

Title: Forest Hills Golf & Country Club vs. Vertex Sales and Trading, Inc.

Facts:

1. Forest Hills Golf & Country Club (Forest Hills), a domestic non-profit corporation, operated as a result of a joint venture between Kings Properties Corporation (Kings) and Fil-Estate Golf and Development, Inc. (FEGDI).
2. FEGDI, owning 60% of the shares in Forest Hills, sold one Class "C" common share to RS Asuncion Construction Corporation (RSACC) for P1.1 million in August 1997.
3. Prior to full payment, RSACC transferred its interest in the Class "C" common share to Vertex Sales and Trading, Inc. (Vertex).
4. FEGDI requested Forest Hills to acknowledge Vertex as a shareholder, which they did.
5. Despite Vertex enjoying membership privileges, they demanded a stock certificate, which was not issued promptly.
6. Vertex filed a complaint for rescission with damages against Forest Hills, FEGDI, and Fil-Estate Land, Inc. (FELI), seeking the return of payments made.
7. The Regional Trial Court (RTC) dismissed Vertex's complaint, concluding that the non-issuance of the stock certificate was a mere casual breach.
8. The Court of Appeals (CA) overturned the RTC decision, finding that the physical delivery of a stock certificate is essential for ownership transfer, as per Section 63 of the Corporation Code.
9. The CA ruled to rescind the share sale and ordered the defendants to return the amount paid by Vertex.

Procedural Posture:

1. Vertex filed a complaint at the RTC.
2. The RTC dismissed the complaint in a decision dated March 1, 2007.
3. Vertex appealed to the CA.
4. The CA reversed the RTC decision and granted the appeal on February 22, 2012.
5. Forest Hills moved for reconsideration, which the CA denied on May 31, 2012.
6. Forest Hills filed a petition for review on certiorari before the Supreme Court.

Issues:

1. Whether the delay in issuing the stock certificate constituted a substantial breach justifying rescission of the contract.
2. Whether Forest Hills is liable to return the payment received by Vertex, given they were not a party to the sale.

Court's Decision:

1. Rescission of the Sale:

- The Supreme Court ruled that the issue of rescission is settled and cannot be reviewed since Forest Hills, not being a party to the sale, is not the proper entity to appeal the rescission.
- Forest Hills' arguments about the CA ruling rescinding the sale were dismissed.

2. Return of Amounts Paid:

- The Court modified the CA's ruling regarding the liability to return amounts paid by Vertex.
- Forest Hills was absolved from returning any amount paid by Vertex for the sale, as it was not party to the transaction.
- Forest Hills received P150,000 as membership fees, which it was allowed to retain as consideration for the benefits Vertex's nominees enjoyed.
- Restitution applies only to the parties to the rescinded contract. Therefore, FEGDI and FELI must return the amounts received.

Doctrine:

- Section 63, Corporation Code of the Philippines: For the valid transfer of stock, physical delivery and endorsement of the stock certificate by the owner or authorized person must be effected, recorded in the corporation's books to be valid against third parties.

Class Notes:

1. Elements of a stock transfer under Section 63:

- a. Delivery of the stock certificate.
- b. Endorsement by the owner or legal representative.
- c. Recordation of the transfer in the corporation's books.

2. Impact of casual vs. substantial breach:

- Casual breaches do not generally justify rescission unless they defeat the purpose of the contract.

Historical Background:

The case unfolds within the context of corporate transactions and share transfers governed by the Corporation Code of the Philippines. Historically, the issuance and recording of stock certificates were vital for shareholder rights and ownership, ensuring legal compliance and protecting third-party interests. The significance of this case lies in the reiteration of strict compliance with corporate governance laws concerning share ownership and transfer.