

SOFRONIO T. BAYLA ET AL., PETITIONERS, VS. SILANG TRAFFIC CO., INC., RESPONDENT. SILANG TRAFFIC CO., INC., PETITIONER, VS. SOFRONIO BAYLA ET AL., RESPONDENTS.

G.R. No. 48195 and 48196. May 01, 1942

Ponente: OZAETA, J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-no-48195/>

OZAETA, J.:

Petitioners in G. R. No. 48195 instituted this action in the Court of First Instance of Cavite against the respondent Silang Traffic Co., Inc. (cross-petitioner in G. R. No. 43196), to recover certain sums of money which they had paid severally to the corporation on account of shares of stock they individually agreed to take and pay for under certain specified terms and conditions, of which the following, referring to the petitioner Josefa Naval, is typical:

"AGREEMENT FOR INSTALLMENT SALE OF
SHARES IN THE 'SILANG TRAFFIC
COMPANY INC.,'

"Silang, Cavite, P. I.

"THIS AGREEMENT, made and entered into between Mrs. Josefa Naval, of legal age, married, and resident of the Municipality of Silang, Province of Cavite, Philippine Islands, party of the First Part, hereinafter called the subscriber, and the 'Silang Traffic Company, Inc.,' a corporation duly organized and existing by virtue of and under the laws of the Philippine islands, with its principal office in the Municipality of Silang, Province of Cavite, Philippine Islands, party of the Second Part, hereinafter called the seller,

"WITNISSETH:

"That the subscriber promises to pay personally or by his duly authorized agent to the seller at the Municipality of Silang, Province of Cavite, Philippine Islands, the sum of one thousand five hundred pesos (P1,500), Philippine currency, at purchase price of FIFTEEN (15) shares of capital stock, and purchase price to be paid as follows, to wit: five (5%) per cent upon the execution of the contract, the receipt whereof is hereby acknowledged and confessed, and the remainder in installment of five per cent, payable within the first month of each and every quarter thereafter, commencing on the 1st day of July, 1935, with interest on deferred payments at the rate of Six (6%) per cent per annum until paid.

"That the said subscriber further agrees that if he fails to pay any of said installment when due, or to perform any of the aforesaid conditions, or if said shares shall be attached or levied upon by creditors of the said subscriber, then the said shares are to revert to the seller and the payments already made are to be forfeited in favor of said seller, and the latter may then take possession, without resorting to court proceedings.

"The said seller upon receiving full payment, at the time and manner hereinbefore specified, agrees heirs and assigns, the certificate of title of said shares, free and clear of all encumbrances.

"In testimony whereof, the parties have hereunto set their hands in the Municipality of Silang Province of Cavite, Philippine Islands, this 30th day of March, 1935.

"(Sgd.) JOSEFA NAVAL
"SILANG TRAFFIC COMPANY, INC.
Subscriber

"By (Sgd.) LINO GOMEZ
President."

(Exhibit 1. Notarial acknowledgment omitted)

The agreements signed by the other petitioners were of the same date (March 30, 1935) and in identical terms as the foregoing except as to the number of shares and the corresponding purchase the following number of shares and, up to April 30, 1937, had paid the following sums on account thereof:

Sofronio T. Bayla

8 shares—

P360

Venancio Toledo

8 shares—

375

Josefa Naval

15 shares—

675

Paz Toledo

15 shares—

675

Petitioners' action for the recovery of the sums above mentioned is based on a resolution approved by the board of directors of the respondent corporation on August 1, 1937, of the following tenor:

"A mocion del Sir Marcos Caparas y secundado por el Sr Ajejandro Bayla, que para el bien de la corporacion y la pronta terminacion del asunto civil No. 3125 titulado 'Vicente F. Villanueva et al. vs. Lino Gomez et al.', en el Juzgado de Primera Instancia de Cavite, donde se gasto y k gastara no poca cantidad de la Corporacion, se resolvio y se aprobo por la Junta Directiva los siguientes:

"(a) Que M dejara sin efecto lo aprobado por la Junta Directiva el 3 de marzo, 1935, Brt. 11, sec. 162, sobre lai cobranzas que se haran por el Secretario Tesorero de la Corporacion a los accionistas que habian tornado o suscrito nuevas acciones y que se permitia a estos pagar 20% del valor de las acciones suscritai en un ano, con interns de 6% y el pago o jornal que se hara por trimestre.

"(b) Se dejara sin efecto, en vista de que aun no esta pagado todo el valor de las 123 acciones, tomadas de las acciones no expedidas (unissued stock) de la Corporacion y que fueron suscritas por los siguientes:

Lino Gomez

10 Acciones

Venancio Toledo

8 Acciones

Melchor P. Benitez

17 Acciones

Isaias Videña

14 Acciones

Esteban Velasco

10 Acciones

Numeriano S. Aldaba

15 Acciones

Inocencio Cruz

8 Acciones

Paz Toledo

15 Acciones

Josefa Naval

15 Acciones

Sofronio Bayla

8 Acciones

Dionisio Dungca

3 Acciones

y devolver a las personas arriba descritas toda la cantidad que estas habian pagado por las 123 acciones.

"(c) Que se dejara sin efecto lo aprobado por la Junta Directive el 3 de marzo, 1935, art V. sec. 165, sobre el cambio o trueque de las 31 acciones de Treasury Stock, contra las 32 acciones del Sr. Numeriano Aldaba, en la corporacion Northern Luzon Transportation Co. y que se devuelva al Sr. Numeriano Aldaba las 32 acciones mencionadas despues que el haya devuelto el certificado de las 31 accines de la Silang Traffic Co., Inc.

"(d) Permitir al Tesorero de la Corporacion para que devuelva a las personas arriba indicadas, las cantidades pagadas por las 123 acciones." (Exhibit A-1.)

The respondent corporation set up the following defenses: (1) That the above-quoted resolution is not applicable to the petitioners Sofronio T. Bayla, Josefa Naval, and Paz Toledo because on the date thereof "their subscribed shares of stock had already automatically reverted to the defendant, and the installments paid by them had already been forfeited"; and (2) that said resolution of August 1, 1937, was revoked and canceled by a subsequent resolution of the board of directors of the defendant corporation dated August 22, 1937.

The trial court absolved the defendant from the complaint and declared canceled (forfeited) in favor of the defendant the shares of stock in question. It held that the resolution of August 1, 1937, was null and void, citing *Velasco vs. Poizat* (37 Phil. 802), wherein this Court held that "a corporation has no legal capacity to release an original subscriber to its capital stock from the obligation to pay for his shares; and any agreement to this effect is invalid." Plaintiffs below appealed to the Court of Appeals, which modified the judgment of the trial court as follows:

"That part of the judgment dismissing plaintiffs' complaint is affirmed, but that part thereof declaring their subscription canceled is reversed. Defendant is directed to grant plaintiffs 30 days after final judgment within which to pay the arrears on their subscription. Without pronouncement as to costs."

Both parties appealed to this Court by petition and cross-petition for certiorari. Petitioners insist that they have the right to recover the amounts involved under the resolution of August 1, 1937, while the respondent and cross-petitioner on its part contends that said amounts have been automatically forfeited and the shares of stock have reverted to the corporation under the agreement hereinabove quoted.

The parties litigant, the trial court, and the Court of Appeals have interpreted or considered the said agreement as a contract of subscription to the capital stock of the respondent corporation. It should be noted, however, that said agreement is entitled "Agreement for Installment Sale of Shares in the Silang Traffic Company, Inc."; that while the purchaser is designated as "subscriber," the corporation is described as "seller"; that the agreement was entered into on March 30, 1935, long after the incorporation and organization of the corporation, which took place in 1927; and that the price of the stock was payable in quarterly installments spread over a period of five years. It also appears that in civil case No. 3125 of the Court of First Instance of Cavite mentioned in the resolution of August 1, 1937, the right of the corporation to sell the shares of stock to the persons named in said resolution (including the herein petitioners) was impugned by the plaintiffs in said case, who claimed a preferred right to buy said shares.

Whether a particular contract is a subscription or a sale of stock is a matter of construction and depends upon its terms and the intention of the parties (4 Fletcher, *Cyclopedia of Corporations* [permanent edition], 29, cited in *Salmon, Dexter & Co. vs. Unson* (47 Phil. 649, 652). In the *Unson* case just cited, this Court held that a subscription to stock in an existing corporation is, as between the subscriber and the corporation, simply a contract of purchase and sale.

It seems clear from the terms of the contracts in question that they are contracts of sale and not of subscription. The lower courts erred in overlooking the distinction between subscription and purchase. "A subscription, properly speaking, is the mutual agreement of the subscribers to take and pay for the stock of a corporation, while

a purchase is an independent agreement between the individual and the corporation to buy shares of stock from it at a stipulated price." (18 C. J. S., 760.) In some particular the rules governing subscriptions and sales of shares are different. For instance, the provisions of our Corporation Law regarding calls for unpaid subscriptions and assessment of stock (sections 37-50) do not apply to a purchase of stock. Likewise the rule that the corporation has no legal capacity to release an original subscriber to its capital stock from the obligation to pay for his shares, is inapplicable to a contract of purchase of shares.

The next question to determine is whether under the contract between the parties the failure of the purchaser to pay any of the quarterly installments on the purchase price automatically gave rise to the forfeiture of the amounts already paid and the reversion of the shares to the corporation. The contract provides for interest at the rate of six per centum per annum on deferred payments. It also provides that if the purchaser fails to pay any of said installments when due, the said shares are to revert to the seller and the payments already made are to be forfeited in favor of said seller. The respondent corporation contends that when the petitioners failed to pay the installment which fell due on or before July 31, 1937, forfeiture automatically took place, that is to say, without the necessity of any demand from the corporation, and that therefore the resolution of August 1, 1937, authorizing the refund of the installments already paid was inapplicable to the petitioners, who had already lost any and all rights under said contract. That contention is, we think, untenable. The provision regarding interest on deferred payments would not have been inserted if it had been the intention of the parties to provide for automatic forfeiture and cancellation of the contract. Moreover, the contract did not expressly provide that the failure of the purchaser to pay any installment would give rise to forfeiture and cancellation without the necessity of any demand from the seller; and under article 1100 of the Civil Code persons obliged to deliver or do something are not in default until the moment the creditor demands of them, judicially or extrajudicially the fulfilment of their obligation, unless (1) the obligation or the law expressly provides that demand shall not be necessary in order that default may arise, or (2) by reason of the nature and circumstances of the obligation it shall appear that the designation of the time at which the thing was to be delivered or the service rendered was the principal inducement to the creation of the obligation.

Is the resolution of August 1, 1937, valid? The contract in question being one of purchase and not subscription as we have heretofore pointed out, we see no legal¹ impediment to its rescission by agreement of the parties. According to the resolution of August 1, 1937, the rescission was made for the good of the corporation and in order to terminate the then pending civil case involving the validity of the sale of the shares in question among others. To that rescission the herein petitioners apparently agreed, as shown by their demand for the refund of the amounts they had paid as provided in said resolution. It appears from the record that said civil case was subsequently dismissed, and that the purchasers of shares of stock, other than the herein petitioners, who were mentioned in said resolution were able to benefit by said resolution. It would be an unjust discrimination to deny the same benefit to the herein petitioners.

We may add that there is no intimation in this case that the corporation was insolvent, or that the right of any creditor of the same was in any way prejudiced by the rescission. The attempted revocation of said rescission by the resolution of August 22, 1937, was invalid, it not having been agreed to by the petitioners.

Wherefore, the judgment of the Court of Appeals is hereby reversed and another judgment will be entered against the defendant Silang Traffic Co., Inc., ordering it to pay to the plaintiffs Sofronio T. Bayla, Venancio Toledo, Josefa Naval, and Paz Toledo, the sums of P360, P375, P675, and P675, respectively, with legal interest on each of said sums from May 28, 1938, the date of the filing of the complaint, until the date of payment, and with costs in the three instances. So ordered.

Yulo, C. J., Moran, Paras, and Bocobo, JJ., concur.

ABOUT BATAS.ORG

Study smarter at BATAS.org

The Philippine bar review and law-school companion built around how your brain actually remembers.

The complete Philippine law library - free for everyone.

More than 100,000 Supreme Court decisions, Republic Acts, and executive issuances - full-text searchable, browsable by category and year, and always free. No paywall, no login. This PDF came from it.

Audio case-brief lectures.

Any decision becomes a podcast-style lecture - facts, issues, ruling, and doctrine - with read-along highlighting and a hands-free presentation mode. Study while commuting, working out, or resting your eyes.

Bar review built on the science of memory.

Complete, sequenced courses for all eight bar subjects, narrated like podcasts and reinforced with retrieval practice and spaced review - the study techniques with the strongest evidence behind them.

The full law-school curriculum.

One subscription unlocks the entire J.D. curriculum - every subject, every lesson, with your progress tracked down to the paragraph so you can pick up exactly where you left off, on any device.

Mock exams that tell you where you stand.

Timed multiple-choice exams graded instantly, with per-subject score breakdowns and focus suggestions that point you at your weakest topics first.

A study planner that keeps you on pace.

Set your schedule and BATAS tells you every day whether you are on track for bar day - and exactly which lesson to take next.

Start free at <https://batas.org>

The law library is free forever - and your first lesson is one click away.

The text of this document is an official public record and remains in the public domain. Formatting, presentation, and compilation © 2026 batas.org.

Downloaded free from the batas.org Law Library. Share it freely - the library is free for every law student, bar reviewee, and practitioner.