages and losses are irreparable in the sense that respondents-intervenors who seek the continuation of the receivership have posted no bonds either for the receiver himself, resulting in the absurdity that petitioner, because of the bond posted by it when it originally sought the receivership, now has to respond for its own losses incurred by the receiver. In other words, respondents-intervenors, in effect, caused the properties of petitioner to be placed under receivership upon the strength of petitioner's own bond."

Sta. Cecilia therefore prayed for (1) the issuance of a restraining order or, upon its filing of a bond, the issuance *ex parte* of a writ of preliminary injunction restraining the respondent Judge from continuing to place under receivership petitioner's properties, and, likewise, restraining the respondent Judge from further taking cognizance of the main case, particularly from doing any act in connection with and/or relating to the receivership aspects thereof, and (2) the issuance, after hearing on the merits, of an order and/or writ of certiorari and/or prohibition nullifying respondent Judge's order of January 10, 1969 insofar as it denies the petitioner's motion to terminate and/or dissolve receivership.

On January 17, 1969 the respondent Judge issued two new orders - the first, providing for the appointment of Jose G. Gatchalian as the new judicial receiver *vice* Siacunco, and the second, providing for the powers of the new receiver, particularly granting him authority to "devise ways and means to operate the Sta. Cecilia Sawmills, Inc. by buying from other sources and cutting or securing logs within the forest concession of the plaintiff (L-15-C) upon approval of the Court..."

Subsequently, on January 22, 1969, Veneer, Siy and Sabido filed with this Court a manifestation and motion, alleging "that as creditors of Sta. Cecilia, the order of the respondent Judge dated January 10, 1969 adversely affects their rights and interests under the compromise agreement," specially so if the management and administration of the petitioner's properties remained under receivership. Veneer, Siy and Sabido prayed that they be allowed to intervene in the present case, manifesting that they are joining the petitioner in its petition for certiorari particularly in its prayer for the issuance of the writ of preliminary injunction, and that if the order of the respondent Judge of January 10, 1969 sought to be enjoined has already been implemented, the said Judge be

ordered to restore and maintain the status quo existing prior to that date.

Two days later, on January 24, 1969, the respondent Judge issued another order authorizing the field overseer of the receiver Gatchalian to impound and confiscate all logs cut and found within the petitioner's forest concession and to deliver the same to the petitioner's veneer and cold press mills in order to generate funds.

On February 5, 1969 Sta. Cecilia filed with this Court an urgent motion for issuance of a restraining order to suspend and/or hold in abeyance the implementation of the January 17 and January 24, 1969 orders issued by the respondent Judge and to restrain the respondent Judge and the receiver Gatchalian from hiring laborers at the petitioner's veneer and cold press mills and forest concession. Sta. Cecilia reiterated its prayer for the termination of the receivership of its properties.

Whereupon, on the following day, February 6, 1969, this Court issued a temporary restraining order directing the respondent Judge to suspend and/or hold in abeyance the implementation of his two orders of January 17, 1969 and his other order of January 24, 1969, restraining the respondent Judge and his newly appointed receiver from hiring laborers at the petitioner's veneer and cold press mills and forest concession, restraining the respondent Judge from doing any further acts in connection with and/or relating to the receivership in the main case, and directing the respondent Judge to maintain the status quo prior to the issuance of the orders complained of.

On February 8, 1969 Pica filed his Answer with this Court, claiming that the termination of the receivership, as prayed for by Sta. Cecilia, will definitely prejudice his just claim for the unpaid "Credit Memos" and unredeemed "Logs Received Invoices." Pica maintained that his claims, having been admitted and accepted by the petitioner Sta. Cecilia and the defendants Veneer, Siy and Sabido, should be paid and satisfied. Pica furthermore averred that the respondent Judge, considering the facts and the circumstances of the case, neither committed nor intended to commit grave abuse of discretion in denying Sta. Cecilia's motion to terminate the receivership, in holding in abeyance action on the compromise agreement, and in ordering the removal of the receiver Siacunco.

Sta. Cecilia, on February 17, 1969, filed with this Court an urgent manifestation and motion reiterating its offer proposed at the hearing of the present petition before this Court on February 11, 1969. It restated its outstanding offer to put up a bond to answer for whatever claims may be adjudged by the competent court in favor of Pica and Dee by virtue of their complaints-in-intervention in order to obviate any possible objection to the immediate termination of the receivership.

On June 18, 1969 Sta. Cecilia filed with this Court its memorandum wherein it repeated its discussion of the factual background of the present case and again urged the immediate termination of the receivership.

On September 12, 1969 Pica filed with this Court a manifestation and motion primarily to the effect that he has no more interest in the main case in the lower court and in the instant proceedings. Pica prayed that "the corresponding order be issued accepting and confirming his desistance" as regards the instant petition by virtue of a compromise agreement he had entered into with Sta. Cecilia re his complaint-in-intervention. In the said compromise agreement filed with the lower court on August 29, 1969, Sta. Cecilia agreed to liquidate its obligations with Pica. The parties also mutually agreed "to release, dismiss, waive and/or abandon absolutely and forever whatever claim, demand, or cause of action each may have against each other."

On January 17, 1970 Sta. Cecilia filed with this Court a motion to withdraw the bond it filed on February 17, 1969, which bond purported "to answer for any amount which the competent court may adjudge in favor of respondents Pica and Dee by virtue of their complaints-in-intervention." Sta. Cecilia claims that there no longer exists any need for the maintenance of the said bond because Pica has already compromised his complaint in intervention per the compromise agreement filed with the lower court on August 29, 1969 and attached to Pica's

manifestation and motion filed with this Court on September 12, 1969; and Dee, likewise, has already compromised his complaint-in-intervention per the partial compromise agreement dated July 30, 1969 filed with the lower court on August 5, 1969 and the compromise agreement dated October 27, 1969.

The said partial compromise agreement, attached to Sta. Cecilia's motion to withdraw bond, mainly provides for the settlement of the petitioner's obligations with Dee. The compromise agreement, on the other hand, provides for the terms and conditions for the said settlement of claims between the petitioner and Pica. According to the said agreement, Dee obligates himself "to move and/or give his conformity to the termination of the receivership of Sta. Cecilia's properties" and "to sign any and all necessary documents as regards the giving of his said conformity to the termination of the receivership."

The lower court, on April 29, 1970, rendered a decision on the main case terminating the disputes between the petitioner-plaintiff and the defendants, and between Pica or Dee, each on the one hand, and the petitioner-plaintiff or defendants or both the latter two, on the other. The lower court, however, made no adjudication in connection with and/or relating to the receivership of Sta. Cecilia's properties.

Thus, on May 7, 1970, Sta. Cecilia filed with this Court a motion to terminate receivership, praying for the issuance of an order terminating at once the receivership of its properties.

Sta. Cecilia, as the record shows, brought the present petition to this Court primarily to annul the respondent Judge's order of January 10, 1969, denying its motion to terminate and/or dissolve the receivership of its properties. Sta. Cecilia, as previously stated, predicates the instant petition on the allegation that the respondent Judge gravely abused his discretion in issuing the order in question, particularly that portion thereof denying the petitioner's motion to terminate the receivership. Apparently, the respondent Judge issued the order in question because Pica and Dee "stand to suffer great injustice and irreparable injury" should the receivership be terminated, for the said intervenors have an interest in the property or funds main subject of the litigation. The protection of the interests of Pica and Dee provided the respondent Judge the reason to deny Sta. Cecilia's motion to terminate the receivership. The respondent Judge believed that the termination of the receivership would deprive Pica and Dee the opportunity to recoup their claims, thereby prejudicing their interests.

However, during the pendency of the case before this Court, certain events supervened, altering the situation of the parties and appropriately threshing out the differences between them. Pica and Dee, as the record reveals, compromised their respective complaints-in-intervention with Sta. Cecilia, thereby not only adjusting their difficulties but also terminating the controversy between them, including all its incidents and ramifications. The said compromise agreements provide Pica and Dee the strong weapons to protect whatever remaining claims they have against Sta. Cecilia. As the court below stated in its decision rendered on April 29, 1970, putting an end to the litigation re the main case,

"... where the terms of the compromise agreements involved herein are such as to impose compliance with certain stipulations, such as, for instance, the periodic payments of certain prestations, should the obligor fail to do so, the right of the obligee to seek enforcement of the claim arising from the corresponding compromise agreement shall not be in paired in any manner whatever..."

The termination of the controversy between the petitioner Sta. Cecilia and the respondents Pica and Dee per their compromise agreements have thus rendered the basic issue posed by the present petition moot and academic.

Consequently, this Court finds no reason for the continued receivership of Sta. Cecilia's properties. The defendants Veneer, Siy and Sabido have expressed their assent to the termination of the receivership. Likewise, Pica and Dee have manifested their conformity to the termination of said receivership. Also as we have already observed, the respondent Judge, in his decision dated April 29, 1970, refrained from making any adjudication in

connection with, and/or relating to, the receiver-ship, in strict compliance with the temporary restraining order issued by this Court on February 6, 1969 which restrained the respondent Judge, among others, "from doing any further acts in connection with, and/or relating to the receivership."

The foregoing considerations provide this Court with ample reason to lift the temporary restraining order issued on February 6, 1969, to enable the lower court to properly terminate the receivership, there being neither further objection nor in pediment to the said termination.

ACCORDINGLY, the temporary restraining order issued by this Court on February 6, 1969 is hereby lifted. This case is hereby remanded to the lower court for the sole and limited purpose of terminating the receivership in accordance with law. No costs.

Concepcion, C.J., Reyes, J.B.L., Makalintal, Zaldivar, Barredo, and Villamor, JJ., concur.

Fernando and Teehankee, JJ., did not take part.

Dizon and Makasiar, JJ., on official leave.

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