339 Phil. 433

FIRST DIVISION

[G.R. No. 123639, June 10, 1997]

ANTONIO M. GARCIA, PETITIONER, VS. COURT OF APPEALS AND PHILIPPINE EXPORT & FOREIGN LOAN GUARANTEE CORPORATION, RESPONDENTS.

D E C I S I O N

KAPUNAN, J.:

Petitioner Antonio Garcia challenges, through this petition for review on *certiorari* under Rule 45 of the Revised Rules of Court, the decision of the Court of Appeals promulgated on 23 October 1995 in CA-G.R. SP No. 27994 granting the motion to dismiss filed by private respondent Philippine Export & Foreign Loan Guarantee Corporation (Philguarantee) on grounds of lack of jurisdiction. Similarly impugned is the Court of Appeals' resolution dated 31 January 1996 denying petitioner's motion for reconsideration.

Petitioner was a major stockholder and president of Dynetics, Inc., a corporation primarily engaged in the manufacture of semi-conductors) originally owning 43% of its outstanding shares of stock. In 1981, Asia Reliability Co., Inc. (ARCI) obtained 28.98% interest in Dynetics. With the said acquisition, the ownership structure of Dynetics became: petitioner Garcia - 32.88%; ARCI - 28.78%; Vicente Chuidian (petitioner's business partner and a major stockholder of ARCI) - 26%; and others - 11.26%.[1]

In February 1981, ARCI, through the initiative of Chuidian and with the guarantee of private respondent, acquired a foreign loan in the amount of US$25,000,000.00 ostensibly to finance its various business projects. However, the proceeds of the said loan were illegally diverted and used for unauthorized purposes.

When ARCI defaulted in the payment of the aforestated loan, the foreign creditors went after the guarantor herein private respondent. In turn, private respondent filed cases for recovery against Chuidian, both here and in the United States (where Chuidian fled).

Unfortunately, Dynetics was caught in the crossfire and became a battlefield for control between Chuidian (who also owns, as previously stated, a substantial interest in Dynetics) and private respondent Philguarantee.[2]

In February 1985, Chuidian, as President of Interlek (the marketing arm of Dynetics, organized and based in California, USA) ordered the company to stop its remittances to Dynetics for the latter's assembly services which as of June 1985 amounted to approximately US$5,000,000.00. Consequently, Dynetics filed a collection case against Interlek and Chuidian.

Thereafter, four (4) representatives of Philguarantee were assigned one (1) qualifying share each in Dynetics. Thus, on 27 May 1985 during the stockholders meeting of Dynetics, the aforementioned nominees (Victor Macalindog, Cesar Macuja, Eduardo Morato and Manuel Lazaro) were elected members of the Board of Directors of Dynetics (although Lazaro did not assume office). Petitioner was the fifth member of the Board.

On 27 November 1985, a Settlement and Mutual Release Agreement (SMRA) was executed by and between Dynetics and Chuidian and another between Philguarantee and Chuidian for the purpose of finally putting an end to the numerous cases filed by the aforestated parties against one another. The agreements, provided the following:

> (1) dismissal with prejudice of all cases pending between the parties here and abroad, except as to claims against ARCI and Interlek with respect to which the dismissals in the aforementioned actions shall be without prejudice;
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> (2) the assignment to Defendant Philguarantee of all shares of stocks owned and controlled by Chuidian in Interlek;
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> (3) the assignment to Philguarantee to all shares of Chuidian in ARCI and in Dynetics;
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> (4) the payment by Dynetics of US$100,000.00 per month to Chuidian for five years, backed by a Letter of Credit; and
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> (5) the assumption by Dynetics of all the obligations of ARCI in favor of Defendant Philguarantee in the aggregate sum of approximately US$47 Million.[3]

On 12 December 1991, petitioner instituted a complaint for damages before the Regional Trial Court of Makati, Branch 58. On his first cause of action, petitioner alleged that private respondent reneged on its commitment, based on the aforecited SMRA, to rehabilitate Dynetics and Chemark (a subsidiary wholly owned by Dynetics) and this caused the financial ruin of the two corporations. Dynetics and Chemark consequently defaulted on their financial obligations and petitioner, in his capacity as guarantor, was held personally liable. He was forced to compromise with the creditor banks in the total amount of P145,000.000.00.[4]

On his second cause of action, petitioner contended that as a result, likewise, of private respondent's failure to rehabilitate Dynetics and because of the implementation of the "onerous" SMRA with Chuidian, the book value of his shares in Dynetics plummeted, from P200.00 per share, to practically zero.

On his third cause of action, petitioner alleged that Dynetics incurred severe losses due to the provision in the SMRA directing the said corporation to drop the collection case it filed against Interlek and Chuidian for unpaid remittances.

Petitioner thus prayed that private respondent pay the following:

1. On his First Cause of Action, P145,000,000.00 as actual/compensatory damages under the terms and conditions of said compromise agreements mentioned in plaintiff's First Cause of Action dated January 17, 1989;

2. On his Second Cause of Action, P32,000,000.00 representing actual losses of the book value of plaintiff's 159,997 shares of stock of Dynetics, Inc. from P200.00 per share to zero amount per share;

3. On his Third Cause of Action, P3,200,000.00 representing losses of plaintiff's equity in unrealized profit out of said unremitted US$5,000,000.00 due from Interlek;

4. On this Fourth Cause of Action, P15,000,000.00 as moral damages and P10,000,000.00 as exemplary damages.

5. On his Fifth Cause of Action, P30,000,000.00 for and as attorney's fee (15% of the amount involved).[5]

On 20 February 1992, private respondent filed a motion to dismiss on grounds of lack of jurisdiction over the subject matter.

On 21 May 1992, the Regional Trial Court of Makati issued an order denying private respondent's motion to dismiss. The order reads thus:

O R D E R

The decision promulgated on May 6, 1992 by the Hon. Court of Appeals in CA-G.R. SP. No. 27685 entitled Phil. Export and Foreign Loan Guarantee Corporation vs. Hon. Presiding Judge, Br. 58, RTC, Makati directing this Court to resolve said petitioner's motion to dismiss, a copy of said decision having been furnished this Court, is NOTED.

Pending resolution before this Court is the motion to dismiss filed by defendant Philguarantee, the opposition thereto filed by the plaintiff, and the reply to opposition filed by the said defendant. After considering the arguments for and against the motion, the Court resolves to deny the motion. Furthermore, after a meticulous assessment of the record of this case, the Court is more inclined to believe that the nature of this case is for damages rather than an intra-corporate matter and therefore this Court has jurisdiction over this case. Due to the denial of defendant's motion to dismiss as aforementioned, the said defendant is given fifteen (15) days from receipt of a copy of this order within which to file its answer pursuant to Sec. 4, Rule 16 of the Rules of Court.

Notify the respective counsel of both parties of this order.

SO ORDERED.[6]

Private respondent challenged the trial court's order before the Court of Appeals which, in a decision dated 23 October 1995, reversed the same. The dispositive portion states thus:

WHEREFORE, in view of the foregoing, the instant petition is hereby GRANTED. The assailed order of respondent court dated May 21, 1992 is SET ASIDE.

SO ORDERED.[7]

The Court of Appeals ruled that the controversy between petitioner and private respondent is intra-corporate in nature and therefore falls under the jurisdiction of the Securities and Exchange Commission (SEC) and not the regular courts.

In a resolution dated 20 December 1995, the Court of Appeals denied petitioner's motion for reconsideration.[8] Hence, this petition for review on *certiorari*.

Petitioner assigns the following errors:

I

RESPONDENT COURT OF APPEALS ERRED IN NOT FINDING THAT PETITIONER'S ACTION BEFORE THE COURT A QUO IS PURELY OF DAMAGES ARISING OUT OF BREACH OF CONTRACT AND THEREFORE WITHIN THE EXCLUSIVE JURISDICTION OF REGULAR CIVIL COURTS.

II

RESPONDENT COURT OF APPEALS ERRED IN NOT FINDING THAT THE INSTANT ACTION DOES NOT INVOLVE INTRA-CORPORATE MATTERS OR ISSUES AND THEREFORE BEYOND THE JURISDICTION OF THE SECURITIES AND EXCHANGE COMMISSION.[9]

In insisting that the SEC does not have jurisdiction, petitioner recounts the events in this manner: before private respondent entered the picture, Chemark, a Dynetics subsidiary, obtained loans from PCIB, BPI, RCBC, PISO, LB and other banks on various dates. These loans were personally guaranteed by petitioner under suretyship agreements he executed in favor of the said banks in 1980. After private respondent gained control of Dynetics, it made a firm commitment, petitioner claims, to rehabilitate Dynetics and Chemark in exchange for his acquiescence to the SMRA even though its terms were prejudicial to Dynetics. However, private respondent reneged on its promise, which caused Dynetics and Chemark to collapse financially. Being the corporations' guarantor, petitioner was forced to settle their debts with the aforementioned banks with his personal properties. Hence, petitioner contends that what he sought to recover in his complaint for damages was primarily the money he paid to the creditor banks of Dynetics and Chemark.

Petitioner thus persists in his argument that, being an action for damages due to breach of contract, the present case is cognizable by the regular courts and beyond the jurisdiction of the SEC, for, had private respondent not withdrawn its commitment, petitioner rationalizes, Dynetics would have regained its strong business position. Consequently, it could have settled its obligations with its creditor

banks and petitioner would have been released from his obligations as surety.[10]

Petitioner further contends that he is suing not as a stockholder of Dynetics but in his personal capacity as the latter's aggrieved surety. In like manner, private respondent is being sued as "a separate entity which authored the notorious SMRA." [11]

Petitioner also avers that his principal cause of action is "damages arising from breach of contract." The other causes of action in his complaint are incidental claims which emanate from and are the direct consequences of his main cause of action. [12]

The petition is unmeritorious. Jurisdiction over the present controversy is vested in the SEC and not in the regular courts.

To determine which body has jurisdiction over the present controversy, we rely on the sound judicial principle that jurisdiction over the subject matter of a case is conferred by law and is determined by the allegations of the complaint irrespective of whether the plaintiff is entitled to all or some of the claims asserted therein.[13]

The law, P.D. 902-A, explicitly lays down the parameters of the Securities and Exchange Commission's jurisdiction. Thus:

> SECTION 5. In addition to the regulatory and adjudicative functions of the Securities and Exchange Commission over corporations, partnerships and other forms of associations registered with it as expressly granted under existing laws and decrees, it shall have original and exclusive jurisdiction to hear and decide cases involving:
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> a) Devices or schemes employed by or any acts of the board of directors, business associates, its officers or partners, amounting to fraud and misrepresentation which may be detrimental to the interest of the public and/or of the stockholders, partners, members of associations or organizations registered with the Commission.
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> b) Controversies arising out of intra-corporate or partnership relations, between and among stockholders, members, or associates; between any and/or all of them and the corporation, partnership or association of which they are stockholders, members or associates, respectively; and between such corporation, partnership or association and the State insofar as it concerns their individual franchise or right to exist as such entity.
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> c) Controversies in the election or appointments of directors, trustees, officers or managers of such corporations, partnerships, or associations.
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> d) Petitions of corporations, partnerships or associations to be declared in the state of suspension of payments in cases where the corporation, partnership or association possesses sufficient property to cover all of its debts but foresees the impossibility of meeting them when they respectively fall due or in cases where the corporation, partnership