

Title: Philippine Associated Smelting and Refining Corporation vs. Pablito O. Lim, Manuel A. Agcaoili, and Consuelo M. Padilla

Facts:

Philippine Associated Smelting and Refining Corporation (PASAR) is a corporation engaged in copper smelting and refining in the Philippines. The respondents, Pablito O. Lim (Lim), Manuel A. Agcaoili (Agcaoili), and Consuelo M. Padilla (Padilla), are former senior officers and current shareholders of PASAR, holding 500 shares each.

The conflict began when PASAR filed an Amended Petition for Injunction and Damages dated February 4, 2004, with a prayer for Preliminary Injunction and/or Temporary Restraining Order to restrain respondents from demanding inspection of its confidential and nonexistent records. On February 23, 2004, respondents filed a Motion to Dismiss the petition on various grounds such as lack of cause of action and improper venue.

Despite this Motion to Dismiss, the Regional Trial Court (RTC) granted PASAR's prayer for a writ of preliminary injunction on April 14, 2004, preventing respondents from inspecting records classified as confidential or nonexistent until further court orders. Respondents then filed a Motion for Dissolution of the writ on May 26, 2004, arguing that the petition was insufficient and no irreparable injury justified the injunction. The RTC rejected this on January 10, 2005.

Aggrieved, Lim, Agcaoili, and Padilla sought relief from the Court of Appeals via a Petition for Certiorari, questioning the validity of the injunction. The Court of Appeals found no basis for the injunction and lifted it.

PASAR then filed a Petition for Review on Certiorari to the Supreme Court challenging the Court of Appeals' decision. It sought to reinstate the preliminary injunction granted by the RTC and to stop respondents from further demanding the inspection of confidential records. The Supreme Court required the respondents to comment on the petition, which they did through separate representations.

Issues:

1. Whether injunction properly lies to prevent respondents from invoking their right to inspect.
2. Whether the Court of Appeals erred in lifting the writ of preliminary injunction.

Court's Decision:

The Supreme Court denied the petition and upheld the decision of the Court of Appeals.

- On the first issue, the Court stated that the right of a stockholder to inspect corporate books and records is a fundamental part of being a stockholder and cannot be undermined unless in specific circumstances, which must be defensively proven by the corporation. PASAR did not raise these defenses properly and thus could not use the injunction to deny inspection rights.

- On the second issue, the Court held that the Court of Appeals correctly found the RTC's issuance of a preliminary injunction as a grave abuse of discretion. The appellate court rightfully utilized a petition for certiorari to lift the injunction, rendering PASAR's procedural arguments regarding dissolution moot.

Doctrine:

A corporation's objections to a stockholder's right to inspect records must be raised defensively, with sufficient evidence if it is to be recognized judicially. The proper remedy for enforcing the right of inspection lies with the stockholder through a writ of mandamus, not a petition for injunction filed by the corporation.

Class Notes:

- The right to inspect under Section 74 of the Corporation Code is subject to limitations regarding the stockholder's good faith and legitimate purpose, which must be raised defensively by the corporation.
- The burden of proving bad faith or illegitimate purpose lies with the corporation.
- A writ of preliminary injunction requires an actual existing right to be protected and its actual or threatened violation.
- Injunctions are not designed to protect contingent or future rights and cannot be granted on allegations without evidence of an actual right.
- An action for injunction filed by a corporation is generally unavailable to prevent stockholders from exercising their right to inspection of records.

Historical Background:

The case reflects the clash between corporate confidentiality and the statutory rights of stockholders to inspect corporate records. It underscores the balance the law strikes between corporate governance and transparency in order to protect the interests of shareholders and promote fair and informed participation in corporate affairs. The decision reiterates the fundamental principle that corporate actions are subject to scrutiny by the

stockholders and affirms their statutory right to inspect corporate records, subject to specific defenses that must be affirmatively proved by the corporation. The historical development of corporate governance in the Philippines places emphasis on the rights of stockholders and the accountability of corporate management, as encapsulated in this case.