



Republic of the Philippines
Supreme Court
Manila

SECOND DIVISION

FOREST HILLS GOLF & COUNTRY CLUB, **G.R. No. 202205**
CLUB,

Petitioner,

Present:

- versus -

CARPIO, J.,
Chairperson,
BRION,
DEL CASTILLO,
PEREZ, and
PERLAS-BERNABE, JJ.

VERTEX SALES AND TRADING, INC.,

Respondent.

Promulgated:

MAR 06 2013

[Signature]

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DECISION

BRION, J.:

Before the Court is a petition for review on *certiorari*,¹ filed under Rule 45 of the Rules of Court, assailing the decision² dated February 22, 2012 and the resolution³ dated May 31, 2012 of the Court of Appeals (CA) in CA-G.R. CV No. 89296.

THE FACTS

Petitioner Forest Hills Golf & Country Club (*Forest Hills*) is a domestic non-profit stock corporation that operates and maintains a golf and country club facility in Antipolo City. Forest Hills was created as a result of a joint venture agreement between Kings Properties Corporation (*Kings*)

¹ *Rollo*, pp. 9-29.

² Penned by Associate Justice Isaias P. Dicedican, and concurred in by Associate Justices Jane Aurora C. Lantion and Ramon A. Cruz; id. at 35-45.

³ Id. at 46-47

and Fil-Estate Golf and Development, Inc. (*FEGDI*). Accordingly, Kings and FEGDI owned the shares of stock of Forest Hills, holding 40% and 60% of the shares, respectively.

In August 1997, FEGDI sold to RS Asuncion Construction Corporation (*RSACC*) one (1) Class “C” common share of Forest Hills for ₱1.1 million. Prior to the full payment of the purchase price, RSACC transferred its interests over FEGDI's Class “C” common share to respondent Vertex Sales and Trading, Inc. (*Vertex*).⁴ RSACC advised FEGDI of the transfer and FEGDI, in turn, requested Forest Hills to recognize Vertex as a shareholder. Forest Hills acceded to the request, and Vertex was able to enjoy membership privileges in the golf and country club.

Despite the sale of FEGDI's Class “C” common share to Vertex, the share remained in the name of FEGDI, prompting Vertex to demand for the issuance of a stock certificate in its name.⁵ As its demand went unheeded, Vertex filed a complaint⁶ for rescission with damages against defendants Forest Hills, FEGDI, and Fil-Estate Land, Inc. (*FELI*) – the developer of the Forest Hills golf course. Vertex averred that the defendants defaulted in their obligation as sellers when they failed and refused to issue the stock certificate covering the Class “C” common share. It prayed for the rescission of the sale and the return of the sums it paid; it also claimed payment of actual damages for the defendants’ unjustified refusal to issue the stock certificate.

Forest Hills denied transacting business with Vertex and claimed that it was not a party to the sale of the share; FELI claimed the same defense. While admitting that no stock certificate was issued, FEGDI alleged that Vertex nonetheless was recognized as a stockholder of Forest Hills and, as such, it exercised rights and privileges of one. FEGDI added that during the pendency of Vertex's action for rescission, a stock certificate was issued in Vertex's name,⁷ but Vertex refused to accept it.

⁴ Evidenced by a Deed of Absolute Sale dated February 11, 1999; id. at 36.

⁵ Vertex’s demand letters dated July 28, 2000 and March 17, 2001, both addressed to FEGDI; id. at 37.

⁶ Docketed as Civil Case No. 68791; id. at 48-56.

⁷ Certificate of Stock No. C-0362 was issued by Forest Hills in Vertex’s name on January 23, 2002; id. at 38.

THE RTC RULING

In its March 1, 2007 decision,⁸ the **Regional Trial Court (RTC)** **dismissed Vertex's complaint** after finding that the failure to issue a stock certificate did not constitute a violation of the essential terms of the contract of sale that would warrant its rescission. The RTC noted that the sale was already consummated notwithstanding the non-issuance of the stock certificate. The issuance of a stock certificate is a collateral matter in the consummated sale of the share; the stock certificate is not essential to the creation of the relation of a shareholder. Hence, the RTC ruled that the non-issuance of the stock certificate is a mere casual breach that would not entitle Vertex to rescind the sale.⁹

THE CA RULING

Vertex appealed the RTC's dismissal of its complaint. In its February 22, 2012 decision,¹⁰ **the CA reversed the RTC**. It declared that “in the sale of shares of stock, physical delivery of a stock certificate is one of the essential requisites for the transfer of ownership of the stocks purchased.”¹¹ It based its ruling on Section 63 of the Corporation Code,¹² which requires for a valid transfer of stock –

- (1) the delivery of the stock certificate;
- (2) the endorsement of the stock certificate by the owner or his attorney-in-fact or other persons legally authorized to make the transfer; and
- (3) to be valid against third parties, the transfer must be recorded in the books of the corporation.

⁸ Penned by Judge Nicanor A. Manalo, Jr., RTC of Pasig City, Branch 161; id. at 173-179.

⁹ Id. at 177-178.

¹⁰ *Supra* note 2.

¹¹ *Rollo*, p. 42.

¹² Sec. 63. *Certificate of stock and transfer of shares*. - The capital stock of stock corporations shall be divided into shares for which certificates signed by the president or vice president, countersigned by the secretary or assistant secretary, and sealed with the seal of the corporation shall be issued in accordance with the by-laws. **Shares of stock** so issued are personal property and **may be transferred by delivery of the certificate or certificates endorsed by the owner or his attorney-in-fact or other person legally authorized to make the transfer. No transfer, however, shall be valid, except as between the parties, until the transfer is recorded in the books of the corporation** showing the names of the parties to the transaction, the date of the transfer, the number of the certificate or certificates and the number of shares transferred.

No shares of stock against which the corporation holds any unpaid claim shall be transferable in the books of the corporation. [emphases ours; italics supplied]

Without the issuance of the stock certificate and despite Vertex's full payment of the purchase price, the share cannot be considered as having been validly transferred. Hence, **the CA rescinded the sale of the share and ordered the defendants to return the amount paid by Vertex by reason of the sale.** The dispositive portion reads:

WHEREFORE, in view of the foregoing premises, the appeal is hereby GRANTED and the March 1, 2007 Decision of the Regional Trial Court, Branch 161, Pasig City in Civil Case No. 68791 is hereby REVERSED AND SET ASIDE. Accordingly, **the sale of x x x one (1) Class "C" Common Share of Forest Hills Golf and Country Club is hereby rescinded and defendants-appellees are hereby ordered to return to Vertex Sales and Trading, Inc. the amount it paid by reason of the said sale.**¹³ (emphasis ours)

The CA denied Forest Hills' motion for reconsideration in its resolution of May 31, 2012.¹⁴

THE PARTIES' ARGUMENTS

Forest Hills filed the present petition for review on *certiorari* to assail the CA rulings. It argues that rescission should be allowed only for substantial breaches that would defeat the very object of the parties making the agreement.

The delay in the issuance of the stock certificate could not be considered as a substantial breach, considering that Vertex was recognized as, and enjoyed the privileges of, a stockholder.

Forest Hills also objects to the CA ruling that required it to return the amount paid by Vertex for the share of stock. It claims that it was not a party to the contract of sale; hence, it did not receive any amount from Vertex which it would be obliged to return on account of the rescission of the contract.

In its comment to the petition,¹⁵ Vertex disagrees and claims that its compliance with its obligation to pay the price and the other fees called into action the defendants' compliance with their reciprocal obligation to deliver the stock certificate, but the defendants failed to discharge this obligation. The defendants' three (3)-year delay in issuing the stock certificate justified

¹³ Rollo, p. 45.

¹⁴ *Supra* note 3.

¹⁵ Rollo, pp. 192-211.

the rescission of the sale of the share of stock. On account of the rescission, Vertex claims that mutual restitution should take place. It argues that Forest Hills should be held solidarily liable with FEGDI and FELI, since the delay was caused by Forest Hills' refusal to issue the share of FEGDI, from whom Vertex acquired its share.

THE COURT'S RULING

The assailed CA rulings (a) declared the rescission of the sale of one (1) Class "C" common share of Forest Hills to Vertex and (b) ordered the return by Forest Hills, FEGDI, and FELI to Vertex of the amount the latter paid by reason of the sale. While Forest Hills argues that the ruling rescinding the sale of the share is erroneous, its ultimate prayer was for the reversal and setting aside of the ruling holding it liable to return the amount paid by Vertex for the sale.¹⁶

The Court finds Forest Hills' prayer justified.

Ruling on rescission of sale is a settled matter

At the outset, we declare that the question of rescission of the sale of the share is a settled matter that the Court can no longer review in this petition. While Forest Hills questioned and presented its arguments against the CA ruling rescinding the sale of the share in its petition, it is not the proper party to appeal this ruling.

As correctly pointed out by Forest Hills, it was not a party to the sale even though the subject of the sale was its share of stock. The corporation whose shares of stock are the subject of a transfer transaction (through sale, assignment, donation, or any other mode of conveyance) need not be a party to the transaction, as may be inferred from the terms of Section 63 of the Corporation Code. However, to bind the corporation as well as third parties, it is necessary that the transfer is recorded in the books of the corporation. In the present case, the parties to the sale of the share were FEGDI as the seller and Vertex as the buyer (after it succeeded RSACC). As party to the sale, FEGDI is the one who may appeal the ruling rescinding the sale. The remedy of appeal is available to a party who has "a present interest in the subject matter of the litigation and **[is] aggrieved or prejudiced by the judgment.** A party, in turn, is deemed aggrieved or prejudiced **when his interest, recognized by law in the subject matter of the lawsuit, is**

¹⁶

Id. at 28.

injuriously affected by the judgment, order or decree.”¹⁷ The rescission of the sale does not in any way prejudice Forest Hills in such a manner that its interest in the subject matter – the share of stock – is injuriously affected. Thus, Forest Hills is in no position to appeal the ruling rescinding the sale of the share. Since FEGDI, as party to the sale, filed no appeal against its rescission, we consider as final the CA’s ruling on this matter.

Ruling on return of amounts paid by reason of the sale modified

The CA’s ruling ordering the “return to [Vertex] the amount it paid by reason of the sale”¹⁸ did not specify in detail what the amount to be returned consists of and it did not also state the extent of Forest Hills, FEGDI, and FELI’s liability with regard to the amount to be returned. The records, however, show that the following amounts were paid by Vertex to Forest Hills, FEGDI, and FELI by reason of the sale:

Payee	Date of Payment	Purpose	Amount Paid
FEGDI	February 9, 1999	Purchase price for one (1) Class “C” common share	₱780,000.00 ¹⁹
FEGDI	February 9, 1999	Transfer fee	₱ 60,000.00 ²⁰
Forest Hills	February 23, 1999	Membership fee	₱ 150,000.00 ²¹
FELI	September 25, 2000	Documentary Stamps	₱ 6,300.00 ²²
FEGDI	September 25, 2000	Notarial fees	₱ 200.00 ²³

A necessary consequence of rescission is restitution: the parties to a rescinded contract must be brought back to their original situation prior to

¹⁷ *Gabatin v. Land Bank of the Philippines*, 486 Phil. 366, 382 (2004). Citations omitted; emphases ours.
¹⁸ *Rollo*, p. 45.
¹⁹ Covered by a receipt dated February 9, 1999 and admitted by FEGDI in its Answer; id. at 60-61.
²⁰ Covered by FEGDI’s Official Receipt No. 45163 dated February 9, 1999 and admitted by FEGDI in its Answer; id. at 61.
²¹ Covered by Forest Hills’ Official Receipt Nos. 4386 and 4387, both dated February 23, 1999, and admitted by Forest Hills in its Amended Answer; id. at 86. See also TSN of June 4, 2004; id. at 122.
²² Covered by FELI’s Receipt dated September 25, 2000 and admitted by FELI in its Answer; id. at 62.
²³ Covered by FEGDI’s Receipt No. 0499 dated September 25, 2000 and admitted by FEGDI in its Answer; id. at 51-52.

the inception of the contract; hence, they must return what they received pursuant to the contract.²⁴ Not being a party to the rescinded contract, however, Forest Hills is under no obligation to return the amount paid by Vertex by reason of the sale. Indeed, Vertex failed to present sufficient evidence showing that Forest Hills received the purchase price for the share or any other fee paid on account of the sale (other than the membership fee which we will deal with after) to make Forest Hills jointly or solidarily liable with FEGDI for restitution.

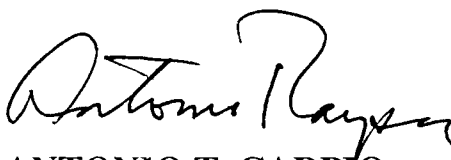
Although Forest Hills received ₱150,000.00 from Vertex as membership fee, it should be allowed to retain this amount. For three years prior to the rescission of the sale, the nominees of Vertex enjoyed membership privileges and used the golf course and the amenities of Forest Hills.²⁵ We consider the amount paid as sufficient consideration for the privileges enjoyed by Vertex's nominees as members of Forest Hills.

WHEREFORE, in view of the foregoing, the Court **PARTIALLY GRANTS** the petition for review on *certiorari*. The decision dated February 22, 2012 and the resolution dated May 31, 2012 of the Court of Appeals in CA-G.R. CV No. 89296 are hereby **MODIFIED**. Petitioner Forest Hills Golf & Country Club is **ABSOLVED** from liability for any amount paid by Vertex Sales and Trading, Inc. by reason of the rescinded sale of one (1) Class "C" common share of Forest Hills Golf & Country Club.

SO ORDERED.



ARTURO D. BRION
Associate Justice


WE CONCUR:


ANTONIO T. CARPIO
Associate Justice
Chairperson

²⁴ See *Laperal v. Solid Homes, Inc.*, 499 Phil. 367, 378 (2005).
²⁵ *Rollo*, pp 38 and 42.

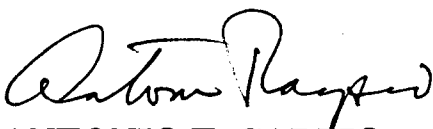

MARIANO C. DEL CASTILLO
Associate Justice


JOSE PORTUGAL PEREZ
Associate Justice


ESTELA M. PERLAS-BERNABE
Associate Justice


ATTESTATION

I attest that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.


ANTONIO T. CARPIO
Associate Justice
Chairperson, Second Division

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution, and the Division Chairperson's Attestation, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.


MARIA LOURDES P. A. SERENO
Chief Justice