FIRST DIVISION

[G.R. No. 181126. June 15, 2011]

LEONARDO S. UMALE, [deceased] represented by CLARISSA VICTORIA, JOHN LEO, GEORGE LEONARD, KRISTINE, MARGUERITA ISABEL, and MICHELLE ANGELIQUE, ALL SURNAMED UMALE, *petitioners, vs.* **ASB REALTY CORPORATION,** *respondent.*

SYLLABUS

1. REMEDIAL LAW; CIVIL PROCEDURE; ACTIONS; PARTIES; REAL PARTY-IN-INTEREST, DEFINED. — There is no denying that ASB Realty, as the owner of the leased premises, is the real party-in-interest in the unlawful detainer suit. Real party-in-interest is defined as "the party who stands to be benefited or injured by the judgment in the suit, or the party entitled to the avails of the suit."

2. COMMERCIAL LAW; CORPORATION CODE; CORPORATION, DEFINED. — Corporations, such as ASB Realty, are juridical entities that exist by operation of law. As a creature of law, the powers and attributes of a corporation are those set out, expressly or impliedly, in the law. Among the general powers granted by law to a corporation is the power to sue in its own name. This power is granted to a duly-organized corporation, unless *specifically* revoked by another law.

3. ID.; ID.; 2009 RULES OF PROCEDURE ON CORPORATE REHABILITATION (A.M. NO. 00-8-10-SC); CORPORATE REHABILITATION, DEFINED; BY IMPLICATION, THE CONCEPT OF REHABILITATION DOES NOT RESTRICT THE DEBTOR CORPORATION'S RIGHT TO SUE SAVE FOR THE CAVEAT THAT ALL ITS ACTIONS ARE MONITORED CLOSELY BY THE RECEIVER. — Corporate rehabilitation is defined as "the restoration of the debtor to a position of successful operation and solvency, if it is shown that its continuance of operation is economically feasible and its creditors can recover by way of the present value of payments projected in the plan more if the corporation continues as a

Supreme Court E-Library

going concern than if it is immediately liquidated." It was first introduced in the Philippine legal system through PD 902-A, as amended. The intention of the law is "to effect a feasible and viable rehabilitation by *preserving* a floundering business as a *going concern,* because the assets of a business are often more valuable *when so maintained* than they would be when liquidated." This concept of preserving the corporation's business as a going concern while it is undergoing rehabilitation is called debtor-in-possession or debtor-in-place. This means that the debtor corporation (the corporation undergoing rehabilitation), through its Board of Directors and corporate officers, remains ***in control of its business and properties,*** subject only to the monitoring of the appointed rehabilitation receiver. The concept of debtor-in-possession, is carried out more particularly in the SEC Rules, the rule that is relevant to the instant case. It states therein that the interim rehabilitation receiver of the debtor corporation "does ***not*** take over the control and management of the debtor corporation." Likewise, the rehabilitation receiver that will replace the interim receiver is tasked only to monitor the successful implementation of the rehabilitation plan. There is nothing in the concept of corporate rehabilitation that would *ipso facto* deprive the Board of Directors and corporate officers of a debtor corporation, such as ASB Realty, of control such that it can no longer enforce its right to recover its property from an errant lessee. To be sure, corporate rehabilitation imposes several restrictions on the debtor corporation. The rules enumerate the prohibited corporate actions and transactions (most of which involve some kind of disposition or encumbrance of the corporation's assets) during the pendency of the rehabilitation proceedings but none of which touch on the debtor corporation's right to sue. The implication therefore is that our concept of rehabilitation does not restrict this particular power, save for the caveat that all its actions are monitored closely by the receiver, who can seek an annulment of any prohibited or anomalous transaction or agreement entered into by the officers of the debtor corporation.

4. ID.; PD 902-A (REORGANIZATION OF THE SECURITIES AND EXCHANGE COMMISSION WITH ADDITIONAL POWERS, AS AMENDED); RULES OF PROCEDURE ON CORPORATE RECOVERY; REHABILITATION RECEIVER; POWERS DISTINGUISHED FROM THE POWERS OF RECEIVER UNDER

RULE 59 OF THE RULES OF COURT; APPLICATION IN CASE AT BAR. — Indeed, PD 902-A, as amended, provides that the receiver shall have the powers enumerated under Rule 59 of the Rules of Court. But Rule 59 is a rule of general application. It applies to different kinds of receivers – rehabilitation receivers, receivers of entities under management, ordinary receivers, receivers in liquidation – and for different kinds of situations. While the SEC has the discretion to authorize the rehabilitation receiver, as the case may warrant, to exercise the powers in Rule 59, the SEC's exercise of such discretion cannot simply be assumed. There is no allegation whatsoever in this case that the SEC gave ASB Realty's rehabilitation receiver the exclusive right to sue. x x x While the Court rules that ASB Realty and its corporate officers retain their power to sue to recover its property and the back rentals from Umale, the necessity of keeping the receiver apprised of the proceedings and its results is not lost upon this Court. Tasked to closely monitor the assets of ASB Realty, the rehabilitation receiver has to be notified of the developments in the case, so that these assets would be managed in accordance with the approved rehabilitation plan.

5. CIVIL LAW; LEASE; PERIOD OF LEASE; WHEN EXTENSION THEREOF UNDER ARTICLE 1687 OF THE CIVIL CODE MAY NOT BE AVAILED OF BY THE LESSEE; PRESENT IN CASE AT BAR. — In arguing for an extension of lease under Article 1687, petitioners lost sight of the restriction provided in Article 1675 of the Civil Code. It states that a lessee that commits any of the grounds for ejectment cited in Article 1673, including non-payment of lease rentals and devoting the leased premises to uses other than those stipulated, cannot avail of the periods established in Article 1687. Moreover, the extension in Article 1687 is granted only as a matter of equity. The law simply recognizes that there are instances when it would be unfair to abruptly end the lease contract causing the eviction of the lessee. It is only for these clearly unjust situations that Article 1687 grants the court the discretion to extend the lease. The particular circumstances of the instant case however, do not inspire granting equitable relief. Petitioners have not paid, much less offered to pay, the rent for 14 months and even had the temerity to disregard the pay-and-vacate notice served on them. An extension will only benefit the wrongdoer and punish the long-suffering property owner.

Supreme Court E-Library

APPEARANCES OF COUNSEL

Rivera Santos & Maranan for petitioners.
Javier Jose Mendoza and Associates for respondent.

D E C I S I O N

DEL CASTILLO, *J.*:

Being placed under corporate rehabilitation and having a receiver appointed to carry out the rehabilitation plan do not *ipso facto* deprive a corporation and its corporate officers of the power to recover its unlawfully detained property.

Petitioners filed this Petition for Review on *Certiorari*[1] assailing the October 15, 2007 Decision[2] of the Court of Appeals (CA) in CA-G.R. SP No. 91096, as well as its January 2, 2008 Resolution.[3] The dispositive portion of the assailed Decision reads:

> WHEREFORE, the Decision dated March 28, 2005 of the trial court is affirmed *in toto*.
>
> SO ORDERED.[4]

Factual Antecedents

This case involves a parcel of land identified as Lot 7, Block 5, Amethyst Street, Ortigas Center, Pasig City which was originally owned by Amethyst Pearl Corporation (Amethyst Pearl), a company that is, in turn, wholly-owned by respondent ASB Realty Corporation (ASB Realty).

In 1996, Amethyst Pearl executed a Deed of Assignment in Liquidation of the subject premises in favor of ASB Realty in

---

[1] *Rollo*, pp. 32-58.

[2] *Id.* at 60-75; penned by Associate Justice Fernanda Lampas Peralta and concurred in by Associate Justices Edgardo P. Cruz and Normandie B. Pizarro.

[3] *Id.* at 77.

[4] CA Decision, p. 16; *id.* at 75.

Supreme Court E-Library

consideration of the full redemption of Amethyst Pearl's outstanding capital stock from ASB Realty.[5] Thus, ASB Realty became the owner of the subject premises and obtained in its name Transfer Certificate of Title No. PT-105797,[6] which was registered in 1997 with the Registry of Deeds of Pasig City.

Sometime in 2003, ASB Realty commenced an action in the Metropolitan Trial Court (MTC) of Pasig City for unlawful detainer[7] of the subject premises against petitioner Leonardo S. Umale (Umale). ASB Realty alleged that it entered into a lease contract[8] with Umale for the period June 1, 1999-May 31, 2000. Their agreement was for Umale to conduct a pay-parking business on the property and pay a monthly rent of ₱60,720.00 to ASB Realty.

Upon the contract's expiration on May 31, 2000, Umale continued occupying the premises and paying rentals albeit at an increased monthly rent of ₱100,000.00. The last rental payment made by Umale to ASB Realty was for the June 2001 to May 2002 period, as evidenced by the Official Receipt No. 56511[9] dated November 19, 2001.

On June 23, 2003, ASB Realty served on Umale a Notice of Termination of Lease and Demand to Vacate and Pay.[10] ASB Realty stated that it was terminating the lease effective midnight of June 30, 2003; that Umale should vacate the premises, and pay to ASB Realty the rental arrears amounting to ₱1.3 million by July 15, 2003. Umale failed to comply with ASB Realty's

---

[5] *Id.* at 167-168.

[6] *Id.* at 124-129.

[7] The original complaint was filed on September 3, 2003 (CA *rollo*, pp. 83-86) but was amended on October 1, 2003 (*Id.* at 89-92). The complaint was docketed as Civil Case No. 10427 and raffled off to Branch 70 of the MTC Pasig.

[8] *Rollo*, pp. 175-179.

[9] *Id.* at 181.

[10] *Id.* at 180.

Supreme Court E-Library

demands and continued in possession of the subject premises, even constructing commercial establishments thereon.

Umale admitted occupying the property since 1999 by virtue of a verbal lease contract but vehemently denied that ASB Realty was his lessor. He was adamant that his lessor was the original owner, Amethyst Pearl. Since there was no contract between himself and ASB Realty, the latter had no cause of action to file the unlawful detainer complaint against him.

In asserting his right to remain on the property based on the oral lease contract with Amethyst Pearl, Umale interposed that the lease period agreed upon was "for a long period of time."[11] He then allegedly paid ₱1.2 million in 1999 as one year advance rentals to Amethyst Pearl.[12]

Umale further claimed that when his oral lease contract with Amethyst Pearl ended in May 2000, they both agreed on an oral contract to sell. They agreed that Umale did not have to pay rentals until the sale over the subject property had been perfected between them.[13] Despite such agreement with Amethyst Pearl regarding the waiver of rent payments, Umale maintained that he continued paying the annual rent of ₱1.2 million. He was thus surprised when he received the Notice of Termination of Lease from ASB Realty.[14]

Umale also challenged ASB Realty's personality to recover the subject premises considering that ASB Realty had been placed under receivership by the Securities and Exchange Commission (SEC) and a rehabilitation receiver had been duly appointed. Under Section 14(s), Rule 4 of the Administrative Memorandum No. 00-8-10SC, otherwise known as the Interim Rules of Procedure on Corporate Rehabilitation (Interim Rules), it is the rehabilitation receiver that has the

---

[11] Defendant's Position Paper, p. 3; CA *rollo*, p. 148.

[12] *Id.*

[13] *Id.* at 4-5; *id.* at 149-150.

[14] *Id.* at 5; *id.* at 150.

power to "take possession, control and custody of the debtor's assets." Since ASB Realty claims that it owns the subject premises, it is its duly-appointed receiver that should sue to recover possession of the same.[15]

ASB Realty replied that it was impossible for Umale to have entered into a Contract of Lease with Amethyst Pearl in 1999 because Amethyst Pearl had been liquidated in 1996. ASB Realty insisted that, as evidenced by the written lease contract, Umale contracted with ASB Realty, not with Amethyst Pearl. As further proof thereof, ASB Realty cited the official receipt evidencing the rent payments made by Umale to ASB Realty.

Ruling of the Metropolitan Trial Court

In its August 20, 2004 Decision,[16] the MTC dismissed ASB Realty's complaint against Umale without prejudice. It held that ASB Realty had no cause to seek Umale's ouster from the subject property because it was not Umale's lessor. The trial court noted an inconsistency in the written lease contract that was presented by ASB Realty as basis for its complaint. Its whereas clauses cited ASB Realty, with Eden C. Lin as its representative, as Umale's lessor; but its signatory page contained Eden C. Lin's name under the heading Amethyst Pearl. The MTC then concluded from such inconsistency that Amethyst Pearl was the real lessor, who can seek Umale's ejectment from the subject property.[17]

Likewise, the MTC agreed with Umale that only the rehabilitation receiver could file suit to recover ASB Realty's property.[18] Having been placed under receivership, ASB Realty had no more personality to file the complaint for unlawful detainer.

---

[15] *Id.* at 13-14; *id.* at 158-159.

[16] *Rollo*, pp. 226-241; penned by Presiding Judge Jose P. Morallos.

[17] MTC Decision, p. 14; *rollo*, p. 239.

[18] *Id.* at 13-14; *id.* at 238-239.

Supreme Court E-Library

Ruling of the Regional Trial Court

ASB Realty appealed the adverse MTC Decision to the Regional Trial Court (RTC),[19] which then reversed[20] the MTC ruling.

The RTC held that the MTC erred in dismissing ASB Realty's complaint for lack of cause of action. It found sufficient evidence to support the conclusion that it was indeed ASB Realty that entered into a lease contract with Umale, hence, the proper party who can assert the corresponding right to seek Umale's ouster from the leased premises for violations of the lease terms. In addition to the written lease contract, the official receipt evidencing Umale's rental payments for the period June 2001 to May 2002 to ASB Realty adequately established that Umale was aware that his lessor, the one entitled to receive his rent payments, was ASB Realty, not Amethyst Pearl.

ASB Realty's positive assertions, supported as they are by credible evidence, are more compelling than Umale's bare negative assertions. The RTC found Umale's version of the facts incredible. It was implausible that a businessman such as Umale would enter into several transactions with his alleged lessor – a lease contract, payment of lease rentals, acceptance of an offer to sell from his alleged lessor, and an agreement to waive rentals – *sans* a sliver of evidence.

With the lease contract between Umale and ASB Realty duly established and Umale's failure to pay the monthly rentals since June 2002 despite due demands from ASB Realty, the latter had the right to terminate the lease contract and seek his eviction from the leased premises. Thus, when the contract expired on June 30, 2003 (as stated in the Notice of Termination of Lease), Umale lost his right to remain on the premises and his continued refusal to vacate the same constituted sufficient cause of action for his ejectment.[21]

---

[19] The appeal was docketed as SCA No. 2724 and raffled off to Branch 161 of the RTC Pasig.

[20] *Rollo*, pp. 307-319; penned by Pairing Judge Amelia A. Fabros.

[21] RTC Decision, pp. 9-11; *rollo*, pp. 315-317.

Supreme Court E-Library

With respect to ASB Realty's personality to file the unlawful detainer suit, the RTC ruled that ASB Realty retained all its corporate powers, including the power to sue, despite the appointment of a rehabilitation receiver. Citing the Interim Rules, the RTC noted that the rehabilitation receiver was not granted therein the power to file complaints on behalf of the corporation.[22]

Moreover, the retention of its corporate powers by the corporation under rehabilitation will advance the objective of corporate rehabilitation, which is to conserve and administer the assets of the corporation in the hope that it may eventually be able to go from financial distress to solvency. The suit filed by ASB Realty to recover its property and back rentals from Umale could only benefit ASB Realty.[23]

The dispositive portion of the RTC Decision reads as follows:

WHEREFORE, premises considered, the appealed decision is hereby reversed and set aside. Accordingly, judgment is hereby rendered in favor of the plaintiff-appellant ordering defendant-appellee and all persons claiming rights under him:

1) To immediately vacate the subject leased premises located at Lot 7, Block 5, Amethyst St., Pearl Drive, Ortigas Center, Pasig City and deliver possession thereof to the plaintiff-appellant;

2) To pay plaintiff-appellant the sum of ₱1,300,000.00 representing rentals in arrears from June 2002 to June 2003;

3) To pay plaintiff-appellant the amount of ₱100,000.00 a month starting from July 2003 and every month thereafter until they finally vacate the subject premises as reasonable compensation for the continued use and occupancy of the same;

4) To pay plaintiff-appellant the sum of ₱200,000.00 as and by way of attorney's fees; and the costs of suit.

SO ORDERED.[24]

---

[22] *Id.* at 8-9; *id.* at 314-315.

[23] *Id.* at 8; *id.* at 314.

[24] *Id.* at 12-13; *id.* at 318-319.

Supreme Court E-Library

Umale filed a Motion for Reconsideration[25] while ASB Realty moved for the issuance of a writ of execution pursuant to Section 21 of the 1991 Revised Rules on Summary Procedure.[26]

In its July 26, 2005 Order, the RTC denied reconsideration of its Decision and granted ASB Realty's Motion for Issuance of a Writ of Execution.[27]

Umale then filed his appeal[28] with the CA insisting that the parties did not enter into a lease contract.[29] Assuming that there was a lease, it was at most an implied lease. Hence its period depended on the rent payments. Since Umale paid rent annually, ASB Realty had to respect his lease for the entire year. It cannot terminate the lease at the end of the month, as it did in its Notice of Termination of Lease.[30] Lastly, Umale insisted that it was the rehabilitation receiver, not ASB Realty, that was the real party-in-interest.[31]

Pending the resolution thereof, Umale died and was substituted by his widow and legal heirs, per CA Resolution dated August 14, 2006.[32]

Ruling of the Court of Appeals

The CA affirmed the RTC Decision *in toto*.[33]

According to the appellate court, ASB Realty fully discharged its burden to prove the existence of a lease contract between

---

[25] *Rollo*, pp. 320-340.

[26] *Id.* at 341-344.

[27] *Id.* at 353-357.

[28] The appeal was docketed as CA-G.R. CV No. 91096. CA *rollo*, pp. 2-41.

[29] Petition for Review, pp. 25-30; *id.* at 26-31.

[30] *Id.* at 31-33; *id.* at 32-34.

[31] *Id.* at 12-16; *id.* at 13-17.

[32] *Rollo*, pp. 589-590.

[33] CA Decision, p. 16; CA *rollo*, p. 666.

Supreme Court E-Library

ASB Realty and Umale,[34] as well as the grounds for eviction.[35] The veracity of the terms of the lease contract presented by ASB Realty was further bolstered, instead of demolished, by Umale's admission that he paid monthly rents in accordance therewith.[36]

The CA found no merit in Umale's claim that in light of Article 1687 of the Civil Code the lease should be extended until the end of the year. The said provision stated that in cases where the lease period was not fixed by the parties, the lease period depended on the payment periods. In the case at bar, the rent payments were made on a monthly basis, not annually; thus, Umale's failure to pay the monthly rent gave ASB Realty the corresponding right to terminate the lease at the end of the month.[37]

The CA then upheld ASB Realty's, as well as its corporate officers', personality to recover an unlawfully withheld corporate property. As expressly stated in Section 14 of Rule 4 of the Interim Rules, the rehabilitation receiver does not take over the functions of the corporate officers.[38]

Petitioners filed a Motion for Reconsideration,[39] which was denied in the assailed January 2, 2008 Resolution.[40]

Issues

The petitioners raise the following issues for resolution:[41]

1. Can a corporate officer of ASB Realty (duly authorized by the Board of Directors) file suit to recover an unlawfully

---

[34] *Id.* at 11; *id.* at 661.

[35] *Id.* at 13; *id.* at 663.

[36] *Id.* at 11; *id.* at 661.

[37] *Id.* at 11-13; *id.* at 661-663.

[38] *Id.* at 7-10; *id.* at 657-660.

[39] CA *rollo*, pp. 667-678.

[40] *Id.* at 708.

[41] Petitioners' Memorandum, p. 11; *rollo*, p. 651.

Supreme Court E-Library

detained corporate property despite the fact that the corporation had already been placed under rehabilitation?

2. Whether a contract of lease exists between ASB Realty and Umale; and

3. Whether Umale is entitled to avail of the lease periods provided in Article 1687 of the Civil Code.

Our Ruling

Petitioners ask for the dismissal of the complaint for unlawful detainer on the ground that it was not brought by the real party-in-interest.[42] Petitioners maintain that the appointment of a rehabilitation receiver for ASB Realty deprived its corporate officers of the power to recover corporate property and transferred such power to the rehabilitation receiver. Section 6, Rule 59 of the Rules of Court states that a receiver has the power to bring actions in his own name and to collect debts due to the corporation. Under Presidential Decree (PD) No. 902-A and the Interim Rules, the rehabilitation receiver has the power to take custody and control of the assets of the corporation. Since the receiver for ASB Realty did not file the complaint for unlawful detainer, the trial court did not acquire jurisdiction over the subject property.[43]

Petitioners cite *Villanueva v. Court of Appeals*,[44] *Yam v. Court of Appeals*,[45] and *Abacus Real Estate Development Center, Inc. v. The Manila Banking Corporation*,[46] as authorities for the rule that the appointment of a receiver suspends the authority of the corporation and its officers over its property and effects.[47]

---

[42] *Id.* at 12; *id.* at 652.

[43] *Id.* at 12-13; *id.* at 652-653.

[44] 314 Phil. 297 (1995).

[45] 362 Phil. 344 (1999).

[46] 495 Phil. 86 (2005).

[47] Petitioners' Memorandum, pp. 13-15; *rollo*, pp. 653-655.

Supreme Court E-Library

ASB Realty counters that there is no provision in PD 902-A, the Interim Rules, or in Rule 59 of the Rules of Court that divests corporate officers of their power to sue upon the appointment of a rehabilitation receiver.[48] In fact, Section 14, Rule 4 of the Interim Rules expressly limits the receiver's power by providing that the rehabilitation receiver does not take over the management and control of the corporation but shall closely oversee and monitor the operations of the debtor.[49] Further, the SEC Rules of Procedure on Corporate Recovery (SEC Rules), the rules applicable to the instant case, do not include among the receiver's powers the exclusive right to file suits for the corporation.[50]

The Court resolves the issue in favor of ASB Realty and its officers.

There is no denying that ASB Realty, as the owner of the leased premises, is the real party-in-interest in the unlawful detainer suit.[51] Real party-in-interest is defined as "the party who stands to be benefited or injured by the judgment in the suit, or the party entitled to the avails of the suit."[52]

What petitioners argue is that the corporate officer of ASB Realty is incapacitated to file this suit to recover a corporate property because ASB Realty has a duly-appointed rehabilitation receiver. Allegedly, this rehabilitation receiver is the only one that can file the instant suit.

Corporations, such as ASB Realty, are juridical entities that exist by operation of law.[53] As a creature of law, the powers and attributes of a corporation are those set out, expressly or impliedly, in the law. Among the general powers granted by

---

[48] Respondent's Memorandum, p. 9; *id.* at 673.

[49] *Id.* at 7; *id.* at 671.

[50] *Id.* at 6; *id.* at 670.

[51] *Consumido v. Ros*, G.R. No. 166875, July 31, 2007, 528 SCRA 696, 702.

[52] RULES OF COURT, Rule 3, Section 2.

[53] CORPORATION CODE, Section 2.

Supreme Court E-Library

law to a corporation is the power to sue in its own name.[54] This power is granted to a duly-organized corporation, unless *specifically* revoked by another law. The question becomes: Do the laws on corporate rehabilitation – particularly PD 902-A, as amended,[55] and its corresponding rules of procedure – forfeit the power to sue from the corporate officers and Board of Directors?

Corporate rehabilitation is defined as "the restoration of the debtor to a position of successful operation and solvency, if it is shown that its continuance of operation is economically feasible and its creditors can recover by way of the present value of payments projected in the plan more if the corporation continues as a going concern than if it is immediately liquidated."[56] It was first introduced in the Philippine legal system through PD 902-A, as amended.[57] The intention of the law is "to effect a feasible and viable rehabilitation by *preserving* a floundering business as a *going concern*, because the assets of a business are often more valuable *when so maintained* than they would be when liquidated."[58] This concept of preserving the corporation's business as a going concern while it is undergoing rehabilitation is called debtor-in-possession or debtor-in-place. This means that the debtor corporation (the corporation undergoing rehabilitation), through its Board of Directors and corporate officers, remains ***in control of its business and properties,*** subject only to the monitoring of the appointed

---

[54] CORPORATION CODE, Section 36(1).

[55] On July 18, 2010, a new law on rehabilitation was enacted – Republic Act No. 10142 or the Financial Rehabilitation and Insolvency Act (FRIA) of 2010. Section 146 thereof states that the new law governs rehabilitation petitions filed *after* FRIA has taken effect.

[56] 2009 RULES OF PROCEDURE ON CORPORATE REHABILITATION, Rule 2, Section 1.

[57] Reorganization of the Securities and Exchange Commission with Additional Powers and Placing the Said Agency Under the Administrative Supervision of the Office of the President.

[58] *China Banking Corporation v. ASB Holdings*, G.R. No. 172192, December 23, 2008, 575 SCRA 247, 260.

Supreme Court E-Library

rehabilitation receiver.[59] The concept of debtor-in-possession, is carried out more particularly in the SEC Rules, the rule that is relevant to the instant case.[60] It states therein that the interim rehabilitation receiver of the debtor corporation "does ***not*** take over the control and management of the debtor corporation."[61] Likewise, the rehabilitation receiver that will replace the interim receiver is tasked only to monitor the successful implementation of the rehabilitation plan.[62] There is nothing in the concept of corporate rehabilitation that would *ipso facto* deprive[63] the Board of Directors and corporate officers of a debtor corporation, such as ASB Realty, of control such that it can no longer enforce its right to recover its property from an errant lessee.

To be sure, corporate rehabilitation imposes several restrictions on the debtor corporation. The rules enumerate the prohibited corporate actions and transactions[64] (most of which involve some kind of disposition or encumbrance of the corporation's

---

[59] Catindig, *NOTES ON SELECTED COMMERCIAL LAWS*, 161 (2003).

[60] While The Securities Regulation Code (Republic Act No. 8799), transferred SEC's jurisdiction over corporate rehabilitation proceedings to the regular courts, it retained within SEC's jurisdiction all pending rehabilitation cases as of June 30, 2000 until finally disposed. ASB Realty's petition for rehabilitation was filed on May 2, 2000 and remained pending as of June 30, 2000, such that it remained within the SEC jurisdiction.

[61] SEC RULES OF PROCEDURE ON CORPORATE RECOVERY, Section 4-12.

[62] SEC RULES OF PROCEDURE ON CORPORATE RECOVERY, Section 4-25.

[63] All of this is not to say that a corporation under rehabilitation cannot be deprived of control and management at all. To be sure, in warranted cases, the SEC is authorized to place the corporation under a management committee that would replace its corporate management and board of directors and assume their powers over the corporation (Presidential Decree No. 902-A, as amended, Section 6(d); SEC Rules of Procedure on Corporate Recovery, Rule V, Sections 5-1 and 5-3). This instance however is not the case before us. There is no allegation whatsoever that ASB Realty had been placed under a management committee.

[64] According to Section 2-12 of the SEC Rules of Procedure on Corporate Recovery, the following acts are prohibited and, if done, may be nullified by the SEC:

Supreme Court E-Library

assets) during the pendency of the rehabilitation proceedings but none of which touch on the debtor corporation's right to sue. The implication therefore is that our concept of rehabilitation does not restrict this particular power, save for the caveat that all its actions are monitored closely by the receiver, who can seek an annulment of any prohibited or anomalous transaction or agreement entered into by the officers of the debtor corporation.

Petitioners insist that the rehabilitation receiver has the power to bring and defend actions in his own name as this power is provided in Section 6 of Rule 59 of the Rules of Court.

Indeed, PD 902-A, as amended, provides that the receiver shall have the powers enumerated under Rule 59 of the Rules of Court. But Rule 59 is a rule of general application. It applies to different kinds of receivers – rehabilitation receivers, receivers of entities under management, ordinary receivers, receivers in liquidation – and for different kinds of situations. While the SEC has the discretion[65] to authorize the rehabilitation receiver, as the case may warrant, to exercise the powers in Rule 59, the SEC's exercise of such discretion cannot simply be assumed. There is no allegation whatsoever in this case that the SEC gave ASB Realty's rehabilitation receiver the exclusive right to sue.

Petitioners cite *Villanueva,*[66] *Yam,*[67] and *Abacus Real Estate*[68] as authorities for their theory that the corporate officers

---

1. any sale, encumbrance, transfer, or disposition of the debtor's property outside the normal course of business in which the corporation is engaged (Section 4-4 (c), SEC Rules of Procedure on Corporate Recovery); and

2. any payments of the debtor corporation's outstanding liabilities (Section 4-4(d), SEC Rules of Procedure on Corporate Recovery).

[65] PRESIDENTIAL DECREE NO. 902-A, as amended, Section 6(m); SEC RULES OF PROCEDURE ON CORPORATE RECOVERY, Section 4-25 (f).

[66] *Supra* note 44.

[67] *Supra* note 45.

[68] *Supra* note 46.

Supreme Court E-Library

of a corporation under rehabilitation is incapacitated to act. In *Villanueva*,[69] the Court nullified the sale contract entered into by the Philippine Veterans Bank on the ground that the bank's insolvency restricted its capacity to act. *Yam*,[70] on the other hand, nullified the compromise agreement that Manphil Investment Corporation entered into while it was under receivership by the Central Bank. In *Abacus Real Estate*,[71] it was held that Manila Bank's president had no authority to execute an "option to purchase" contract while the bank was under liquidation.

These jurisprudence are inapplicable to the case at bar because they involve banking and financial institutions that are governed by different laws.[72] In the cited cases, the applicable banking law was Section 29[73] of the Central Bank Act.[74] In stark contrast to rehabilitation where the corporation retains control and

---

[69] *Supra* note 44 at 309-311.

[70] *Supra* note 45 at 351.

[71] *Supra* note 46 at 97-98.

[72] The prevailing law is Republic Act No. 8791 or the General Banking Law of 2000. Section 69 thereof (in relation to Section 30 of Republic Act No. 7653, entitled The New Central Bank Act) continues to forbid banks or non-bank financial corporations from doing business upon a finding of insolvency.

[73] Sec. 29. *Proceedings upon insolvency.* – Whenever, upon examination by the head of the appropriate supervising or examining department or his examiners or agents into the condition of any bank or non-bank financial intermediary performing quasi-banking functions, it shall be disclosed that the condition of the same is one of insolvency, or that its continuance in business would involve probable loss to its depositors or creditors, it shall be the duty of the department head concerned forthwith, in writing, to inform the Monetary Board of the facts, and the Board may, upon finding the statements of the department head to be true, ***forbid the institution to do business in the Philippines*** x x x

The Monetary Board shall thereupon ***determine*** within sixty days whether the institution may be reorganized or otherwise placed in such a condition so that it ***may be permitted to resume business*** with safety to its depositors and creditors and the general public and shall prescribe the conditions under which such resumption of business shall take place as well as the time for fulfillment of such conditions. x x x (Emphasis supplied.)

[74] REPUBLIC ACT NO. 265, as amended.

Supreme Court E-Library

management of its affairs, Section 29 of the Central Bank Act, as amended, expressly forbids the bank or the quasi-bank from doing business in the Philippines.

Moreover, the nullified transactions in the cited cases involve *dispositions* of assets and claims, which are prohibited transactions even for corporate rehabilitation[75] because these may be prejudicial to creditors and contrary to the rehabilitation plan. The instant case, however, involves the recovery of assets and collection of receivables, for which there is no prohibition in PD 902-A.

While the Court rules that ASB Realty and its corporate officers retain their power to sue to recover its property and the back rentals from Umale, the necessity of keeping the receiver apprised of the proceedings and its results is not lost upon this Court. Tasked to closely monitor the assets of ASB Realty, the rehabilitation receiver has to be notified of the developments in the case, so that these assets would be managed in accordance with the approved rehabilitation plan.

Coming to the second issue, petitioners maintain that ASB Realty has no cause of action against them because it is not their lessor. They insist that Umale entered into a verbal lease agreement with Amethyst Pearl only. As proof of this verbal agreement, petitioners cite their possession of the premises, and construction of buildings thereon, *sans* protest from Amethyst Pearl or ASB Realty.[76]

Petitioners concede that they may have raised questions of fact but insist nevertheless on their review as the appellate court's ruling is allegedly grounded entirely on speculations, surmises, and conjectures and its conclusions regarding the termination of the lease contract are manifestly absurd, mistaken, and impossible.[77]

---

[75] SEC RULES OF PROCEDURE ON CORPORATE RECOVERY, Section 4-4.

[76] Petitioners' Memorandum, pp. 17-20; *rollo*, pp. 657-660.

[77] *Id.* at 7-8; *id.* at 647-648.

Supreme Court E-Library

Petitioners' arguments have no merit. Ineluctably, the errors they raised involve factual findings,[78] the review of which is not within the purview of the Court's functions under Rule 45, particularly when there is adequate evidentiary support on record.

While petitioners assail the authenticity of the written lease contract by pointing out the inconsistency in the name of the lessor in two separate pages, they fail to account for Umale's actions which are consistent with the terms of the contract – the payment of lease rentals to ASB Realty (instead of his alleged lessor Amethyst Pearl) for a 12-month period. These matters cannot simply be brushed off as sheer happenstance especially when weighed against Umale's incredible version of the facts – that he entered into a verbal lease contract with Amethyst Pearl; that the term of the lease is for a "very long period of time"; that Amethyst Pearl offered to sell the leased premises and Umale had accepted the offer, with both parties not demanding any written documentation of the transaction and without any mention of the purchase price; and that finally, Amethyst Pearl agreed that Umale need not pay rentals until the perfection of the sale. The Court is of the same mind as the appellate court that it is simply inconceivable that a businessman, such as petitioners' predecessor-in-interest, would enter into commercial transactions with and pay substantial rentals to a corporation nary a single documentation.

Petitioners then try to turn the table on ASB Realty with their third argument. They say that under Article 1687 of the New Civil Code, the period for rent payments determines the lease period. Judging by the official receipt presented by ASB Realty, which covers the 12-month period from June 2001 to May 2002, the lease period should be annual because of the annual rent payments.[79] Petitioners then conclude that ASB

---

[78] *U-bix Corporation v. Milliken & Company*, G.R. No. 173318, September 23, 2008, 566 SCRA 284, 288; *Solar Harvest Inc. v. Davao Corrugated Carton Corporation*, G.R. No. 176868, July 26, 2010, 625 SCRA 448, 457.

[79] Petitioners' Memorandum, pp. 21-22; *rollo*, pp. 661-662.

Supreme Court E-Library

Realty violated Article 1687 of the New Civil Code when it terminated the lease on June 30, 2003, at the beginning of the new period. They then implore the Court to extend the lease to the end of the annual period, meaning until May 2004, in accordance with the annual rent payments.[80]

In arguing for an extension of lease under Article 1687, petitioners lost sight of the restriction provided in Article 1675 of the Civil Code. It states that a lessee that commits any of the grounds for ejectment cited in Article 1673, including non-payment of lease rentals and devoting the leased premises to uses other than those stipulated, cannot avail of the periods established in Article 1687.[81]

Moreover, the extension in Article 1687 is granted only as a matter of equity. The law simply recognizes that there are instances when it would be unfair to abruptly end the lease contract causing the eviction of the lessee. It is only for these clearly unjust situations that Article 1687 grants the court the discretion to extend the lease.[82]

The particular circumstances of the instant case however, do not inspire granting equitable relief. Petitioners have not paid, much less offered to pay, the rent for 14 months and even had the temerity to disregard the pay-and-vacate notice served on them. An extension will only benefit the wrongdoer and punish the long-suffering property owner.[83]

WHEREFORE, the petition is *DENIED*. The October 15, 2007 Decision and January 2, 2008 Resolution of the Court of Appeals in CA-G.R. SP No. 91096 are hereby *AFFIRMED*. ASB Realty Corporation is ordered to *FURNISH* a copy of the Decision on its incumbent

---

[80] *Id.* at 22; *id.* at 662.

[81] *LL and Company Development & Agro-Industrial Corporation v. Huang Chao Chun*, 428 Phil. 665, 674-675 (2002).

[82] *Id.*

[83] *Lo Chua v. Court of Appeals*, 408 Phil. 877, 893 (2001); *Guiang v. Samano*, G.R. No. 50501, April 22, 1991, 196 SCRA 114, 120.

Supreme Court E-Library

Rehabilitation Receiver and to *INFORM* the Court of its compliance therewith within 10 days.

SO ORDERED.

Velasco, Jr. (Acting Chairperson), Leonardo-de Castro, Bersamin,[*] and *Perez, JJ.,* concur.

FIRST DIVISION

[G.R. No. 183122. June 15, 2011]

GENERAL MILLING CORPORATION-INDEPENDENT LABOR UNION (GMC-ILU), *petitioner, vs.* **GENERAL MILLING CORPORATION,** *respondent.*

[G.R. No. 183889. June 15, 2011]

GENERAL MILLING CORPORATION, *petitioner, vs.* **GENERAL MILLING CORPORATION-INDEPENDENT LABOR UNION (GMC-ILU), *ET AL.,*** *respondents.*

SYLLABUS

1. REMEDIAL LAW; CIVIL PROCEDURE; JUDGMENTS; ORDER OF EXECUTION WHICH VARIES THE TENOR OF JUDGMENT OR EXCEEDS THE TERMS THEREOF IS A NULLITY. — The rule is, after all, settled that an order of execution which varies the tenor of the judgment or exceeds the terms thereof is a nullity. Since execution not in harmony with the judgment is bereft of validity, it must conform, more particularly, to that ordained or

---

[*] In lieu of Chief Justice Renato C. Corona, per Special Order No. 1000 dated June 8, 2011.