THE RURAL BANK OF LIPA CITY, INC., THE OFFICERS AND DIRECTORS, BERNARDO BAUTISTA, JAIME CUSTODIO, OCTAVIO KATIGBAK, FRANCISCO CUSTODIO, AND JUANITA BAUTISTA OF THE RURAL BANK OF...

G.R. No. 124535. September 28, 2001

Ponente: YNARES-SANTIAGO, J.

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YNARES-SANTIAGO, J.:

Before us is a petition for review on certiorari assailing the Decision of the Court of Appeals dated February 27, 1996, as well as the Resolution dated March 29, 1996, in CA-G.R. SP No. 38861.

The instant controversy arose from a dispute between the Rural Bank of Lipa City, Incorporated (hereinafter referred to as the Bank), represented by its officers and members of its Board of Directors, and certain stockholders of the said bank. The records reveal the following antecedent facts:

Private respondent Reynaldo Villanueva, Sr., a stockholder of the Rural Bank of Lipa City, executed a Deed of Assignment,[1] wherein he assigned his shares, as well as those of eight (8) other shareholders under his control with a total of 10,467 shares, in favor of the stockholders of the Bank represented by its directors Bernardo Bautista, Jaime Custodio and Octavio Katigbak. Sometime thereafter, Reynaldo Villanueva, Sr. and his wife, Avelina, executed an Agreement[2] wherein they acknowledged their indebtedness to the Bank in the amount of Four Million Pesos (P4,000,000.00), and stipulated that said debt will be paid out of the proceeds of the sale of their real property described in the Agreement.

At a meeting of the Board of Directors of the Bank on November 15, 1993, the Villanueva spouses assured the Board that their debt would be paid on or before December 31 of that same year; otherwise, the Bank would be entitled to liquidate their shareholdings, including those under their control. In such an event, should the proceeds of the sale of said shares fail to satisfy in full the obligation, the unpaid balance shall be secured by other collateral sufficient therefor.

When the Villanueva spouses failed to settle their obligation to the Bank on the due date, the Board sent them a letter[3] demanding: (1) the surrender of all the stock certificates issued to them; and (2) the delivery of sufficient collateral to secure the balance of their debt amounting to P3,346,898.54. The Villanuevas ignored the bank's demands, whereupon their shares of stock were converted into Treasury Stocks. Later, the Villanuevas, through their counsel, questioned the legality of the conversion of their shares.[4]

On January 15, 1994, the stockholders of the Bank met to elect the new directors and set of officers for the year 1994. The Villanuevas were not notified of said meeting. In a letter dated January 19, 1994, Atty. Amado Ignacio, counsel for the Villanueva spouses, questioned the legality of the said stockholders' meeting and the validity of all the proceedings therein. In reply, the new set of officers of the Bank informed Atty. Ignacio that the Villanuevas were no longer entitled to notice of the said meeting since they had relinquished their rights as stockholders in

favor of the Bank.

Consequently, the Villanueva spouses filed with the Securities and Exchange Commission (SEC), a petition for annulment of the stockholders' meeting and election of directors and officers on January 15, 1994, with damages and prayer for preliminary injunction[5], docketed as SEC Case No. 02-94-4683. Joining them as co-petitioners were Catalino Villanueva, Andres Gonzales, Aurora Lacerna, Celso Laygo, Edgardo Reyes, Alejandro Tonogan, and Elena Usi. Named respondents were the newly-elected officers and directors of the Rural Bank, namely: Bernardo Bautista, Jaime Custodio, Octavio Katigbak, Francisco Custodio and Juanita Bautista.

The Villanuevas' main contention was that the stockholders' meeting and election of officers and directors held on January 15, 1994 were invalid because: (1) they were conducted in violation of the by-laws of the Rural Bank; (2) they were not given due notice of said meeting and election notwithstanding the fact that they had not waived their right to notice; (3) they were deprived of their right to vote despite their being holders of common stock with corresponding voting rights; (4) their names were irregularly excluded from the list of stockholders; and (5) the candidacy of petitioner Avelina Villanueva for directorship was arbitrarily disregarded by respondent Bernardo Bautista and company during the said meeting.

On February 16, 1994, the SEC issued a temporary restraining order enjoining the respondents, petitioners herein, from acting as directors and officers of the Bank, and from performing their duties and functions as such.[6]

In their joint Answer,[7] the respondents therein raised the following defenses:

1) The petitioners have no legal capacity to sue;

2) The petition states no cause of action;

3) The complaint is insufficient;

4) The petitioners' claims had already been paid, waived, abandoned, or otherwise extinguished;

5) The petitioners are estopped from challenging the conversion of their shares.

Petitioners, respondents therein, thus moved for the lifting of the temporary restraining order and the dismissal of the petition for lack of merit, and for the upholding of the validity of the stockholders' meeting and election of directors and officers held on January 15, 1994. By way of counterclaim, petitioners prayed for actual, moral and exemplary damages.

On April 6, 1994, the Villanuevas' application for the issuance of a writ of preliminary injunction was denied by the SEC Hearing Officer on the ground of lack of sufficient basis for the issuance thereof. However, a motion for reconsideration[8] was granted on December 16, 1994, upon finding that since the Villanuevas' have not disposed of their shares, whether voluntarily or involuntarily, they were still stockholders entitled to notice of the annual stockholders' meeting was sustained by the SEC. Accordingly, a writ of preliminary injunction was issued enjoining the petitioners from acting as directors and officers of the bank.[9]

Thereafter, petitioners filed an urgent motion to quash the writ of preliminary injunction,[10] challenging the propriety of the said writ considering that they had not yet received a copy of the order granting the application for the writ of preliminary injunction.

With the impending 1995 annual stockholders' meeting only nine (9) days away, the Villanuevas filed an Omnibus Motion[11] praying that the said meeting and election of officers scheduled on January 14, 1995 be suspended or held in abeyance, and that the 1993 Board of Directors be allowed, in the meantime, to act as such. One (1) day before the scheduled stockholders meeting, the SEC Hearing Officer granted the Omnibus Motion by

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issuing a temporary restraining order preventing petitioners from holding the stockholders meeting and electing the board of directors and officers of the Bank.[12]

A petition for Certiorari and Annulment with Damages was filed by the Rural Bank, its directors and officers before the SEC en banc,[13] naming as respondents therein SEC Hearing Officer Enrique L. Flores, Jr., and the Villanuevas, erstwhile petitioners in SEC Case No. 02-94-4683. The said petition alleged that the orders dated December 16, 1994 and January 13, 1995, which allowed the issuance of the writ of preliminary injunction and prevented the bank from holding its 1995 annual stockholders' meeting, respectively, were issued by the SEC Hearing Officer with grave abuse of discretion amounting to lack or excess of jurisdiction. Corollarily, the Bank, its directors and its officers questioned the SEC Hearing Officer's right to restrain the stockholders' meeting and election of officers and directors considering that the Villanueva spouses and the other petitioners in SEC Case No. 02-94-4683 were no longer stockholders with voting rights, having already assigned all their shares to the Bank.

In their Comment/Opposition, the Villanuevas and other private respondents argued that the filing of the petition for certiorari was premature and there was no grave abuse of discretion on the part of the SEC Hearing Officer, nor did he act without or in excess of his jurisdiction.

On June 7, 1995, the SEC en banc denied the petition for certiorari in an Order,[14] which stated:

> In the case now before us, petitioners could not show any proof of despotic or arbitrary exercise of discretion committed by the hearing officer in issuing the assailed orders save and except the allegation that the private respondents have already transferred their stockholdings in favor of the stockholders of the Bank. This, however, is the very issue of the controversy in the case a quo and which, to our mind, should rightfully be litigated and proven before the hearing officer. This is so because of the undisputed fact the (sic) private respondents are still in possession of the stock certificates evidencing their stockholdings and as held by the Supreme Court in Embassy Farms, Inc. v. Court of Appeals, et al., 188 SCRA 492, citing Nava v. Peers Marketing Corp., the non-delivery of the stock certificate does not make the transfer of the shares of stock effective. For an effective transfer of stock, the mode of transfer as prescribed by law must be followed.
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> We likewise find that the provision of the Corporation Code cited by the herein petitioner, particularly Section 83 thereof, to support the claim that the private respondents are no longer stockholders of the Bank is misplaced. The said law applies to acquisition of shares of stock by the corporation in the exercise of a stockholder's right of appraisal or when the said stockholder opts to dissent on a specific corporate act in those instances provided by law and demands the payment of the fair value of his shares. It does not contemplate a "transfer" whereby the stockholder, in the exercise of his right to dispose of his shares (jus disponendi) sells or assigns his stockholdings in favor of another person where the provisions of Section 63 of the same Code should be complied with.
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> The hearing officer, therefore, had a basis in issuing the questioned orders since the private respondents' rights as stockholders may be prejudiced should the writ of injunction not be issued. The private respondents are presumably stockholders of the Bank in view of the fact that they have in their possession the stock certificates evidencing their stockholdings. Until proven otherwise, they remain to be such and the hearing officer, being the one directly confronted with the facts and pieces of evidence in the case, may issue such orders and resolutions which may be necessary or reasonable relative thereto to protect their rights and interest in the meantime that the said case is still pending trial on the merits.

A subsequent motion for reconsideration[15] was likewise denied by the SEC en banc in a Resolution[16] dated September 29, 1995.

A petition for review was thus filed before the Court of Appeals, which was docketed as CA-G.R. SP No. 38861,

assailing the Order dated June 7, 1995 and the Resolution dated September 29, 1995 of the SEC en banc in SEC EB No. 440. The ultimate issue raised before the Court of Appeals was whether or not the SEC en banc erred in finding:

> 1. That the Hon. Hearing Officer in SEC Case No. 02-94-4683 did not commit any grave abuse of discretion that would warrant the filing of a petition for certiorari;
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> 2. That the private respondents are still stockholders of the subject bank and further stated that "it does not contemplate a transfer" whereby the stockholders, in the exercise of his right to dispose of his shares (Jus Disponendi) sells or assigns his stockholdings in favor of another person where the provisions of Sec. 63 of the same Code should be complied with; and
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> 3. That the private respondents are presumably stockholders of the bank in view of the fact that they have in their possession the stock certificates evidencing their stockholdings.

On February 27, 1996, the Court of Appeals rendered the assailed Decision[17] dismissing the petition for review for lack of merit. The appellate court found that:

> The public respondent is correct in holding that the Hearing Officer did not commit grave abuse of discretion. The officer, in exercising his judicial functions, did not exercise his judgment in a capricious, whimsical, arbitrary or despotic manner. The questioned Orders issued by the Hearing Officer were based on pertinent law and the facts of the case.
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> Section 63 of the Corporation Code states: "x x x Shares of stock so issued are personal property and may be transferred by delivery of the certificate or certificates indorsed by the owner x x x. No transfer, however, shall be valid, except as between the parties, until the transfer is recorded in the books of the corporation so as to show 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."
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> In the case at bench, when private respondents executed a deed of assignment of their shares of stocks in favor of the Stockholders of the Rural Bank of Lipa City, represented by Bernardo Bautista, Jaime Custodio and Octavio Katigbak, title to such shares will not be effective unless the duly indorsed certificate of stock is delivered to them. For an effective transfer of shares of stock, the mode and manner of transfer as prescribed by law should be followed. Private respondents are still presumed to be the owners of the shares and to be stockholders of the Rural Bank.

We find no reversible error in the questioned orders.

Petitioners' motion for reconsideration was likewise denied by the Court of Appeals in an Order[18] dated March 29, 1996.

Hence, the instant petition for review seeking to annul the Court of Appeals' decision dated February 27, 1996 and the resolution dated March 29, 1996. In particular, the decision is challenged for its ruling that notwithstanding the execution of the deed of assignment in favor of the petitioners, transfer of title to such shares is ineffective until and unless the duly indorsed certificate of stock is delivered to them. Moreover, petitioners faulted the Court of Appeals for not taking into consideration the acts of disloyalty committed by the Villanueva spouses against the Bank.

We find no merit in the instant petition.

The Court of Appeals did not err or abuse its discretion in affirming the order of the SEC en banc, which in turn upheld the order of the SEC Hearing Officer, for the said rulings were in accordance with law and jurisprudence.

The Corporation Code specifically provides:

> SECTION 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 stocks so issued are personal property and may be transferred by delivery of the certificate or certificates indorsed 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 so as to show 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. (Underscoring ours)

Petitioners argue that by virtue of the Deed of Assignment,[19] private respondents had relinquished to them any and all rights they may have had as stockholders of the Bank. While it may be true that there was an assignment of private respondents' shares to the petitioners, said assignment was not sufficient to effect the transfer of shares since there was no endorsement of the certificates of stock by the owners, their attorneys-in-fact or any other person legally authorized to make the transfer. Moreover, petitioners admit that the assignment of shares was not coupled with delivery, the absence of which is a fatal defect. The rule is that the delivery of the stock certificate duly endorsed by the owner is the operative act of transfer of shares from the lawful owner to the transferee.[20] Thus, title may be vested in the transferee only by delivery of the duly indorsed certificate of stock.[21]

We have uniformly held that for a valid transfer of stocks, there must be strict compliance with the mode of transfer prescribed by law.[22] The requirements are: (a) There must be delivery of the stock certificate; (b) The certificate must be endorsed by the owner or his attorney-in-fact or other persons legally authorized to make the transfer; and (c) To be valid against third parties, the transfer must be recorded in the books of the corporation. As it is, compliance with any of these requisites has not been clearly and sufficiently shown.

It may be argued that despite non-compliance with the requisite endorsement and delivery, the assignment was valid between the parties, meaning the private respondents as assignors and the petitioners as assignees. While the assignment may be valid and binding on the petitioners and private respondents, it does not necessarily make the transfer effective. Consequently, the petitioners, as mere assignees, cannot enjoy the status of a stockholder, cannot vote nor be voted for, and will not be entitled to dividends, insofar as the assigned shares are concerned. Parenthetically, the private respondents cannot, as yet, be deprived of their rights as stockholders, until and unless the issue of ownership and transfer of the shares in question is resolved with finality.

There being no showing that any of the requisites mandated by law[23] was complied with, the SEC Hearing Officer did not abuse his discretion in granting the issuance of the preliminary injunction prayed for by petitioners in SEC Case No. 02-94-4683 (herein private respondents). Accordingly, the order of the SEC en banc affirming the ruling of the SEC Hearing Officer, and the Court of Appeals decision upholding the SEC en banc order, are valid and in accordance with law and jurisprudence, thus warranting the denial of the instant petition for review.

To enable the shareholders of the Rural Bank of Lipa City, Inc. to meet and elect their directors, the temporary restraining order issued by the SEC Hearing Officer on January 13, 1995 must be lifted. However, private respondents shall be notified of the meeting and be allowed to exercise their rights as stockholders thereat.

While this case was pending, Republic Act No. 8799[24] was enacted, transferring to the courts of general jurisdiction or the appropriate Regional Trial Court the SEC's jurisdiction over all cases enumerated under Section 5 of Presidential Decree No. 902-A.[25] One of those cases enumerated is any controversy "arising out of intra-corporate or partnership relations, between and among stockholders, members, or associates, between any and/or all of them and the corporation, partnership or association of which they are stockholders, members or

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associates, respectively; and between such corporation, partnership or association and the state insofar as it concerns their individual franchise or right to exist as such entity." The instant controversy clearly falls under this category of cases which are now cognizable by the Regional Trial Court.

Pursuant to Section 5.2 of R.A. No. 8799, this Court designated specific branches of the Regional Trial Courts to try and decide cases formerly cognizable by the SEC. For the Fourth Judicial Region, specifically in the Province of Batangas, the RTC of Batangas City, Branch 32 is the designated court.[26]

WHEREFORE, in view of all the foregoing, the instant petition for review on certiorari is DENIED. The Decision and Resolution of the Court of Appeals in CA-G.R. SP No. 38861 are hereby AFFIRMED. The case is ordered REMANDED to the Regional Trial Court of Batangas City, Branch 32, for proper disposition. The temporary restraining order issued by the SEC Hearing Officer dated January 13, 1995 is ordered LIFTED.

SO ORDERED.
Davide, Jr., C.J., (Chairman), Kapunan, and Pardo, JJ., concur.
Puno, J., in the result.

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[1] Dated February 5, 1993; Annex "V," Rollo, pp. 123-124.

[2] Dated November 10, 1993; Annex "W," Rollo, p. 127.

[3] Dated January 5, 1994.

[4] Dated January 14, 1994.

[5] Annex "A," Rollo, pp. 21-26.

[6] Annex "B," Rollo, pp. 29-30.

[7] Annex "D," Rollo, pp. 33-47.

[8] Annex "G," Rollo, pp. 57-62.

[9] Annex "I," Rollo, p. 65.

[10] Annex "J," Rollo, pp. 66-70.

[11] Annex "M," Rollo, pp. 73-75.

[12] Order dated January 13, 1995, Annex "Q," Rollo, pp. 104-105.

[13] Docketed as Case No. EB-440, Rollo, pp. 83-99.

[14] Annex "S," Rollo, pp. 112-115.

[15] Annex "T," Rollo, pp. 116-120.

[16] Annex "U," Rollo, p. 122.

[17] Annex "Y," Rollo, pp. 129-137.

[18] Annex "D," Rollo, pp. 138-139.

[19] Annex "V," dated February 15, 1993; Rollo, pp. 123-124.

[20] Bitong v. Court of Appeals, 292 SCRA 503, 528 (1998).

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[21] Rivera v. Florendo, 144 SCRA 643, 656-657 (1986).

[22] Nava v. Peers Marketing Corp., 74 SCRA 65, 69 (1976).

[23] The Corporation Code, Section 63.

[24] Otherwise known as The Securities Regulation Code which took effect in the year 2000.

[25] Section 5.2 of R.A. 8799.

[26] En Banc Resolution, A.M. No. 00-11-03-SC, promulgated November 21, 2000.

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