

Title: Lopez Realty, Inc. and Asuncion Lopez-Gonzales v. Spouses Reynaldo Tanjangco and Maria Luisa Arguelles-Tanjanco

Facts:

Lopez Realty, Inc. (LRI) co-owned several parcels of land and the Trade Center Building with Dr. Jose Tanjangco, whose share was later transferred to his son and daughter-in-law—that is, the spouses Reynaldo Tanjangco and Maria Luisa Arguelles (spouses Tanjangco). The primary parties in LRI included Asuncion Lopez-Gonzalez and Arturo F. Lopez, with significant shareholdings.

In a special meeting on July 27, 1981, a proposition was put forward to sell LRI's half-share of the Trade Center Building, but Asuncion countered the offer. An arrangement was reached giving Asuncion ten days to accept the Tanjangcos' offer, failing which the offer would be deemed accepted on her behalf.

Asuncion did not exercise her option within the period. Consequently, a special meeting was held by the remaining board directors on August 17, 1981, with Asuncion absent and abroad. The meeting authorized Arturo to negotiate the sale. On August 25, 1981, a Deed of Sale was executed in favor of Jose Tanjangco, represented by his son, Manuel. Asuncion tried to intervene by sending cablegrams requesting the sale not proceed.

Subsequent meetings had conflicting outcomes. On September 1, 1981, the sale was postponed. But on September 16, 1981, the board differed action until Asuncion and Arturo resolved the matter. Despite this, a re-execution of the transaction occurred on October 5, 1981, with the spouses Tanjangco as designated buyers, reflecting the same terms as the initial deed.

A civil case was initiated by LRI and Asuncion (the petitioners) contending the sale was unauthorized due to the lack of notice to Asuncion about the August 17, 1981 board meeting and alleging revocation by subsequent board resolutions. A temporary restraining order was issued on November 11, 1981, to prevent the Tanjangcos from completing the purchase payment and Arturo from accepting it.

Disputes over the validity of the sale and the legal standing of Asuncion, who claimed to be filing the case as a derivative suit, ensued, with arguments focusing on the appropriate forum for the case and the sufficiency of votes to authorize the sale. Several motions were filed, questioning the propriety of the initial proceedings.

On July 30, 1982, a stockholders' meeting purportedly ratified the decision to sell the building.

The case went through various procedural challenges before the Regional Trial Court (RTC) and the Securities and Exchange Commission (SEC), with Asuncion filing numerous complaints and the parties even attempting a compromise settlement at one point. Despite these attempts, formal agreement could not be reached.

On June 25, 1997, the RTC declared the sale null and void, directing the restoration of titles and ordering the accounting of rentals collected by the Tanjangcos. They were also instructed to return the P1,800,000.00 to LRI and to pay attorney's fees. Both sides appealed to the Court of Appeals (CA), which reversed the RTC decision, upholding the sale and Arturo's authority. The CA cited the lack of notice being cured by ratification and found no perfect compromise agreement.

Issues:

1. Whether or not the August 17, 1981 board meeting had the authority to execute the sale, considering the lack of notice to Asuncion and whether such action was later ratified.
2. Whether or not Asuncion had the legal standing to file the case as a derivative suit on behalf of LRI.
3. Whether or not a compromise agreement between the petitioners and the Tanjangcos had been perfected requiring the latter to honor it and be held liable for damages for withdrawing from it.

Court's Decision:

The Philippine Supreme Court affirmed the CA's ruling in favor of the legality of the sale. The major points of the decision were as follows:

1. The Court found the August 17, 1981 Board Resolution initially lacked authority as Asuncion was not given notice of the meeting. However, a later July 30, 1982 Board Resolution cured this defect by voting to ratify the sale, despite arguments to the contrary regarding the number of votes in favor.
2. It upheld Asuncion's right to file a derivative suit, as she had been a shareholder at the time of the transaction complained of, exhausted intra-corporate remedies by making demands on the board (which they failed or refused to address), and the cause of action pertained to wrongdoing to the corporation, not to Asuncion personally.
3. Regarding the claim of a compromise agreement, the Court found that the agreement never progressed beyond the negotiation phase, and hence, the Tanjangcos could not be

bound by or held liable for a contract that was not perfected.

Doctrine:

The Court's decision reaffirmed principles relating to ratification of corporate acts, the standing of shareholders to file derivative suits, and the nature of contract formation, especially concerning compromise agreements.

Class Notes:

- In corporate settings, the lack of notice of board meetings can be cured by subsequent ratification by the shareholders.
- Shareholders may file derivative suits on a corporation's behalf if certain conditions are met, including shareholding at the time of the act, exhaustion of intra-corporate remedies, and the action pertains to harm done to the corporation.
- For a contract to be considered perfected, including compromise agreements, there must be a concurrence of offer and acceptance on the subject and terms of contract; backing out during negotiations does not typically incur liability unless there is proof of a perfected agreement.

Historical Background:

This case exemplifies the complexity of intra-corporate disputes and the mechanisms for resolution provided under Philippine law. It also highlights the significance of corporate governance rules, shareholder's rights, and the consequences of procedural irregularities. The impact of such disputes on corporate stability and minority shareholder protection are relevant considerations in the historical development of corporate jurisprudence.