Title: Calatagan Golf Club, Inc. v. Sixto Clemente, Jr.

Facts:

1. **Application and Purchase**: Sixto Clemente, Jr. (Respondent) applied to purchase a share of Calatagan Golf Club, Inc. (Petitioner) indicating his mailing address at "Phimco Industries, Inc. – P.O. Box 240, MCC" and paid P120,000.00, receiving Certificate of Stock No. A-01295 on May 2, 1990.
2. **Payment and Default**: Clemente paid membership dues amounting to P3,000.00 on March 21, 1991, and P5,400.00 on December 9, 1991, then ceased payments. His balance remained P400.00 as of the last payment.
3. **Demand and Declaration of Delinquency**: Calatagan sent demand letters dated September 21, 1992, and October 22, 1992, to Clemente's provided address, both returned undelivered with the note that the address was closed. Calatagan declared Clemente delinquent on October 31, 1992, and included his name on the delinquent list.
4. **Foreclosure Proceedings**: A resolution was adopted by Calatagan's Board on December 1, 1992, authorizing the foreclosure of delinquent shares. A third letter dated December 7, 1992, warned Clemente of an auction scheduled for January 15, 1993, again sent to the closed address.
5. **Auction of Share**: The auction was held as scheduled, and Clemente's share was sold for P64,000.00 to Nestor A. Virata. A notice of the sale was subsequently published on May 26, 1993.
6. **Discovery and Claim**: Clemente learned of the auction in November 1997 and filed a claim with the SEC to restore his share.
7. **SEC Decision**: The SEC dismissed Clemente's complaint, citing it was filed beyond the six-month prescription period under Section 69 of the Corporation Code.
8. **Court of Appeals**: The CA reversed the SEC's decision, ruling that Section 69 did not apply to unpaid membership dues, and instead applied an eight-year prescription period under Article 1140 of the Civil Code. The CA ordered Calatagan to issue a new share certificate to Clemente and awarded him P400,000.00 in damages.

Issues:

1. **Prescription**: Whether Clemente's action to recover his share of stock was barred by prescription under the Corporation Code.
2. **Due Process in Notification**: Whether Calatagan failed to properly notify Clemente about the foreclosure and auction of his share.
3. **Bad Faith**: Whether bad faith and negligence were exhibited by Calatagan, warranting damages under the Civil Code.

Court's Decision:
1. **Prescription**: The Court held that Section 69 of the Corporation Code applies only to unpaid subscriptions to capital stock and not to unpaid membership dues in non-stock corporations. Clemente's action was correctly deemed within the eight-year prescription period under Article 1140 for the recovery of movables.
2. **Due Process in Notification**: The Court found that Calatagan failed to comply with its by-laws and principles of due process. Knowing that the provided address was closed, Calatagan should have attempted other means to contact Clemente, such as his residential address or phone numbers.
3. **Bad Faith**: The Court affirmed that Calatagan's actions constituted bad faith and a violation of its own by-laws. This warranted moral, exemplary damages, and attorney's fees under Articles 19, 20, and 21 of the Civil Code.

Doctrine:
– **Section 69 and Unpaid Subscriptions**: Section 69 of the Corporation Code pertains solely to the sale of shares due to unpaid subscriptions, not applicable to unpaid dues in non-stock corporations.
– **Good Faith in Notification**: Erring on the side of diligence and good faith is crucial, particularly when it comes to notifying members about significant actions like foreclosures.
– **Articles 19, 20, and 21 (Civil Code)**: Parties must act with fairness and good faith. Violations through bad faith or negligence can warrant compensatory damages.

Class Notes:
– **Key Elements/Concepts**:
– **Prescription Period**: Identified as eight years for recovery of movables under Article 1140, Civil Code.
– **Notification and Due Process**: The necessity for proper and good faith attempts at notification, beyond just mailing to an address known to be dysfunctional.
– **Bad Faith and Damages**: Applying Articles 19-21, Civil Code – damages arise from actions contrary to law, morals, or good customs.

– **Statutory Provisions**:
– **Art. 19, Civil Code**: Obligation to act with honesty and good faith.
– **Art. 20 and 21, Civil Code**: Damages for willful or negligent injury, contrary to law, morals, good customs, or public policy.
Reminder to use these articles to identify and demonstrate liability for bad faith actions causing harm to others.

Historical Background:
– **Corporate Governance**: This case exemplifies strict adherence to corporate governance standards and underlines the importance of following procedural requirements in corporate actions involving member or shareholder rights.
– **Fair Treatment**: Emphasizing the principle that corporations, particularly non-stock corporations involved in membership privileges, must treat their members with fairness and reasonable care, preventing abuse of power within the corporate structure.