

DR. GIL J. RICH, PETITIONER, VS. GUILLERMO PALOMA III, ATTY. EVARISTA TARCE AND ESTER L. SERVACIO, RESPONDENTS.

G.R. No. 210538. March 07, 2018

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REYES, JR., J:

A corporation which has already been dissolved, be it voluntarily or involuntarily, retains no juridical personality to conduct its business save for those directed towards corporate liquidation.

The Case

Challenged before the Court via this Petition for Review on Certiorari under Rule 45 of the Rules of Court are the Decision[1] and Resolution[2] of the Court of Appeals (CA) in CA-G.R. CV No. 02948 dated February 28, 2013 and November 19, 2013, respectively. The CA Decision and Resolution reversed and set aside the Decision of the Regional Trial Court (RTC), Branch 25 of Maasin City, Southern Leyte, dated November 10, 2008.

The Antecedent Facts

Sometime in 1997, Dr. Gil Rich (petitioner) lent P1,000,000.00 to his brother, Estanislao Rich (Estanislao).[3] The agreement was secured by a real estate mortgage over a 1000-square-meter parcel of land with improvements, more particularly described as follows:

A parcel of residential land, located at Brgy. Abgao, Maasin City, Southern Leyte, covered by Tax Declaration ARP No. 07001-00584, in the name of Estanislao Rich, containing an area of 1,000 square meters, and bounded on the North by Donato Demetrio - remaining portion; on the East by Felimon Saavedra; on the South by Kangleon St.; and on the West by Tubman River.[4]

When Estanislao failed to make good on his obligations under the loan agreement, the petitioner foreclosed on the subject property via a public auction sale conducted on March 14, 2005 by respondent Guillermo Paloma III, Sheriff IV of the RTC. The petitioner was declared the highest bidder, and subsequently, was issued a Certificate of Sale as purchaser/mortgagee.[5]

Without the petitioner's knowledge, however, and prior to the foreclosure, it appeared from the records that on January 24, 2005,[6] Estanislao entered into an agreement with Maasin Traders Lending Corporation (MTLC), where loans and advances amounting to P2.6 million were secured by a real estate mortgage over the same property.[7]

On the strength of this document, respondent Ester L. Servacio (Servacio), as president of MTLC, exercised equitable redemption after the foreclosure proceedings. She tendered the amount of P2,090,000.00 as the redemption money in the extra-judicial foreclosure sale.[8] On March 15, 2006, respondent Paloma III, again as sheriff of the RTC, issued a Deed of Redemption in favor of MTLC.

The deed then became the subject of the complaint for "Annulment of Deed of Redemption, Damages, Attorney's Fees, Litigation Expenses, Application for Issuance of T.R.O. &/or Writ of Preliminary Prohibitory Injunction"

filed before the RTC by the petitioner against respondent Servacio.

According to the petitioner, MTLC no longer has juridical personality to effect the equitable redemption as it has already been dissolved by the Securities and Exchange Commission as early as September 2003.[9] He also asserted that there was a pending case against respondent Servacio for allegedly forging Estanislao's signature on the same real estate mortgage that respondent Servacio used as basis for her equitable redemption of the subject property.[10]

On January 8, 2007, the case was called for pre-trial. Unfortunately, neither defendant Servacio nor her lawyer appeared, and as a result of which, defendant Servacio was "declared as in default." [11] The petitioner thus presented his evidence ex parte.

On the basis of the evidence presented by the petitioner, the RTC rendered a Decision in the petitioner's favor dated November 10, 2008, the dispositive portion of which states that:

WHEREFORE, premises considered, this Court orders the following:

- Declaring the Real Estate Mortgage between Estanislao Rich and MLTC, Annex B (sic) to the Complaint, as null and void;
- Ordering the City Assessor of the City of Maasin, Southern Leyte to cancel the Deed of Redemption in favor of MTLC appearing on the Tax Declaration covering the property.

SO ORDERED.[12]

Aggrieved, Servacio appealed the case to the CA, arguing that: (1) the allegations of forgery were not substantiated, nor were they duly proven in the proceedings before the RTC; [13] and (2) the RTC erred in declaring the petitioner as in default despite a valid and meritorious excuse.[14]

Eventually, the CA granted the appeal, finding that forgery cannot be presumed and must be proved by clear, positive, and convincing evidence, which the petitioner was unable to fulfill.[15] The CA likewise emphasized that the assailed real estate mortgage between Estanislao and MTLC was duly notarized and thus enjoyed the presumption of authenticity and due execution, which again, the petitioner was unable to disprove.[16]

The CA, however, affirmed the RTC finding that respondent Servacio's reasons for her non-appearance as well as her counsel's absence during the pre-trial were unjustified [17] to warrant a liberal application of Section 4, Rule 18 of the Rules of Court.[18]

Thus, the fallo of the CA decision reads:

WHEREFORE, the appeal is GRANTED. The Decision dated November 10, 2008, 8[th] Judicial Region, Branch 25, Maasin City, Southern Leyte, in Civil Case No. R-3477 is REVERSED and SET ASIDE. The complaint for annulment of Deed of redemption, damages, attorney's fees, litigation expenses, with application for issuance of TRO and/or writ of preliminary prohibitory injunction is ordered DISMISSED. No costs.

SO ORDERED.[19]

Hence, this petition.

The Issues

The petitioner anchors his prayer for the reversal of the CA decision and resolution based on the following questions of law:

- MAY AN APPEAL BE DISMISSED ON ACCOUNT OF THE FAILURE OF THE APPELLANT'S BRIEF

TO COMPLY WITH THE RULES?

- MAY A CORPORATION NOT INVESTED WITH CORPORATE PERSONALITY AT THE TIME OF REDEMPTION REDEEM A PROPERTY?[20]

The Court's Ruling

After a careful perusal of the arguments presented and the evidence submitted, the Court finds partial merit in the petition.

On the first issue, the petitioner contends that respondent Servacio violated Section 13, Rule 44 of the Rules of Court when the latter's Appellant's Brief, which was submitted to the CA, "failed to contain a subject index with page of reference and compliant statement of facts." [21] This omission, according to the petitioner, should be enough to warrant a reversal of the CA decision.

The Court does not agree.

Section 13, Rule 44 of the Rules of Court provides the requisite contents of an appellant's brief that is to be submitted before the courts. It states that:

SECTION 13. Contents of appellant's brief. The appellant's brief shall contain, in the order herein indicated, the following:

(a) A subject index of the matter in the brief with a digest of the arguments and page references, and a table of cases alphabetically arranged, textbooks and statutes cited with references to the pages where they are cited;

(b) An assignment of errors intended to be urged, which errors shall be separately, distinctly and concisely stated without repetition and numbered consecutively;

(c) Under the heading "Statement of the Case," a clear and concise statement of the nature of the action, a summary of the proceedings, the appealed rulings and orders of the court, the nature of the judgment and any other matters necessary to an understanding of the nature of the controversy, with page references to the record;

(d) Under the heading "Statement of Facts," a clear and concise statement in a narrative form of the facts admitted by both parties and of those in controversy, together with the substance of the proof relating thereto in sufficient detail to make it clearly intelligible, with page references to the record;

(e) A clear and concise statement of the issues of fact or law to be submitted to the court for its judgments;

(f) Under the heading "Argument," the appellant's arguments on each assignment of error with page references to the record. The authorities relied upon shall be cited by the page of the report at which the case begins and the page of the report on which the citation is found;

(g) Under the heading "Relief," a specification of the order or judgment which the appellant seeks: and

(h) In cases not brought up by record on appeal, the appellant's brief shall contain, as an appendix, a copy of the judgment or final order appealed from. (16a, R46)

Any deviation from the required contents as provided thereunder is dealt with by Rule 50 of the Rules of Court. For the purpose of this case, the petitioner, while he did not so specify in his petition, actually anchors his plea on Section 1(f) of Rule 50, which particularly mentions the absence of page references in the subject index and statement of facts in the appellant's brief. It provides that:

RULE 50

Dismissal of Appeal

SECTION 1. Grounds for dismissal of appeal. - An appeal may be dismissed by the Court of Appeals, on its own motion or on that of the appellee, on the following grounds:

x x x x

(f) Absence of specific assignment of errors in the appellant's brief, or of page references to the record as required in Section 13, paragraphs (a), (c), (d) and (f) of Rule 44;.

x x x x (Emphasis and underscoring supplied)

To buttress his arguments, the petitioner pointed out that Section 13, Rule 44 of the Rules of Court uses the word "shall" which is thus "mandatory and compulsory." [22] The petitioner further mentions that "an appealing party must strictly comply with the requisites laid down in the Rules of Court." [23]

Contrary to this argument, however, the Court, in *De Leon vs. Court of Appeals*, [24] has already ruled that the grounds for dismissal of an appeal under Section 1 of Rule 50 of the Rules of Court are discretionary upon the CA. It said that:

x x x Rule 50, Section 1 which provides specific grounds for dismissal of appeal manifestly "confers a power and does not impose a duty." "What is more, it is directory, not mandatory." With the exception of Sec. 1(b), the grounds for the dismissal of an appeal are directory and not mandatory, and it is not the ministerial duty of the court to dismiss the appeal. The discretion, however, must be a sound one to be exercised in accordance with the tenets of justice and fair play having in mind the circumstances obtaining in each case. [25] (Citations omitted)

Indeed, consistent with the ruling in *De Leon*, the guiding principle in the resolution of the foregoing issues is that if the citations found in the appellants brief could sufficiently enable the CA to locate expeditiously the portions of the records referred to, then there is substantial compliance with the requirements of Section 13, Rule 44 of the Rules of Court.

In this case, the CA did not exercise the discretion to dismiss the appeal based on the absence of "a subject index with page of reference and compliant statement of facts" in the appellant's brief. Clearly, the CA did not find that the tenets of justice and fair play were disregarded by this omission. Rather, the CA chose to decide the case on the merits, which impliedly found the appellant's brief to be substantially sufficient insofar as the guiding principle mentioned above is concerned.

More, it is proper to emphasize that this discretion is particularly vested unto the CA and not unto this Court. Thus, absent any grave abuse of discretion in the application of the rules, the Court could not, and would not, interfere with the CA findings. Considering too that the petitioner merely (1) quoted the provisions of the rules that the appellant's brief "violated" and (2) showed the insufficiencies in the appellant's brief, but did not present any proof of any grave abuse of discretion on the part of the CA, the Court would not now dismantle a ruling that was reached based on a discretion which was not improperly exercised.

On the second issue, the petitioner argues that respondent *Servacio* failed to contest the RTC finding that *MTLC* has already lost its juridical personality upon the redemption of the subject property, which makes the legal action void.

To answer this averment, the Court must qualify.

According to the case of *Yu vs. Yukayguan*, [26] once a corporation is dissolved, be it voluntarily or involuntarily, liquidation, which is the process of settling the affairs of the corporation, will ensue. This consists of (1) collection of all that is due the corporation, (2) the settlement and adjustment of claims against it, and (3) the

payment of its debts. Yu more particularly described this process as that which entails the following:

"Winding up the affairs of the corporation means the collection of all assets, the payment of all its creditors, and the distribution of the remaining assets, if any among the stockholders thereof in accordance with their contracts, or if there be no special contract, on the basis of their respective interests. The manner of liquidation or winding up may be provided for in the corporate by-laws and this would prevail unless it is inconsistent with law." [27] (Citations omitted)

These pronouncements draw their basis from Section 122 of the Corporation Code, [28] which empowers every corporation whose corporate existence has been legally terminated to continue as a body corporate for three (3) years after the time when it would have been dissolved. This continued existence would only be for the purposes of "prosecuting and defending suits by or against it and enabling it to settle and close its affairs, to dispose of and convey its property and to distribute its assets." [29]

The rationale for this has already been averred by the Court in the case of *Rebollido vs. Court of Appeals*, [30] citing *Castle's Administrator v. Acrogen Coal, Co.*, [31] viz:

This continuance of its legal existence for the purpose of enabling it to close up its business is necessary to enable the corporation to collect the demands due it as well as to allow its creditors to assert the demands against it. If this were not so, then a corporation that became involved in liabilities might escape the payment of its just obligations by merely surrendering its charter, and thus defeat its creditors or greatly hinder and delay them in the collection of their demand. This course of conduct on the part of corporations the law in justice to persons dealing with them does not permit. The person who has a valid claim against a corporation, whether it arises in contract or tort should not be deprived of the right to prosecute an action for the enforcement of his demands by the action of the stockholders of the corporation in agreeing to its dissolution. The dissolution of a corporation does not extinguish obligations or liabilities due by or to it. [32] (Emphasis and underscoring supplied)

In addition, and as expressly mentioned by the Corporation Code, this extended authority necessarily excludes the purpose of continuing the business for which it was established. [33] The reason for this is simple: the dissolution of the corporation carries with it the termination of the corporation's juridical personality. Any new business in which the dissolved corporation would engage in, other than those for the purpose of liquidation, "will be a void transaction because of the non-existence of the corporate party." [34]

Two things must be said of the foregoing in relation to the facts of this case. First, if MTLC entered into the real estate mortgage agreement with Estanislao after its dissolution, then resultantly, such real estate mortgage agreement would be void ab initio because of the non-existence of MTLC's juridical personality.

Second, if, however, MTLC entered into the real estate mortgage agreement prior to its dissolution, then MTLC's redemption of the subject property, even if already after its dissolution (as long as it would not exceed three years thereafter), would still be valid because of the liquidation/winding up powers accorded by Section 122 of the Corporation Code to MTLC.

The discourse of this case then turns to one of proven facts. The Court scoured the records, and after a perusal of all the submissions herein and the rulings of the lower and appellate courts, the Court finds that: (1) MTLC has already been dissolved by the Securities and Exchange Commission as early as September 2003; [35] (2) Estanislao and MTLC entered into the real estate mortgage agreement only on January 24, 2005; [36] and (3) MTLC, through respondent Servacio, redeemed the property on December 15, 2005, for which a Deed of Redemption was issued by respondent Paloma III on March 15, 2006. [37]

From the foregoing, it is clear that, by the time MTLC executed the real estate mortgage agreement, its juridical

personality has already ceased to exist. The agreement is void as MTLC could not have been a corporate party to the same. To be sure, a real estate mortgage is not part of the liquidation powers that could have been extended to MTLC. It could not have been for the purposes of "prosecuting and defending suits by or against it and enabling it to settle and close its affairs, to dispose of and convey its property and to distribute its assets." It is, in fact, a new business in which MTLC no longer has any business pursuing.

Consequently, and contrary to the CA Decision, any redemption exercised by MTLC pursuant to this void real estate mortgage is likewise void, and could not be given any effect.

WHEREFORE, premises considered, the Decision and Resolution of the Court of Appeals in CA-G.R. CV No. 02948 dated February 28, 2013 and November 19, 2013, respectively, are hereby REVERSED and SET ASIDE, and a new one is entered DECLARING the Real Estate Mortgage executed by Estanislao Rich and MTLC as NULL and VOID, and ORDERING the City Assessor of Maasin, Southern Leyte to cancel the Deed of Redemption in favor of MTLC appearing on the Tax Declaration covering the property.

SO ORDERED.

Carpio,[*] Acting C. J., (Chairperson), Peralta, Perlas-Bernabe, and Caguioa, JJ., concur.

[*] Acting Chief Justice per Special Order No. 2539, dated February 28, 2018.

[1] Penned by then Associate, now Executive, Justice Gabriel T. Ingles, and concurred in by Associate Justices Pampio A. Abarintos and Pedro B. Corales; rollo, pp. 234-250.

[2] Id. at 262-263.

[3] Id. at 235.

[4] Id. at 52-53.

[5] Id.

[6] Id. at 42, 70-71.

[7] Id. at 42, 70-71, 235.

[8] Id. at 73, 235.

[9] Id. at 33.

[10] Id.

[11] Id. at 188.

[12] Id. at 191.

[13] Id. at 241.

[14] Id. at 239-241.

[15] Id. at 243.

[16] Id. at 245-246.

[17] Id. at 247.

[18] SECTION 4. Appearance of parties. - It shall be the duty of the parties and their counsel to appear at the pre-trial. The non-appearance of a party may be excused only if a valid cause is shown therefor or if a representative shall appear in his behalf fully authorized in writing to enter into an amicable settlement, to submit to alternative modes of dispute resolution, and to enter into stipulations or admissions of facts and of documents.
(n)

[19] Rollo, p. 249.

[20] Id. at 24.

[21] Id. at 27.

[22] Id. at 27.

[23] Id.

[24] 432 Phil. 775 (2002).

[25] Id. at 789-790.

[26] 607 Phil. 581, 607 (2009).

[27] Id. at 608.

[28] Batas Pambansa Blg. 68 (1980).

[29] Id.

[30] 252 Phil. 831, 840 (1989).

[31] 145 Ky 591, 140 SW 1034 (1911).

[32] Id.

[33] Supra note 28.

[34] Villanueva, Cesar L., Philippine Corporate Law, pp. 697 698.

[35] Rollo, p. 34.

[36] Id. at 42, 70-71.

[37] Id. at 73-74.

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