Title:
Y-I Leisure Philippines, Inc., et al. v. James Yu, G.R. No. 210780, September 8, 2015

Facts:
Mt. Arayat Development Co. Inc. (MADCI), established in 1996, sold golf and country club shares to James Yu in 1997. Yu completed the P650,000 payment for 500 golf and 150 country club shares, only to later find that the project was non-existent. Yu demanded a refund in 2000, which MADCI acknowledged but never refunded.

Yu filed a complaint for the sum of money in the RTC of Quezon City against MADCI and its president Rogelio Sangil. MADCI accused Sangil of fraud and pointed to a 1999 Memorandum of Agreement (MOA) with petitioner Yats International Ltd. (YIL), where Sangil undertook to settle third party claims. After learning that MADCI transferred all its assets (120 hectares in Pampanga) to YIL, Yu amended his complaint to include YIL, Y-I Leisure Phils., Inc. (YILPI), and Y-I Clubs & Resorts, Inc. (YICRI), alleging the transfer defrauded MADCI creditors.

In response, YILPI, and YICRI claimed they became MADCI stockholders in 1999 and were not liable for the corporate debts. They emphasized YIL's reliance on the MOA, which stated Sangil was responsible for refunds.

The RTC ruled in favor of Yu against MADCI and Sangil, solidarily holding them liable. It dismissed the case against YIL, YILPI, and YICRI, who then appealed to the Court of Appeals (CA). The CA modified the RTC decision, holding YIL, YILPI, and YICRI jointly liable with MADCI and Sangil. The CA held that the asset transfer included liability assumption, citing lack of alternate collection means for Yu.

The CA dismissed YIL, YILPI, and YICRI's MR, leading them to file a petition for review with the Supreme Court.

Issues:
1. Whether the transfer of all MADCI's assets to Yats Group entities included the assumption of MADCI's liabilities under Section 40 of the Corporation Code.
2. Whether fraud is necessary to enforce such liability transfer.
3. Whether Yu could validly claim against Yats Group entities based on non-consent to the MOA stipulating liability assignment to Sangil.

Court's Decision:

The Supreme Court denied the petition, holding YIL, YILPI, and YICRI jointly and severally liable for Yu’s claim.

1. **Transfer of Liabilities (Section 40, Corporation Code):**
The Court determined that the asset transfer left MADCI incapable of fulfilling its business purpose, thus falling under Section 40. Consequently, the transferee inherited MADCI’s liabilities because they acquired all properties, rendering MADCI a “shell” left only with juridical existence.

2. **Necessity of Fraud:**
Fraud is not an essential element under the business-enterprise transfer doctrine wherein continuity of business, rather than fraudulent intent, justifies creditor protection under Section 40.

3. **Validity of Claim based on Non-consent to MOA:**
Yu never consented to the MOA’s novation clause substituting Sangil as debtor, which under Civil Code Article 1293, invalidated the debt substitution against him. Thus, the liabilities transferred with the asset sale included responsiveness to Yu’s claims.

Doctrine:
The transfer of all or substantially all corporate assets under Section 40 of the Corporation Code inherently includes the assumption of the transferor’s liabilities irrespective of fraud, emphasizing creditor protection and preventing asset evasion by mere transfer.

Class Notes:
– **Business-Enterprise Transfer Doctrine:** Transfer of substantially all assets, including goodwill, renders the transferee liable for debts of transferor if the transfer incapacitates business continuation.
– **Section 40, Corporation Code:** Transfer involving all/substantially all corporate assets, incapacitating continued business, includes assumed liabilities unless another legal provision restricts.
– **Article 1293, Civil Code:** Novation involving debtor substitution requires creditor consent, ensuring debts remain with original debtor absent consent.

Historical Background:
The case arises under the tenet of the Corporation Code and the doctrine of corporate creditors’ protections, illustrating legislative and jurisprudential efforts to prevent asset evasion scams and to maintain creditor rights amid corporate transactions. The decision

reaffirms rules established in key precedents and the statutory framework, fortifying the concept that corporate transactions involving significant asset transfers cannot undermine creditor safeguards.