Supreme Court E-Library

Article 1306. The contracting parties may establish such stipulations, clauses, terms and conditions as they may deem convenient provided they are not contrary to law, morals, good customs, public order, or public policy.[54]

This Civil Code provision asserts the Autonomy of Contracts. Contractual obligations have the force of law between the parties and should be complied with in good faith. The Courts will not rescue a litigant from his bad bargains, protect him from unwise investments, relieve him from disadvantageous contracts, or annul the effects of his foolish acts unless there has been a violation of law.[55]

WHEREFORE, premises considered, we hereby **DENY** the petition for lack of merit, and accordingly **AFFIRM** the July 24, 2012 decision and the May 23, 2013 resolution of the Court of Appeals in CA-G.R. CEB SP No. 02964.

SO ORDERED.

Carpio (Chairperson), *del Castillo, Mendoza,* and *Leonen, JJ.,* concur.

SECOND DIVISION

[G.R. No. 211485. May 30, 2016]

MAGALLANES WATERCRAFT ASSOCIATION, INC., as represented by its Board of Trustees, namely: EDILBERTO M. BAJAO, GERARDO O. PLAZA, ISABELITA MULIG, EDNA ABEJAY, MARCELO DONAN, NENITA O. VARQUEZ, MERLYN ALVAREZ, EDNA EXCLAMADOR, and CESAR

---

[54] Art. 1306, CIVIL CODE.

[55] *Vales v. Villa*, 35 Phil. 769, 788 (1916).

Supreme Court E-Library

MONSON, *petitioner, vs.* **MARGARITO C. AUGUIS and DIOSCORO C. BASNIG,** *respondents.*

SYLLABUS

1. **COMMERCIAL LAW; CORPORATIONS; CORPORATE POWERS INCLUDE IMPLIED AND INCIDENTAL POWERS; PETITIONER MWAI CAN PROPERLY IMPOSE SANCTIONS ON DELINQUENT MEMBERS.—** Section 45 of the Corporation Code provides for the powers possessed by a corporation, x x x a corporation has: (1) express powers, which are bestowed upon by law or its articles of incorporation; and (2) necessary or incidental powers to the exercise of those expressly conferred. An act which cannot fall under a corporation's express or necessary or incidental powers is an *ultra vires* act. x x x Under Section 3(a) and Section 3(c) Article 3 of MWAI's By-Laws, its members are bound x x x "[t]o pay membership dues and other assessments of the association." x x x MWAI could not be faulted in suspending the rights and privileges of its delinquent members. The fact alone that neither the articles of incorporation nor the by-laws of MWAI granted its Board the authority to discipline members does not make the suspension of the rights and privileges of the respondents *ultra vires*. x x x MWAI can properly impose sanctions on Auguis and Basnig for being delinquent members considering that the payment of membership dues enables MWAI to discharge its duties and functions enumerated under its charter. x x x Also, the imposition of the temporary ban on the use of MWAI's berthing facilities until Auguis and Basnig have paid their outstanding obligations was a reasonable measure that the former could undertake to ensure the prompt payment of its membership dues. Otherwise, MWAI will be rendered inutile as it will have no means of ensuring that its members will promptly settle their obligations. It will be exposed to deleterious consequences as it will be unable to continue with its operations if the members continue to be delinquent in the payment of their obligations, without fear of possible sanctions.

2. **CIVIL LAW; DAMAGES; TEMPERATE DAMAGES AND ATTORNEY'S FEES, AWARDED.—** Temperate damages may be recovered when the court finds that some pecuniary loss has been suffered but its amount cannot, from the nature of the case, be proved with certainty. As such, its award is

Supreme Court E-Library

premised on the fact that actual damages could have been recovered were it not for the fact that the precise amount of damages could not be accurately ascertained. In other words, if a party-claimant had not suffered any damages, no damages either actual nor temperate, are recoverable. Damages resulting from a person's valid exercise of a right, is *damnum absque injuria*. x x x Anent the award of attorney's fees, the Court likewise finds it without basis. It is a settled rule that attorney's fees shall not be recovered as cost where the party's persistence in litigation is based on his mistaken belief in the righteousness of his cause.

APPEARANCES OF COUNSEL

Libres Zulieta Jalad & Ong Yiu Law Offices for petitioner.
Cembrano Luneta Mag-usara & Vitor Law Offices for respondents.

D E C I S I O N

MENDOZA, *J.*:

This petition for review on *certiorari*, filed under Rule 45 of the Rules of Court, seeks to reverse and set aside the March 14, 2013 Decision[1] and the January 17, 2014 Resolution[2] of the Court of Appeals (CA) in CA-G.R. CV No. 01170-MIN, which affirmed with modification the January 11, 2007 Decision of the Regional Trial Court, Branch 33, Butuan City (*RTC*) in SEC Case No. 11-2004 (Civil Case No. 5420).

Petitioner Magallanes Watercraft Association, Inc. (*MWAI*) is a local association of motorized *banca* owners and operators ferrying cargoes and passengers from Magallanes, Agusan del Norte, to Butuan City and back. Respondents Margarito C. Auguis (*Auguis*) and Dioscoro C. Basnig (*Basnig*) were members

---

[1] Penned by Associate Justice Jhosep Y. Lopez, with Associate Justice Edgardo T. Lloren and Associate Justice Henri Jean Paul B. Inting, concurring; *rollo*, pp. 77-91.

[2] *Id.* at 24-25.

Supreme Court E-Library

and officers of MWAI — vice-president and secretary, respectively.[3]

On December 5, 2003, the Board of Trustees (*Board*) of MWAI passed Resolution No. 1, Series of 2003, and thereafter issued Memorandum No. 001 suspending the rights and privileges of Auguis and Basnig as members of the association for thirty (30) days for their refusal to pay their membership dues and berthing fees because of their pending oral complaint and demand for financial audit of the association funds. Auguis had an accumulated unpaid obligation of ₱4,059.00 while Basnig had ₱7,552.00.[4]

In spite of the suspension of their privileges as members, Auguis and Basnig still failed to settle their obligations with MWAI. For said reason, the latter issued Memorandum No. 002, Series of 2004, dated January 8, 2004, suspending their rights and privileges for *another* thirty (30) days.[5]

On February 6, 2004, respondents filed an action for damages and attorney's fees with a prayer for the issuance of a writ of preliminary injunction before the RTC. In its January 11, 2007 decision, the trial court ordered Auguis and Basnig to pay their unpaid accounts. It, nonetheless, required MWAI to pay them actual damages and attorney's fees.[6]

Aggrieved, MWAI appealed before the CA.

The CA Ruling

In its March 14, 2013 decision, the CA affirmed with modification the RTC decision. According to the appellate court, the RTC correctly held that MWAI was guilty of an *ultra vires* act. The CA noted that neither MWAI's Articles of Incorporation nor its By-Laws[7] contained any provision that expressly and/or impliedly vested power or authority upon its Board to recommend the imposition of disciplinary sanctions on its

[3] *Id.* at 10.

[4] *Id.* at 10-11.

[5] *Id.* at 11.

[6] *Id.* at 11-12.

[7] *Id.* at 42-46.

Supreme Court E-Library

delinquent officers and/or members. It further noted that MWAI lacked the authority to suspend the right of the respondents to operate their *bancas*, which was granted through a Certificate of Public Convenience. The appellate court pointed out that the Maritime Industry Authority (*MARINA*) expressly reminded MWAI that it was the sole government agency which had the authority to suspend, cancel and/or revoke the franchise of the two. The CA explained that the suspension of their berthing privileges resulted in the failure of the latter to operate their *bancas* — contrary to the express reminder of the MARINA. Hence, the CA concluded that MWAI acted beyond the scope of its powers when it suspended the rights of Auguis and Basnig as members of MWAI to berth on the seaport of Magallanes and operate their bancas.

It also ruled that MWAI was bound to indemnify respondents because they suffered financial losses as a result of the illegal suspension of their berthing privileges and their right to operate their *bancas*. The appellate court agreed with the RTC that MWAI was liable for damages in favor of the respondents. The CA, however, deleted the award of actual damages for their failure to adduce evidence to prove the claimed loss of actual income. It, nonetheless, awarded them temperate damages in recognition of the pecuniary loss they suffered. Moreover, the CA saw it fit to grant a reduced amount of attorney's fees because Auguis and Basnig were compelled to litigate or incur expenses to protect their interests. The dispositive portion of the CA decision reads:

WHEREFORE, for lack of merit, the present appeal is hereby **DISMISSED**. The assailed Decision dated 11 January 2007 of the Regional Trial Court (RTC), 10th Judicial Region, Branch 33 of Libertad, Butuan City in SEC Case No. 11-2004 (Civil Case No. 5420) is **AFFIRMED** with **MODIFICATION** as follows:

1. **DELETING** the award for actual damages. In lieu thereof, temperate damages in the amount of ₱40,000.00 and ₱20,000.00 are respectively awarded to appellees Dioscoro C. Basnig and Margarito C. Auguis;

2. **IMPOSING** legal interest at the rate of 12% *per annum* from the finality of this decision until its full satisfaction; and

Supreme Court E-Library

3. **REDUCING** the attorney's fees to ₱30,000.00.

SO ORDERED.[8]

MWAI moved for reconsideration, but its motion was denied by the CA in its January 17, 2014 resolution.

Undaunted, it filed this present petition with the sole

ASSIGNMENT OF ERROR

THE HONORABLE COURT OF APPEALS COMMITTED A REVERSIBLE ERROR WHEN IT AWARDED TEMPERATE DAMAGES WITH A LEGAL RATE OF INTEREST OF 12% PER ANNUM FROM THE FINALITY OF THE DECISION UNTIL FULLY PAID AS WELL AS REDUCED ATTORNEY'S FEES IN FAVOR OF THE RESPONDENTS.[9]

MWAI insists that the award of temperate damages and attorney's fees was baseless. It faults the CA in finding that it was guilty of an *ultra vires* act when it suspended respondents' berthing rights because its by-laws obliged Auguis and Basnig as members to: (1) obey and comply with the by-laws, rules and regulations that may be promulgated by the association from time to time; and (2) to pay its membership dues and other assessments. Thus, MWAI argues that respondents cannot claim either actual or temperate damages because the suspension of their rights and privileges was anchored on its by-laws.

Petitioner also contends that respondents are not entitled to attorney's fees either because the award of attorney's fees is the exception rather than the rule. It points out that it was through respondents' own fault that their rights were suspended. Hence, they cannot be considered as having been compelled to litigate.

In their Comment,[10] dated July 16, 2015, respondents countered that they were entitled to temperate damages as the suspension of their operations was arbitrary, baseless and contrary to law

---

[8] *Id.* at 90-91.

[9] *Id.* at 13.

[10] *Id.* at 122-123.

Supreme Court E-Library

and public policy. They claimed that attorney's fees were rightfully awarded because they were compelled to litigate as a consequence of MWAI's *ultra vires* act.

In its Reply to the Comment,[11] dated January 5, 2016, MWAI reiterated the arguments it presented in its petition for review.

The Court's Ruling

The petition is meritorious.

Corporate powers include implied and incidental powers

Central to the resolution of the propriety of the award of temperate damages and attorney's fees is the contested authority of MWAI to suspend rights and privileges of its members for the latter's failure to pay their obligations. If the suspension of rights and privileges of members is not among the corporate powers granted to MWAI, then the same is an *ultra vires* act which exposes MWAI to possible liability.

Section 45 of the Corporation Code provides for the powers possesssed by a corporation, to wit:

> Sec. 45. *Ultra vires acts of corporations*. — No corporation under this Code shall possess or exercise any corporate powers except those conferred by this Code or by its articles of incorporation and except such as are necessary or incidental to the exercise of the powers so conferred.

From a reading of the said provision, it is clear that a corporation has: (1) express powers, which are bestowed upon by law or its articles of incorporation; and (2) necessary or incidental powers to the exercise of those expressly conferred. An act which cannot fall under a corporation's express or necessary or incidental powers is an *ultra vires* act. In *University of Mindanao, Inc. v. Bangko Sentral ng Pilipinas*[12] (*University of Mindanao*), the Court explained:

---

[11] *Id.* at 127-130.

[12] G.R. Nos. 194964-65, January 11, 2016.

Supreme Court E-Library

Corporations are artificial entities granted legal personalities upon their creation by their incorporators in accordance with law. Unlike natural persons, they have no inherent powers. Third persons dealing with corporations cannot assume that corporations have powers. It is up to those persons dealing with corporations to determine their competence as expressly defined by the law and their articles of incorporation.

A corporation may exercise its powers only within those definitions. Corporate acts that are outside those express definitions under the law or articles of incorporation or those "committed outside the object for which a corporation is created" are *ultra vires*.

x x x **x x x** **x x x**

[Emphasis Supplied]

The CA concluded that the suspension by MWAI of respondents' rights as members for their failure to settle membership dues was an *ultra vires* act as MWAI's articles of incorporation and by-laws were bereft of any provision that expressly and impliedly vested power or authority upon its Board to recommend the imposition of disciplinary actions on its delinquent officers and/or members.

The Court disagrees.

Under Section 3 (a) and Section 3 (c) Article V of MWAI's By-Laws, its members are bound "[t]o obey and comply with the by-laws, rules and regulations that may be promulgated by the association from time to time" and "[t]o pay membership dues and other assessments of the association."[13] Thus, the respondents were obligated to pay the membership dues of which they were delinquent. MWAI could not be faulted in suspending the rights and privileges of its delinquent members.

The fact alone that neither the articles of incorporation nor the by-laws of MWAI granted its Board the authority to discipline members does not make the suspension of the rights and privileges of the respondents *ultra vires*. In *National Power Corporation*

---

[13] *Rollo*, p. 45.

Supreme Court E-Library

v. Vera,[14] the Court stressed that an act might be considered within corporate powers, even if it was not among the express powers, if the same served the corporate ends, to wit:

> For if that act is one which is lawful in itself and not otherwise prohibited, and is done for the purpose of serving corporate ends, and reasonably contributes to the promotion of those ends in a substantial and not in a remote and fanciful sense, it may be fairly considered within the corporation's charter powers.

This Court is guided by jurisprudence in the application of the above standard. In the 1963 case of *Republic of the Philippines v. Acoje Mining Company, Inc.* [G.R. No. L-18062, February 28, 1963, 7 SCRA 361] **the Court affirmed the rule that a corporation is not restricted to the exercise of powers expressly conferred upon it by its charter, but has the power to do what is reasonably necessary or proper to promote the interest or welfare of the corporation.**

[Emphasis Supplied]

In *University of Mindanao*, the Court wrote that corporations were not limited to the express powers enumerated in their charters, but might also perform powers necessary or incidental thereto, to wit:

> A corporation may exercise its powers only within those definitions. Corporate acts that are outside those express definitions under the law or articles of incorporation or those "committed outside the object for which a corporation is created" are *ultra vires.*
>
> **The only exception to this rule is when acts are necessary and incidental to carry out a corporation's purposes, and to the exercise of powers conferred by the Corporation Code and under a corporation's articles of incorporation.** x x x
>
> x x x x x x x x x

Montelibano, et al. v. Bacolod-Murcia Milling Co., Inc. stated the test to determine if a corporate act is in accordance with its purposes:

> It is a question, therefore, in each case, of the logical relation of the act to the corporate purpose expressed in the charter.

---

[14] 252 Phil. 747 (1989).

Supreme Court E-Library

> If that act is one which is lawful in itself, and not otherwise prohibited, is done for the purpose of serving corporate ends, and is reasonably tributary to the promotion of those ends, in a substantial, and not in a remote and fanciful, sense, it may fairly be considered within charter powers. **The test to be applied is whether the act in question is in direct and immediate furtherance of the corporation's business, fairly incident to the express powers and reasonably necessary to their exercise.** If so, the corporation has the power to do it; otherwise, not.
>
> [Emphases Supplied; citations omitted]

Based on the foregoing, MWAI can properly impose sanctions on Auguis and Basnig for being delinquent members considering that the payment of membership dues enables MWAI to discharge its duties and functions enumerated under its charter. Moreover, respondents were obligated by the by-laws of the association to pay said dues. The suspension of their rights and privileges is not an *ultra vires* act as it is reasonably necessary or proper in order to further the interest and welfare of MWAI. Also, the imposition of the temporary ban on the use of MWAI's berthing facilities until Auguis and Basnig have paid their outstanding obligations was a reasonable measure that the former could undertake to ensure the prompt payment of its membership dues.[15] Otherwise, MWAI will be rendered inutile as it will have no means of ensuring that its members will promptly settle their obligations. It will be exposed to deleterious consequences as it will be unable to continue with its operations if the members continue to be delinquent in the payment of their obligations, without fear of possible sanctions.

Award of Temperate
Damages improper

Having settled the propriety of respondents' suspension of privileges, the Court finds that the grant of temperate damages in their favor is baseless. Temperate damages may be recovered when the court finds that some pecuniary loss has been suffered

---

[15] *Twin Towers Condominium Corporation v. C*A, 46 Phil. 280 (2003).

Supreme Court E-Library

but its amount cannot, from the nature of the case, be proved with certainty.[16] As such, its award is premised on the fact that actual damages could have been recovered were it not for the fact that the precise amount of damages could not be accurately ascertained. In other words, if a party-claimant had not suffered any damages, no damages either actual nor temperate, are recoverable.

Damages resulting from a person's valid exercise of a right, is *damnum absque injuria.*[17] In *Diaz v. Davao Light and Power Co., Inc.*,[18] the Court further expounded, to wit:

> Petitioner may have suffered damages as a result of the filing of the complaints. However, there is a material distinction between damages and injury. Injury is the illegal invasion of a legal right; damage is the loss, hurt or harm which results from the injury; and damages are the recompense or compensation awarded for the damage suffered. Thus, there can be damage without injury in those instances in which the loss or harm was not the result of a violation of a legal duty. In such cases, the consequences must be borne by the injured person alone; the law affords no remedy for damages resulting from an act which does not amount to a legal injury or wrong. These situations are often called *damnum absque injuria*. Whatever damages Diaz may have suffered would have to be borne by him alone since it was his acts which led to the filing of the complaints against him.

Considering that the suspension of Auguis and Basnig was in the lawful exercise of MWAI's rights and powers as a corporation, no remedy for any consequent damage, which they could have suffered, is available. They shall bear the losses they may have suffered as a consequence of their lawful suspension. Further, the Court notes that in suspending the rights and privileges of the said respondents, MWAI merely denied them access from its berthing facilities and in no way suspended or revoked their certificates of public convenience.

---

[16] Article 2224 of the Civil Code.

[17] *ABS-CBN Broadcasting Corporation v. CA*, 361 Phil. 499, 532 (1999).

[18] 549 Phil. 271 (2007).

Supreme Court E-Library

Anent the award of attorney's fees, the Court likewise finds it without basis. It is a settled rule that attorney's fees shall not be recovered as cost where the party's persistence in litigation is based on his mistaken belief in the righteousness of his cause.[19]

WHEREFORE, the petition is **GRANTED.** The March 14, 2013 Decision and the January 17, 2014 Resolution of the Court of Appeals in CA-G.R. CV No. 01170-MIN are **REVERSED** and **SET ASIDE.** The complaint for damages against petitioner Magallanes Watercraft Association, Inc. is **DISMISSED** for lack of merit.

SO ORDERED.

Carpio (Chairperson), Brion, del Castillo, and *Leonen, JJ.,* concur.

SECOND DIVISION

[G.R. No. 211698. May 30, 2016]

REPUBLIC OF THE PHILIPPINES, *petitioner, vs.* **CESAR P. RAYOS DEL SOL, LYDIA P. RAYOS DEL SOL, GLORIA P. RAYOS DEL SOL and ELVIRA P. RAYOS DEL SOL,** *respondents.*

SYLLABUS

1. CIVIL LAW; LAND REGISTRATION; TAX DECLARATIONS HAVE PROBATIVE VALUE IN LAND REGISTRATION PROCEEDINGS.— The records reveal that respondents and their predecessors-in-interest religiously paid the realty taxes of the subject lot over the decades. Although a tax declaration

---

[19] *Josefa v. Manila Electric Company*, G.R. No. 182705, July 18, 2014, 730 SCRA 126, 150.