Title: National Exchange Co., Inc. v. I. B. Dexter

Facts:
On August 10, 1919, I. B. Dexter signed a subscription agreement for three hundred shares of the capital stock of C. S. Salmon & Co. In the agreement, it was stipulated that payment for the shares would be made from the first dividends declared by the company on the shares owned by Dexter at the time dividends were declared. In January 1920, a dividend was declared and Dexter paid P15,000, partly from the dividend and partly from his funds. No further dividends were declared, and thus, no additional payments were made towards the subscription. As a result, a balance of P15,000 remained unpaid.

The National Exchange Co., Inc., an assignee of C. S. Salmon & Co. through the Philippine National Bank, filed a suit in the Court of First Instance of Manila to recover the unpaid balance of the subscription, plus interest and costs. The trial judge ruled in favor of the plaintiff, ordering Dexter to pay the balance with lawful interest from January 1, 1920, and costs. Dexter appealed to the Supreme Court of the Philippines.

Issues:
The primary legal issue was whether the stipulation in the subscription agreement, stating that the shares were payable from first dividends declared, relieved the subscriber from personal liability in an action to recover the value of the shares with respect to following the requirements of Philippine law on stock issuance and payment.

Court’s Decision:
The Supreme Court affirmed the trial court’s decision and held that the stipulation in question was invalid. The Court reasoned that under the Organic Act and the Corporation Law of the Philippines, corporations are prohibited from issuing stock except in exchange for actual cash or property equal to the par value of the stock or bonds issued. The stipulation allowing payment only from dividends would mean that if no dividends were declared, the subscriber would have no liability. This created an unlawful discrimination in favor of the subscriber and was contrary to the requirement of absolute equality among stockholders regarding liability on stock subscriptions. Therefore, the agreement was void as it lessened the capital of the company and amounted to a fraud upon the grantor of the franchise, creditors, and other stockholders.

Doctrine:
The Philippine Supreme Court reiterated the doctrine that a stipulation in a stock

subscription that relieves a subscriber from paying for the shares except from dividends on the stock is illegal and void. This is considered fraud upon the grantor of the franchise, future creditors, and other stockholders. Subscriptions to capital stock must comply with statutory and organic law requirements, necessitating payment either in cash or property equal to the full par value of the shares subscribed.

Class Notes:
– In corporate subscriptions, the equality of liability among stockholders is crucial.
– A subscription agreement must comply with statutory provisions requiring payment to be made in cash or equivalent property value.
– Stipulations that condition payment solely on future dividends and potentially relieve the subscriber from payment obligations if no dividends are declared are considered unlawful and void.
– Relevant Legal Statutes: Section 74 of the Organic Act of July 1, 1902, Section 28 of the Autonomy Act of August 29, 1916, and Section 16 of the Corporation Law (Act No. 1459 as amended by Act No. 2792).

Historical Background:
At the time of this case, the Philippines was governed by a mix of organic acts and statutes from the American colonial period. The legal provisions in question were rooted in the desire for fair business practices and equitable treatment of stockholders and creditors. The relevant statutory and organic law provisions reflected a policy against allowing subscribers to corporate stock to circumvent their financial obligations, thereby protecting the interests of other stakeholders and maintaining corporate capital integrity.