

LAND BANK OF THE PHILIPPINES, PETITIONER, VS. ASCOT HOLDINGS AND EQUITIES, INC., CUBE FACTOR HOLDINGS, INC., SIERRA HOLDINGS & EQUITIES, INC. AND POL HOLDINGS, INC., RESPONDENTS.

G.R. No. 175163. October 19, 2007

Ponente: GARCIA, J.

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GARCIA, J.:

Before the Court is this petition for certiorari and mandamus filed by petitioner Land Bank of the Philippines (Land Bank) to annul and set aside the following issuances of the Court of Appeals (CA) in CA G.R. SP No. 95390, to wit:

- Resolution[1] dated July 31, 2006 denying Land Bank's motion for extension of time within which to file a petition for review under Rule 43 of the Rules of Court to annul the judgment of the Makati Regional Trial Court (RTC) in Civil Case No. 02-843; and
- Resolution dated September 11, 2006, denying Land Bank's motion for reconsideration of the July 31, 2006 resolution.

The ultimate facts:

Sometime in March 1992, after the Philippine Airlines (PAL) was privatized, Land Bank purchased from the National Government some 75,000,000 PAL shares at P14.3925 per share or for a total consideration of P1,079,437,485.01.

Meanwhile, respondents, together with the Philippine National Bank (PNB), the Development Bank of the Philippines (DBP), the AFP Retirement and Separation Benefits System (AFP-RSBS), all stockholders of PAL, and several other parties, formed a consortium in order to purchase 67% of PAL's capital stocks which were then being sold by public bidding. For this purpose, the aforesaid consortium organized a holding company – the PR Holdings Inc. (PR Holdings) - to hold the PAL shares of stock.

As it were, Land Bank, with the Government Service Insurance System (GSIS) and the National Government, owned 33% of the issued and outstanding shares of stock of PAL, while respondents and other stockholders of PR Holdings owned the other 67%.

On March 29, 1995, the minority stockholders in PR Holdings filed a case with the Securities and Exchange Commission (SEC), docketed as SEC Case No. 03-95-5019, seeking the distribution of PR Holdings' shares of stock in PAL to its stockholders in proportion to their equity.

While the aforementioned SEC case was pending, the said minority stockholders of PR Holdings agreed to dissolve the latter and distribute its assets, consisting of PAL shares, to its stockholders by way of liquidating dividends. However, the majority group composed of the respondents, joined by Land Bank, PNB, DBP,

AFP-RSBS and GSIS, voted in favor of respondents' proposal to increase PAL's capital stocks from Five Billion Pesos (P5,000,000,000.00) to Ten Billion Pesos (P10,000,000,000.00). Land Bank, along with PNB, DBP, AFP-RSBS and GSIS, however, have the so-called put-option to sell their PAL shares of stock to respondents and the latter are obligated to buy the same at Five Pesos (P5.00) per share on the sixth year after the effectivity of the Stockholders' Agreement executed by and among respondents, PNB and GSIS in 2002. It was also stipulated in said agreement that respondents' obligation under the put-option shall be guaranteed by Fortune Tobacco Corporation and Asia Brewery Inc., the two (2) flagship corporations of Mr. Lucio Tan, as joint and solidary co-obligors of respondents.

Pursuant to the aforementioned Stockholders' Agreement, Asia Brewery Inc. and Fortune Tobacco Corporation, as joint and solidary co-obligors of the respondents, executed a Guaranty Agreement in favor of Land Bank, DBP, PNB, GSIS, AFP-RSBS, and the National Government. Thereunder, Asia Brewery Inc. and Fortune Tobacco Corporation undertook, in firm and unqualified commitment, to buy-back the PAL shares of stock at P5.00 per share, should the respondents be unable to perform their obligation to buy the same. The pertinent portions of the Guaranty Agreement read:

WHEREAS, in a Stockholders' Agreement (the 'Agreement') executed by and among ASCOT HOLDINGS & EQUITIES, INC., CUBE FACTORS HOLDINGS, INC., SIERRA HOLDINGS & EQUITIES, INC., NETWORK HOLDINGS & EQUITIES, INC. and POL HOLDINGS, INC. (as party of the First Part); PHILIPPINE NATIONAL BANK, DEVELOPMENT BANK OF THE PHILIPPINES and AFP-RETIREMENT AND SEPARATION BENEFITS SYSTEM (as Party of the Second Part); GOVERNMENT SERVICE INSURANCE SYSTEM, LAND BANK OF THE PHILIPPINES and the REPUBLIC OF THE PHILIPPINES (as a party of the Third Part), which is made and integral part hereof by reference, the Party of the First Part agreed, in par. 4 thereof, as follows:

- The Parties of the Second and Third Part shall have the option to sell their existing PAL shares, inclusive of the PAL shares acquired as a result of the dissolution of PRHI, to the Party of the First Part, at P5.00 per share plus premium paid as provided in par. 1.b of this Agreement, if any, which may be exercised on the sixth year after the effectivity of this agreement, provided that if on the fifth year, the net book value of PAL is more than P10 billion and had a net income of the preceding twelve (12) months, the option may be exercised on the fifth year. The obligation of the Party of the First Part under this provision shall be guaranteed by Asia Brewery, Inc. and Fortune Tobacco Corporation.

NOW THEREFORE, for valuable consideration, the GUARANTORS hereby jointly and severally guarantee the performance by the Party of the First Part of its obligation to purchase the PAL shares of the Parties of the Second and Third Part at P5.00 per shares plus premium paid as provided in par. 1.b of the Agreement as and when required in par. 4 thereof. In the event that the Party of the First Part is unable to perform its aforesaid obligation, GUARANTORS hereby undertake irrevocably and unconditionally to purchase from the Parties of the Second and Third Part all of their PAL shares as provided in par. 4 of the Agreement.

On July 23, 2002, instead of honoring the Stockholders' Agreement, respondents filed with the RTC of Makati a complaint against Land Bank, PNB, DBP, GSIS, AFP-RSBS and the Republic of the Philippines, praying that they be released from the obligation to buy the PAL shares of petitioner and other defendants therein at P5.00 per share, as earlier agreed upon under the Stockholders' Agreement, on ground of alleged radical change in the conditions prevailing at the time the said agreement was entered and the present. In their complaint, docketed as Civil Case No. 02-843, respondents, as plaintiffs, argued that under the doctrine of "rebus sic stantibus" embodied in Article 1267, in relation to Article 1174, of the New Civil Code, the occurrence of unforeseen events alleged in the complaint (such as "fleet expansion and re-equipment of PAL, the pilot strike, the Asian economic downturn, the devaluation of the peso and the purported reduced demand for air travel") released them from complying with

their obligation to purchase the PAL shares of stock from the defendants.

Land Bank and the other defendants in Civil Case No. 02-843 contended that the events or circumstances cited by the respondents were not valid grounds for the latter to be released from their obligation under the doctrine of *rebus sic stantibus*. According to the defendants, when the parties entered into the said Stockholders' Agreement, they have assumed the risk of deterioration and/or improvement of the business of PAL, and that the parties made sure that respondents' obligations to buy the PAL shares at P5.00 per share will be fulfilled exactly under the terms of the same Stockholders' Agreement, as in fact respondents expressly stipulated that their obligation thereunder shall be assumed irrevocably and unconditionally by Fortune Tobacco Corporation and Asia Brewery Inc. per the Guaranty Agreement dated August 5, 1996. Additionally, Land Bank argued that the case was not an intra-corporate dispute inasmuch as PAL is not at all a party to the suit.

In a "Judgment" dated March 15, 2006, the trial court ruled in favor of the respondents, thus:

FOR THE REASONS GIVEN, judgment is rendered in favor of the plaintiffs and against the defendants, declaring plaintiffs released from the obligation to comply with defendants' option to sell their shares in Philippine Airlines, Inc. under Article IV (4) of the Stockholders Agreement (Annex A, Complaint) executed in May 1996. The counterclaims interposed by all defendants are dismissed.

No pronouncement as to costs.

SO ORDERED.

On July 4, 2006, the trial court denied Land Bank's motion for reconsideration. Therefrom, Land Bank decided to go to the CA on a petition for review. For the purpose, it filed with the CA, on July 25, 2006, a motion for extension of time to file the intended petition for review.

Unfortunately, the motion was denied by the CA in its first assailed resolution dated July 31, 2006 which partly reads:

Consequently, the filing by petitioner of a motion for reconsideration before the trial court did not toll the reglementary period to appeal the judgment via a petition for review under the Rule 43 of the 1997 Rules of Civil Procedure, as amended. The period of appeal having already lapsed or expired, this Court has no more jurisdiction to entertain the present case, much less to grant the motion for extension of time to file the intended petition.

ACCORDINGLY, the present motion for extension of time filed on July 25, 2006 is hereby DENIED.

SO ORDERED.

On August 16, 2006, petitioner Land Bank filed a motion for reconsideration of the above resolution urging that even though a motion for reconsideration of the March 15, 2006 "Judgment" of the trial court is not allowed under the Interim Rules of Procedure Governing Intra-Corporate Controversies under R.A. No. 8799, nonetheless it implored the appellate court to consider the filing thereof as sufficient, "in the interest of substantial justice," to suspend the running of the reglementary period to appeal. Petitioner hastens to add that the March 15, 2006 "Judgment" and the July 4, 2006 Order of the trial court had created a dangerous precedent when said court upheld respondents' contention that the occurrence of the "fleet expansion and re-equipment of PAL, pilot strike, Asian economic downturn, the devaluation of the peso and the purported reduced demand for air travel" have absolved them from their obligation to comply with the Stockholders' Agreement.

With its motion for reconsideration having been denied by the CA in its equally challenged resolution of September 11, 2006, petitioner is now with this Court via the present recourse, urging the Court to compel the CA

to approve its motion for extension of time to file petition for review, and, ultimately, to give due course to its intended petition for review.

We DISMISS.

It is beyond quibbling that the assailed “Judgment” in Civil Case No. 02-843 was issued by the RTC in the exercise of its special jurisdiction over intra-corporate controversies under R.A. No. 8799. Civil Case No. 02-843 was, therefore, governed by the Interim Rules of Corporate Rehabilitation and the Interim Rules of Procedure Governing Intra-Corporate Controversies under R.A. No. 8799, as well as A.M. No. 04-9-07-SC of this Court prescribing the mode of appeal from decisions of the RTC in intra-corporate controversies.

Under Section 8(3), Rule 1 of the Interim Rules of Procedure Governing Intra-Corporate Controversies Under R.A. No. 8799, motion for new trial, or for reconsideration of judgment or order, or for re-opening of trial are prohibited pleadings in said cases. Hence, the filing by petitioner of a motion for reconsideration before the trial court did not toll the reglementary period to appeal the judgment via a petition for review under Rule 43 of the 1997 Rules of Civil Procedure, as amended. As a consequence, the CA has no more jurisdiction to entertain the petition for review which Land Bank intended to file before it, much less to grant the motion for extension of time for the filing thereof.

The prohibited motion for reconsideration filed by the petitioner with the trial court did not suspend the period to appeal the RTC’s “Judgment” of March 15, 2006. Consequently, that “Judgment” became final and executory 15-days thereafter. When petitioner filed a motion for extension to file a petition for review in the CA on July 25, 2006, or one hundred twenty four (124) days after it received the RTC “Judgment,” there was no more period to extend. Given these undeniable facts, the CA cannot be faulted for denying petitioner’s motion for extension. There is no abuse, much less grave abuse, of discretion, to speak of.

Petitioner insists, however, that the CA committed grave abuse of discretion in denying its motion for extension because the prohibited pleading it filed in the trial court was still sufficient to suspend the running of the reglementary period to appeal “in the interest of substantial justice.” Unfortunately, there is a scarcity of law or jurisprudence to support petitioner’s novel theory. It is obvious that a prohibited pleading cannot toll the running of the period to appeal since such pleading cannot be given any legal effect precisely because of its being prohibited.

In *Sebastian and Cardenas v. Morales, et al.*,^[2] we held:

Under Rule 1, Section 6 of the 1997 Rules of Civil Procedure, liberal construction of the Rules is the controlling principle to effect substantial justice. Thus, litigations should, as much as possible, be decided on their merits and not on technicalities. This does not mean, however that procedural rules are to be ignored or disdained at will to suit the convenience of a party. Procedural law has its own rationale in the orderly administration of justice, namely, to ensure the effective enforcement of substantive rights by providing for a system that obviates arbitrariness, caprice, despotism, or whimsically in the settlement of disputes. Hence, it is a mistake to suppose that substantive law and procedural law are contradictory to each other, or as often suggested, that enforcement of procedural rules should never be permitted if it would result in prejudice to the substantive rights of the litigants.

x x x Hence, rules of procedure must be faithfully followed except only when for persuasive reasons, they may be relaxed to relieve a litigant of an injustice not commensurate with his failure to comply with the prescribed procedure. x x x

Procedural rules setting the period for perfecting an appeal or filing an appellate petition are generally inviolable. It is doctrinally entrenched that appeal is not a constitutional right but a mere statutory privilege. Hence, parties

who seek to avail of the privilege must comply with the statutes or rules allowing it. The requirements for perfecting an appeal within the reglementary period specified in the law must, as a rule, be strictly followed. Such requirements are considered indispensable interdictions against needless delays, and are necessary for the orderly discharge of the judicial business. For sure, the perfection of an appeal in the manner and within the period set by law is not only mandatory, but jurisdictional as well. Failure to perfect an appeal renders the judgment appealed from final and executory.[3]

We must stress that the bare invocation of “the interest of substantial justice” is not a magic wand that will automatically compel this Court to suspend procedural rules. Procedural rules are not to be belittled or dismissed simply because their non-observance may have resulted in prejudice to a party's substantive rights. Like all rules, they are required to be followed except only for the most persuasive of reasons when they may be relaxed to relieve a litigant of an injustice not commensurate with the degree of his thoughtlessness in not complying with the procedure prescribed.[4] The Court reiterates that rules of procedure, especially those prescribing the time within which certain acts must be done, have oft been held as absolutely indispensable to the prevention of needless delays and to the orderly and speedy discharge of business. Indeed, in no uncertain terms, the Court held that the said rules may be relaxed only in “exceptionally meritorious cases.”[5] This case is not one of those.

Petitioner's claim that it supposedly stands to lose its substantial investment in shares of stock amounting to P1,079,437,485.61 just because it filed a motion for reconsideration, is unfounded. As we see it, the so-called loss of substantial investment that petitioner complains about is more imaginary than real. As it is, petitioner's shares in PAL have not been taken away from it; neither has petitioner been deprived of any of its proprietary rights vis-à-vis the said shares of stock. Petitioner continues to hold and own the shares in its name. Respondents, who own the majority of the shares in PAL, have all the more reason to keep the company afloat and thriving since they have more to lose. Any benefit that respondents may derive from the continued profitable operations of PAL will likewise benefit petitioner.

The Court may deign to veer away from the general rule only if, in its assessment, the appeal on its face appears absolutely meritorious. Indeed, the Court has, in a number of instances, relaxed procedural rules in order to serve and achieve substantial justice.[6] In the circumstances obtaining in this case, however, the occasion does not warrant the desired relaxation.

WHEREFORE, this petition is DISMISSED.

No pronouncement as to costs.

SO ORDERED.

Puno, C.J., (Chairperson), Sandoval-Gutierrez, Corona, and Azcuna, JJ., concur.

[1] Penned by Associate Justice Martin S. Villarama with Associate Justices Lucas P. Bersamin and Celia C. Leagogo, concurring; rollo, p. 21.

[2] G.R. No. 141116, February 17, 2003, 397 SCRA 549.

[3] Manila Memorial Park Cemetery, Inc. v. CA, G.R. No. 137122, November 15, 2000, 344 SCRA 769.

[4] Gabriel Lazaro and the heirs of Florencia Pineda and Eva Viernes v. Court of Appeals and Spouses Jose and Anita Alesna, G.R. No. 137761, April 6, 2000, 330 SCRA 208.

[5] Videogram Regulatory Board v. CA, supra. See also Bank of America, NT & SA v. Gerochi, G.R. No. 73210,

February 10, 1994, 230 SCRA 9.

[6] Policarpio T. Cuevas v. Bais Steel Corporation and Steven Chan, G.R. No. 142689, October 17, 2002, 391 SCRA 192.

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