

FIRST DIVISION

[G.R. No. 154069, June 06, 2016]

**INTERPORT RESOURCES CORPORATION, PETITIONER, VS.
SECURITIES SPECIALIST, INC., AND R.C. LEE SECURITIES INC.,
RESPONDENTS.**

D E C I S I O N

BERSAMIN, J.:

This appeal assails the decision promulgated on February 11, 2002,^[1] whereby the Court of Appeals (CA), in C.A.-G.R. SP No. 66600, affirmed the decision the Securities and Exchange Commission (SEC) rendered in SEC AC No. 501-502^[2] ordering Interport Resources Corporation (Interport) to deliver 25% of the shares of stocks under Subscription Agreements Nos. 1805 and 1808-1811, or the value thereof, and to pay to respondent Securities Specialist, Inc. (SSI), jointly and severally with R.C. Lee Securities, Inc. (R.C. Lee), exemplary damages and litigation expenses.

Antecedents

In January 1977, Oceanic Oil & Mineral Resources, Inc. (Oceanic) entered into a subscription agreement with R.C. Lee, a domestic corporation engaged in the trading of stocks and other securities, covering 5,000,000 of its shares with par value of P0.01 per share, for a total of P50,000.00. Thereupon, R.C. Lee paid 25% of the subscription, leaving 75% unpaid. Consequently, Oceanic issued Subscription Agreements Nos. 1805, 1808, 1809, 1810, and 1811 to R.C. Lee.^[3]

On July 28, 1978, Oceanic merged with Interport, with the latter as the surviving corporation. Interport was a publicly-listed domestic corporation whose shares of stocks were traded in the stock exchange. Under the terms of the merger, each share of Oceanic was exchanged for a share of Interport.^[4]

On April 16, 1979 and April 18, 1979, SSI, a domestic corporation registered as a dealer in securities, received in the ordinary course of business Oceanic Subscription Agreements Nos. 1805, 1808 to 1811, all outstanding in the name of R.C. Lee, and Oceanic official receipts showing that 25% of the subscriptions had been paid.^[5] The Oceanic subscription agreements were duly delivered to SSI through stock assignments indorsed in blank by R.C. Lee.^[6]

Later on, R.C. Lee requested Interport for a list of subscription agreements and stock certificates issued in the name of R.C. Lee and other individuals named in the request. In response, Atty. Rhodora B. Morales, Interport's Corporate Secretary, provided the requested list of all subscription agreements of Interport and Oceanic, as well as the requested stock certificates of Interport.^[7] Upon finding no record

showing any transfer or assignment of the Oceanic subscription agreements and stock certificates of Interport as contained in the list, R.C. Lee paid its unpaid subscriptions and was accordingly issued stock certificates corresponding thereto.^[8]

On February 8, 1989, Interport issued a call for the full payment of subscription receivables, setting March 15, 1989 as the deadline. SSI tendered payment prior to the deadline through two stockbrokers of the Manila Stock Exchange. However, the stockbrokers reported to SSI that Interport refused to honor the Oceanic subscriptions.^[9]

Still on the date of the deadline, SSI directly tendered payment to Interport for the balance of the 5,000,000 shares covered by the Oceanic subscription agreements, some of which were in the name of R.C. Lee and indorsed in blank. Interport originally rejected the tender of payment for all unpaid subscriptions on the ground that the Oceanic subscription agreements should have been previously converted to shares in Interport.^[10]

SSI then required Interport to furnish it with a copy of any notice requiring the conversion of Oceanic shares to Interport shares. However, Interport failed to show any proof of the notice. Thus, through a letter dated March 30, 1989, SSI asked the SEC for a copy of Interport's board resolution requiring said conversion. The SEC, through Atty. Fe Eloisa C. Gloria, Director of Brokers and Exchange Department, informed SSI that the SEC had no record of any such resolution.^[11]

Having confirmed the non-existence of the resolution, Francisco Villaroman, President of SSI, met with Pablo Roman, President and Chairman of the Board of Interport, and Atty. Pineda, Interport's Corporate Secretary, at which meeting Villaroman formally requested a copy of the resolution. However, Interport did not produce a copy of the resolution.^[12]

Despite that meeting, Interport still rejected SSI's tender of payment for the 5,000,000 shares covered by the Oceanic Subscription Agreements Nos. 1805, and 1808 to 1811.^[13]

On March 31, 1989, or 16 days after its tender of payment, SSI learned that Interport had issued the 5,000,000 shares to R.C. Lee, relying on the latter's registration as the owner of the subscription agreements in the books of the former, and on the affidavit executed by the President of R.C. Lee stating that no transfers or encumbrances of the shares had ever been made.^[14]

Thus, on April 27, 1989, SSI wrote R.C. Lee demanding the delivery of the 5,000,000 Interport shares on the basis of a purported assignment of the subscription agreements covering the shares made in 1979. R.C. Lee failed to return the subject shares inasmuch as it had already sold the same to other parties. SSI thus demanded that R.C. Lee pay not only the equivalent of the 25% it had paid on the subscription but the whole 5,000,000 shares at current market value.^[15]

SSI also made demands upon Interport and R.C. Lee for the cancellation of the shares issued to R.C. Lee and for the delivery of the shares to SSI.^[16]

On October 6, 1989, after its demands were not met, SSI commenced this case in the SEC to compel the respondents to deliver the 5,000,000 shares and to pay damages.^[17] It alleged fraud and collusion between Interport and R.C. Lee in rejecting the tendered payment and the transfer of the shares covered by the subscription agreements.

On October 25, 1994, after due hearing, the Hearing Officer of the SEC's Securities Investigation and Clearing Department (SICD) rendered a decision,^[18] disposing thusly:

WHEREFORE, judgment is hereby rendered ordering respondent Interport to deliver the five (5) million shares covered by Oceanic Oil and Mineral Resources, Inc. subscription agreement Nos. 1805, 1808-1811 to petitioner SSI; and if the same not be possible to deliver the value thereof, at the market price as of the date of this judgment; and ordering both respondents, jointly and severally, to indemnify the complainant in the sum of FIVE HUNDRED THOUSAND PESOS (P500,000.00) by way of temperate or moderate damages, to indemnify complainant in the sum of FIVE HUNDRED THOUSAND PESOS (P500,000.00) by way of exemplary damages; to pay for complainant's litigation expenses, including attorney's fees, reasonably in the sum of THREE HUNDRED THOUSAND pesos (P300,000.00) and to pay the costs of suit.^[19]

Both Interport and R.C. Lee appealed to the SEC *En Banc*, which ultimately ruled as follows:

After a careful review of the records of this case, we find basis in partially reversing the decision dated October 25, 1994.

It is undisputed from the facts presented and evidence adduced that the subject matter of this case pertains to the subscription agreements for which complainant paid only twenty five percent and the remaining balance of seventy five percent paid for by respondent RCL. Accordingly, to order the return of the five million shares or the payment of the entire value thereof to the complainant, without requiring the latter to pay the balance of seventy five percent will be inequitable. Accordingly, the pertinent portion of the decision is hereby revised to reflect this.

As regards the portion awarding temperate damages, the same may not be awarded. All evidence presented by Securities Specialist, Inc. pertaining to its "lost opportunity" seeking for damages for its supposed failure to sell Interport's shares, when the market was allegedly good, is merely speculative. Moreover, even if the alleged pecuniary loss of SSI would be considered, the same is again purely speculative and deserves scant consideration by the Commission. Hence, temperate damages may not be justly awarded along with the other damages prayed for.

WHEREFORE, premises considered, judgment is hereby rendered, ordering respondent Interport to deliver the corresponding shares previously covered by Oceanic Oil Mineral Resources Inc. subscription agreements Nos. 1805-1811 to petitioner SSI, to the extent only of 25% thereof, as duly paid by petitioner SSI; and if the same will not be

possible, to deliver the value thereof at the market price as of the date of this judgment and ordering both respondents jointly and severally, to indemnify the complainant in the sum of five hundred thousand pesos (P500,000.00) by way of exemplary damages, to pay for complainant's litigation expenses, including attorney's fees, reasonably in the sum of three hundred thousand pesos (P300,000.00) and to pay the costs of the suit.^[20]

Interport appealed to the CA,^[21] which on February 11, 2002 affirmed the SEC's decision,^[22] viz.:

WHEREFORE, premises considered the Petition is hereby DENIED DUE COURSE and ordered DISMISSED and the challenged decision of the Securities and Exchange Commission AFFIRMED, with costs to Petitioner.

SO ORDERED.

On June 25, 2002, the CA denied Interport's motion for reconsideration.^[23]

Issues

Interport assigns the following errors to the CA, namely:

I

THE COURT OF APPEALS ERRED AND COMMITTED GRAVE ABUSE OF DISCRETION IN THE APPRECIATION OF THE FACTS IN HOLDING PETITIONER LIABLE TO DELIVER THE 25% OF THE SUBJECT 5 MILLION SHARES OR IF THE SAME NOT BE POSSIBLE TO DELIVER THE VALUE THEREOF DESPITE THE EVIDENCE TO THE CONTRARY.

II

THE COURT OF APPEALS ERRED IN RULING THAT PETITIONER IS LIABLE FOR EXEMPLARY DAMAGES IN THE AMOUNT OF P500,000.00 WITHOUT LEGAL BASIS, WHICH IS NOT IN ACCORD WITH LAW AND APPLICABLE DECISIONS OF THE SUPREME COURT.

III

THE COURT OF APPEALS ERRED IN RULING THAT PETITIONER IS LIABLE FOR ATTORNEY'S FEES IN THE AMOUNT OF P300,000.00 AND COSTS THERE BEING NO FACTUAL AND LEGAL BASIS, WHICH IS NOT IN ACCORD WITH LAW AND APPLICABLE DECISIONS OF THE SUPREME COURT.^[24]

The issues are: (a) whether or not Interport was liable to deliver to SSI the Oceanic shares of stock, or the value thereof, under Subscriptions Agreement No. 1805, and Nos. 1808 to 1811 to SSI; and (b) whether or not SSI was entitled to exemplary damages and attorney's fees.

Ruling

The appeal is partly meritorious.

1.

Interport was liable to deliver the Oceanic shares of stock, or the value thereof, under Subscription Agreements Nos. 1805, and 1808 to 1811 to SSI

Interport argues that R.C. Lee should be held liable for the delivery of 25% of the shares under the subject subscription agreements inasmuch as R.C. Lee had already received all the 5,000,000 shares upon its payment of the 75% balance on the subscription price to Interport; that it was only proper for R.C. Lee to deliver 25% of the shares under the Oceanic subscription agreements because it had already received the corresponding payment therefor from SSI for the assignment of the shares; that R.C. Lee would be unjustly enriched if it retained the 5,000,000 shares and the 25% payment of the subscription price made by SSI in favor of R.C. Lee as a result of the assignment; and that it merely relied on its records, in accordance with Section 74 of the *Corporation Code*, when it issued the stock certificates to R.C. Lee upon its full payment of the subscription price.

Interport's arguments must fail.

In holding Interport liable for the delivery of the Oceanic shares, the SEC explained:

x x x [T]he Oceanic subscriptions agreements were duly delivered to the Complainant SSI supported by stock assignments of respondent R.C. Lee (Exhibits "B" to "B-4" of the petitioner) and by official receipts of Oceanic showing that twenty five percent of the subscription had been paid (Exhibits "C" to "C-4"). **To this date, respondent R.C. Lee does not deny having subscribed and delivered such stock assignments to the Oceanic subscription agreements. Therefore, having negotiated them by allowing to be in street certificates, respondent R.C. Lee, as a broker, cannot now legally and morally claim any further interests over such subscriptions or the shares of stock they represent.**

x x x x

Both respondents seek to be absolved of liability for their machinations by invoking both the rule on novation of the debtor without the creditor's consent; as well as the Corporation Code rule of non-registration of transfers in the corporation's stock and transfer book. Neither will avail in the case at bar. Art. 1293 of the New Civil Code states:

"Art. 1293. Novation which consists in substituting a new debtor in the place of the original one may be made even without the knowledge or against the will of the latter but not without the consent of the creditor" x x x.

More importantly, the allusion by the respondents likening the subscription contracts to the situation of debtor-creditor finds no basis in