

Title: Edgardo C. De Leon v. Philippine Long Distance Telephone Company, Inc.

Facts:

In 1973, the Philippine government adopted a “telephone subscriber self-financing” scheme through Presidential Decree No. 217 (PD 217), which required telephone subscribers to purchase shares of the Philippine Long Distance Telephone Company (PLDT) to finance its capital investments in telephone installations. PLDT was the sole telephone utility in the country then. Under PD 217, subscribers with preferred shares should be assured of a fixed annual income and the option to convert their preferred shares into common shares after a reasonable period and under reasonable terms at the shareholder’s choice.

Petitioner Edgardo C. De Leon owned 180 preferred shares and 10 common shares in PLDT. After the Supreme Court’s decision in *Gamboa v. Teves*, which focused on the definition of “capital” in the context of public utilities and foreign ownership, PLDT’s Board of Directors subclassified its authorized preferred capital stock and set a schedule for redeeming outstanding preferred shares. Shareholders were given options to claim redemption payments or convert their preferred shares into common shares. De Leon objected to the redemption of preferred shares and wrote to PLDT demanding they reverse their actions.

De Leon and fellow shareholder Perfecto R. Yasay Jr. filed a Complaint before the Regional Trial Court (RTC) of Makati, seeking to enjoin a scheduled Special Stockholders Meeting and nullify PLDT’s redemption of shares, alleging it violated the shareholders’ equity rights and that the act was an attempt to keep foreign shareholdings within constitutional limits. The trial court and subsequently the Court of Appeals declared the complaint a nuisance or harassment suit, and the resolutions were affirmed. De Leon’s heirs pursued the case after his death, escalating the matter to the Supreme Court under a Petition for Review on Certiorari.

Issues:

1. Whether PD 217 prohibited PLDT from redeeming its Subscriber Investment Plan preferred shares.
2. Whether PLDT’s redemption of the Subscriber Investment Plan circumvented the nationality requirement for public utilities under the Constitution and the SC ruling in *Gamboa*.
3. Whether De Leon’s Complaint constituted a nuisance or harassment suit.
4. Whether the validity of additional preferred shares created during the Special Stockholders Meeting could be raised before the Court of Appeals.

Court's Decision:

The Supreme Court denied the Petition for Review on Certiorari, affirming the decision and resolution of the Court of Appeals. The Court held that PD 217 did not prohibit the redemption of preferred shares and also found no evidence of a supposed attempt to circumvent nationality requirements under the Constitution. The Court similarly agreed with the lower courts that De Leon's complaint was a nuisance or harassment suit since his shareholdings were unsubstantial, and at the time of the complaint's filing, he was no longer a preferred stockholder. The Court refrained from discussing the legality of the creation of additional preferred shares as it was not within the scope of the Complaint.

Doctrine:

1. A public utility corporation may issue and repurchase redeemable shares upon the expiration of a fixed period unless expressly prohibited by law.
2. In determining whether a complaint qualifies as a nuisance or harassment suit, the court should consider factors including the extent of the initiating shareholder's stake, the subject matter of the suit, the legal and factual basis of the complaint, and any prejudice or damage in relation to the relief sought.

Class Notes:

- The ownership and control of corporations, particularly public utilities, are subject to constitutional provisions ensuring a majority of Filipino ownership (60% Filipino-owned voting stock).
- Redeemable preferred shares are equity securities that can be repurchased by the issuing company at predetermined times and prices according to provisions in the corporation's charter or the stock's certificate of designation.
- The right to file a complaint within intra-corporate disputes is contingent upon the complainant having substantive interest at the time of filing.
- Extraordinary circumstances, such as transgressions of constitutional mandates or matters of significant public interest, may confer legal standing notwithstanding the relative magnitude of one's shareholdings.

Historical Background:

The issue arose within the backdrop of the Philippine government's policy of promoting domestic capital in public utilities against the expanding influence of foreign investments. This intersected with the Philippine jurisprudence on the control and ownership of corporations engaging in public utilities, an area tightly regulated to adhere to constitutional requirements for Filipino majority participation in such enterprises. The De

Leon case is situated within a series of legal challenges aimed at ensuring that PLDT, historically a significant telecommunications provider in the Philippines, complies with the nationality requirements set by the Constitution.