

Title: Salido Jr. vs. Aramaywan Metals Development Corporation, et al.

Facts:

Agapito A. Salido, Jr. (Salido), along with others, formed two corporations: Aramaywan and Narra Mining Corporation. An agreement was made where Cerlito San Juan (San Juan) would finance these companies, owning 55% of Aramaywan and 35% of Narra Mining in exchange. San Juan advanced P2.5 million as paid-up subscription for Aramaywan, as documented by a bank certificate indicating the amount in San Juan's name held in trust for Aramaywan.

Aramaywan was incorporated with nine named directors, with San Juan, his wife Corazon, and daughter Cristina Marie as directors alongside Salido and others - collectively forming the Salido faction and the San Juan faction. At Aramaywan's first Board Meeting, the Salido faction contested that San Juan only delivered around P932k, not the whole advanced amount. Salido then proposed to reduce San Juan's shares from 55% to 15%. There was ambiguity over whether San Juan consented to this.

A series of board meetings followed with resolutions passed by the Salido faction, including the controversial one reducing San Juan's shares and appointing new officers. In contrast, the San Juan faction persisted that they maintained control, holding their meetings and filing independent General Information Sheets with the SEC.

The San Juan faction then filed a complaint with the RTC to invalidate the Salido faction's acts, but the RTC dismissed their complaint. It ruled the agreement reducing San Juan's shares was valid, converting his reduced equity to treasury shares - a ruling the San Juan faction appealed to the CA.

Issues:

1. Whether Cerlito San Juan's shares in Aramaywan were validly reduced;
2. Whether Aramaywan had unrestricted retained earnings to convert such reduced shares into treasury shares;
3. Whether there was a valid consideration for the reduction of shares;
4. Whether the Board Resolutions from meetings called by the Salido faction were valid.

Court's Decision:

The Philippine Supreme Court held that the shares of San Juan were not validly reduced, and Aramaywan had no unrestricted retained earnings to convert them into treasury shares. It emphasized that such actions violated the trust fund doctrine, which creditors rely upon

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to satisfy their claims. Furthermore, the claimed reduction was void due to the lack of consideration, since San Juan fulfilled his subscription obligations and was not shown to be in breach of his duties regarding Narra Mining.

The Court upheld the validity of Board Resolutions not pertaining to the reduction of shares or changing of corporate address. The Court denied the petition and affirmed the CA's decision, which had refused to recognize both the share reduction and conversions into treasury shares.

Doctrine:

The trust fund doctrine states that the capital stock, property, and assets of a corporation are held in trust for the payment of corporate creditors. A corporation may not release its stockholders from the obligation to pay for their shares without a formal procedure, such as a delinquency sale, nor convert shares to treasury shares without unrestricted retained earnings.

Class Notes:

The trust fund doctrine protects corporate creditors by ensuring that the capital stock remains available to satisfy debts. Subscriptions to the capital are considered equity in trust for this purpose, and directors may not release or reduce this trust fund without a valid cause, consent, and adherence to statutory procedures.

Historical Background:

This case reflects the intricate nature of intra-corporate disputes in the Philippines and highlights tensions between accountability to shareholders and obligations to creditors within corporate governance. The decision underscores the importance of abiding by established legal frameworks to maintain corporate integrity and protect stakeholder interests.