

Title: Jesus V. Lanuza, et. al. vs. Court of Appeals, et. al. (G.R. No. 131714)

Facts:

In 1952, the Philippine Merchant Marine School, Inc. (PMMSI) was incorporated, with 700 founders' shares and 76 common shares as its initial capital stock subscription as per its Articles of Incorporation. However, in 1978, only 33 common shares were recorded as the issued and outstanding shares of PMMSI in its first stock and transfer book registration.

In 1979, a special stockholders' meeting was held using 27 common shares to constitute a quorum. Later, in 1982, the heirs of an original incorporator, Juan Acayan, successfully petitioned for the registration of ownership to 120 founders' shares and 12 common shares that belonged to their father. The Securities and Exchange Commission (SEC) ordered the election of a new set of officers after recording Acayan's shares.

On May 6, 1992, another special stockholders' meeting was held. Private respondents challenged the meeting's validity on the basis that the quorum should be based on the initial subscribed capital stock of 776 shares from the 1952 Articles of Incorporation, not the 165 shares per the stock and transfer book. The SEC En Banc agreed and mandated that a new election be based on the holdings reflected in the Articles of Incorporation.

The petitioners, who are also PMMSI stockholders, appealed to the Court of Appeals. Their appeal was consolidated with a similar case by others. However, the Court of Appeals affirmed the SEC's order. Petitioners then appealed to the Supreme Court, arguing the 1992 stockholders' meeting was valid and that reliance on the 1952 Articles of Incorporation negates the stock and transfer book's validity. They also contended that respondents must prove their entitlement to shares in a separate action.

Issues:

1. Whether the base for determining a quorum at a stockholders' meeting should be the outstanding capital stock as indicated in the articles of incorporation or that contained in the company's stock and transfer book.
2. Whether the decision applied in the Acayan case (Espejo decision) also benefits private respondents.

Court's Decision:

The Supreme Court denied the petition and upheld the Court of Appeals' decision. The Court emphasized the articles of incorporation over the stock and transfer book as a basis for determining shareholdings and quorum for several reasons:

1. The articles are binding to both the corporation and shareholders.
2. The 1952 Articles of Incorporation reflected 776 issued and outstanding shares at the time of PMMSI's incorporation.
3. The stock and transfer book records, though prima facie evidence of shareholdings, are not conclusive and can be contradicted by other evidence.
4. Disregarding articles of incorporation would be unjust to the rights of original incorporators and their successors in interest.

The Supreme Court also addressed the separate action for acknowledgment of shares, clarifying that while it did not declare who the individual owners of the shares are, it found that the articles of incorporation clearly showed the ownership of the shares in question.

Doctrine:

- The base for determining a quorum for a stockholders' meeting is "the total shares of stock issued to subscribers or stockholders [...] except treasury shares" based on the outstanding capital stock as indicated in the articles of incorporation.
- Shareholdings reflected in the articles of incorporation should take precedence over those in the stock and transfer book for determining a corporation's issued and outstanding shares.
- The articles of incorporation constitute the contractual relationship between the State, the corporation, and its stockholders.

Class Notes:

- Quorum calculation for stockholder meetings shall be based on the definition of "outstanding capital stock" as stated in the Corporation Code, which includes all shares issued to subscribers, whether fully or partially paid, except for treasury shares.
- The articles of incorporation are not only foundational documents but also bind the corporation and its shareholders, reflecting their initial contractual intentions.
- The stock and transfer book is not exclusive evidence of share ownership and may be supplemented or contradicted by other competent evidence.

Historical Background:

- The evolution of corporate law in the Philippines saw a shift from Act No. 1459, "The Corporation Law," to B.P. Blg. 68, "The Corporation Code of the Philippines," which provided updated definitions and procedures for corporate governance.
- The case illustrates the tension between historical documents (Articles of Incorporation) and records that ostensibly reflect the current state of affairs (stock and transfer book).

- The decision underscores the importance of adhering to foundational documents, avoiding potential disenfranchisement of initial stakeholders, and ensuring justice in the recognition of share ownership.