Title: **Ago Realty & Development Corporation v. Dr. Angelita F. Ago, et al.**

Facts:
Ago Realty & Development Corporation (ARDC), headed by Emmanuel F. Ago, sued Dr. Angelita F. Ago, accusing her of constructing unauthorized improvements on ARDC-owned lots. Angelita allegedly built structures and encroached on the lands without necessary board resolution. Teresita Paloma-Apin and Maribel Amaro, involved as Angelita's associates, were also made parties to the suit filed before the Legazpi City Regional Trial Court (RTC).

In response, Angelita and the other defendants claimed that ARDC, lacking a board resolution authorizing the suit, had no standing to sue, insisting that Emmanuel and his wife Corazon, in their personal capacities, were not the real parties in interest. The RTC ruled in favor of Angelita, dismissing the complaint and ordering Emmanuel and Corazon to jointly pay damages to the defendants, citing the plaintiffs' lack of cause of action due to ARDC's absence of board authorization.

ARDC and Emmanuel et al., as well as Angelita, separately appealed to the Court of Appeals (CA), questioning the RTC's decision, including the damages awarded. The CA affirmed the dismissal, emphasizing the need for a board resolution to initiate a derivative suit, but deleted the award for damages and attorney's fees due to lack of merit and evidence.

Unsatisfied, both parties escalated the issue to the Supreme Court citing the CA's rulings.

Issues:
1. Whether Emmanuel, et al., as majority shareholders of ARDC, could institute a derivative suit in the corporation's name absent a board resolution.
2. Whether the grant of moral damages and attorney's fees in favor of Angelita is warranted.

Court's Decision:
The Supreme Court upheld the CA's decision, emphasizing that corporate litigation must generally be authorized by the corporation's board of directors. The Court recognized the derivative suit as an exception for minority shareholders when the board unjustly refuses to sue, but clarified that majority shareholders with control over the board cannot bypass it through derivative suits. The Court also agreed with the CA's deletion of damages and attorney's fees due to the absence of malice in the case's filing.

Doctrine:

The powers of a corporation, including the authority to sue, are exercised by its board of directors, not by its shareholders absent specific circumstances that warrant a derivative suit. A derivative suit is an equitable remedy of last resort for minority shareholders to seek redress on the corporation's behalf when the board wrongfully refuses to act. Exhaustion of internal remedies and specific pleadings are required to institute a derivative suit, and controlling shareholders cannot avoid the necessity of board-sanctioned litigation.

Class Notes:
– Corporations must act through their board of directors, which is authorized to sue or be sued on behalf of the corporation.
– A derivative suit is a minority shareholder's tool to address corporate wrongs if the board refuses to act.
– Derivative suits necessitate meticulous observance of legal requirements, including an attempt to exhaust internal remedies.
– Majority shareholders are generally expected to seek redress through board resolutions, not derivative suits.
– Key statutory provisions: Batas Pambansa Blg. 68 (Corporation Code) Sections 23, 36, 97, and the Revised Corporation Code (Republic Act No. 11232).

Historical Background:
The case illustrates the evolution of corporation law in the Philippines. From the Spanish Code of Commerce to the American Corporation Law (Act No. 1459) and ultimately the modern Corporation Code (Batas Pambansa Blg. 68), the firm principle is the separation of powers within a corporation. The use of derivative suits has been shaped over the years to address minority shareholder grievances when corporate governance fails to protect the interests of the corporation. With the introduction of the recent Revised Corporation Code, corporations saw further streamlining and modernization, yet the core doctrines relating to corporate governance have broadly remained consistent.