

Title: Manuel A. Torres, Jr. et al. vs. Court of Appeals et al.

Facts:

In 1984, Judge Manuel A. Torres, Jr., the majority stockholder of Tormil Realty & Development Corporation, devised an “estate planning” scheme, transferring various real properties and stocks he owned to Tormil in exchange for 225,972 shares of Tormil stock. However, only 225,000 shares were available for issue. Judge Torres, unhappy with the shortfall and unable to secure an authorized capital stock increase, revoked two deeds of assignment, reclaiming properties in Makati and Pasay City.

In response, the minority stockholders (Torres’ brother’s children) filed a complaint with the Securities and Exchange Commission (SEC) in March 1987 (SEC Case No. 3153), alleging breach of contract. A separate issue arose regarding the 1987 election of Tormil’s board of directors, where Judge Torres assigned “qualifying shares” to his allies to secure more board seats, but the minority stockholders contested this in SEC Case No. 3161.

Both cases were consolidated, and the SEC’s Panel of Hearing Officers ruled in favor of the minority stockholders in March 1991. Judge Torres’ revocation of deeds was ordered nullified, and his nominees’ election to the board was annulled. Judge Torres appealed to the SEC en banc, but before the appeal concluded, he died in April 1991. Replacement motions for the deceased were filed late and were denied, and the SEC en banc in 1993 affirmed the original decision.

Petitioners brought the case to the Court of Appeals (CA-G.R. SP No. 31748), which also affirmed the SEC in 1994. The petitioners’ motion for reconsideration was denied, prompting a petition for review on certiorari to the Supreme Court.

Issues:

1. Whether the Court of Appeals erred by making a decision without the SEC records.
2. Whether the SEC and the Court of Appeals acted without jurisdiction due to the non-substitution of deceased Judge Torres.
3. Whether Judge Torres had the right to revoke the assignments of Makati and Pasay properties under Article 1191 of the Civil Code.
4. Whether the assignment of “qualifying shares” to Judge Torres’ nominees was valid.

Court’s Decision:

1. Procedural Due Course and Records: The Supreme Court found that the Court of Appeals had not necessarily given due course to the appeal merely by issuing preliminary injunctions

and requiring memoranda. The court's discretion under the procedural rules allowed it to decide based on pleadings without mandatory transmission of records. Hence, procedural due process was not violated.

2. Substitution Upon Death: The lack of formal substitution for Judge Torres did not invalidate proceedings. The unique situation, where both litigation sides were parties in the probate of his will, ensured the estate was adequately represented. Therefore, the estate's interests were safeguarded despite procedural irregularities in substitution.

3. Revocation of Assignment (Article 1191): Judge Torres received nearly all shares he was promised except a minor shortfall, constituting a minor breach that did not justify revocation. The court held the shortage did not justify rescinding deeds, finding Article 1191 inapplicable where near-complete fulfillment took place.

4. Assignment of Qualifying Shares: Compliance with the Corporation Code was not met in terms of proper procedure for registering share assignments. The Court supported that the assignment lacked validity since proper entries were not made by the corporate secretary, rendering the election of nominees void. The familial nature of the corporation didn't exempt it from adhering to corporate governance laws.

Doctrine:

1. Due course in appellate review requires court discretion, and the absence of original records is not fatal if the records are found unnecessary by the court.
2. Substitution of deceased parties may be considered fulfilled where parties involved are sufficiently representing the interests of the estate.
3. Minor beneficiary discrepancies (e.g., shortfall in shares) do not justify the rescission of duly executed contracts under Article 1191 of the Civil Code.
4. Corporate procedures and compliance requirements must still be observed in small or family-run corporations, as highlighted under the Corporation Code.

Class Notes:

- Substitution upon death: Rule 3, Sec. 17, Revised Rules of Court.
- Contract Rescission: Art. 1191, Civil Code - Only for substantial breaches.
- Corporate Governance: Proper procedure for share assignment as per Corporation Code.
- Due course in appeals: Court discretion on necessity of original records.

Historical Background:

The case emerged during a period of Philippine jurisprudence where stringent adherence to

procedural and substantive requirements in corporate governance was increasingly emphasized. The conflict highlights procedural adherence within familial corporations and the judiciary's role in upholding corporate formalities against internal disputes during estate planning processes.