

Title:

Valle Verde Country Club, Inc. et al. vs. Victor Africa (G.R. No. 166373)

Facts:

Formation and Holdover of the Board:

1. **February 27, 1996:** Ernesto Villaluna, Jaime C. Dinglasan, Eduardo Makalintal, Francisco Ortigas III, Victor Salta, Amado M. Santiago, Jr., Fortunato Dee, Augusto Sunico, and Ray Gamboa were elected as directors of Valle Verde Country Club, Inc. (VVCC).

2. **1997-2001:** Regular stockholders' meetings did not achieve a requisite quorum, causing the directors to continue serving in a holdover capacity as per Section 23 of the Corporation Code.

Resignation and Elections:

3. **September 1, 1998:** Dinglasan resigned from the Board. On October 6, 1998, the remaining directors elected Eric Roxas to fill the vacancy.

4. **November 10, 1998:** Makalintal resigned. On March 6, 2001, the remaining directors elected Jose Ramirez to replace him.

Complaints by Victor Africa:

5. **SEC Complaint:** Africa questioned Roxas' election, claiming it violated Section 29 of the Corporation Code, leading to a ruling by the SEC nullifying Roxas' election on June 3, 2003. No appeal was filed, making the ruling final.

6. **RTC Complaint:** Africa filed a nullification complaint against Ramirez's election at the Regional Trial Court (RTC), which ruled in his favor on January 23, 2002. The court declared Ramirez's election as null and void.

Issues:

1. Whether the Board of Directors, in a quorum, can elect a director to fill a vacancy resulting from the resignation of a holdover director.

2. Interpretation of "term" and its implications on the tenure and vacancies within the Board of Directors under the Corporation Code, particularly Sections 23 and 29.

Court's Decision:

1. Vacancy & Term of Office:

- The Court held that the "term" of a Board member is one year from the election, and any

period beyond that where the member remains in position is a “holdover” period.

- The resignation of a holdover director (Makalintal was in a holdover period post-1997) does not create a vacancy within the term’s original meaning since his term expired after one year.

****2. Section 29 Interpretation:****

- Section 29 of the Corporation Code specifies that vacancies not caused by term expiration must be filled by remaining directors, but only for the unexpired term of the predecessor.

- Since Makalintal’s term expired, and he was merely holding over, no “unexpired term” existed that the Board could fill. Thus, only the stockholders had the authority to fill the vacancy.

****3. Delegated Power & Stockholder Representation:****

- The Court emphasized the underlying principle that corporate governance should reflect the stockholders’ will, underscoring their right to elect directors.

- Aligning with the policy that corporate power derives from stockholders, the Court rejected the approach allowing Board members to fill vacancies caused by expired terms through resignation in holdover periods.

Doctrines:

****Term and Tenure:****

- Term: Fixed by law as one year; after such term, holdover does not extend the original term.

- Tenure: Actual period one serves, which may extend due to holdover without adjusting the statutory term duration.

****Authority to Fill Vacancies:****

- Only stockholders can fill Board vacancies caused by term expiration, supporting stockholder control in corporate governance.

Class Notes:

- ****Key Elements:**** Term of office (one year), tenure, holdover period, authority to fill vacancies (Section 23 & 29 of the Corporation Code).

- ****Legal Principles:****

- Term refers to the legal duration of holding office, not influenced by the holdover.

- Tenure may exceed the term due to holdover but does not create a new term.

- ****Statutory Provisions:**** Section 23 and Section 29, Corporation Code of the Philippines.

- **Application:** Board cannot fill vacancies caused by expiration of term; such vacancies must be filled by stockholders to ensure proper corporate democracy.

Historical Background:

- **Context:** This case highlights conflict in corporate governance around the interpretation of terms and vacancy filling. It reflects the historical emphasis on stockholder control and corporate accountability.

- **El Hogar Case (1927):** Earlier jurisprudence permitted Board-perpetuated appointments due to bylaws predating Corporation Code 1980, whereas contemporary rulings, including this case, strictly enforce statutory limits reflecting modern corporate governance principles.