

Title:

Majority Stockholders of Ruby Industrial Corporation v. Miguel Lim, et al. (Management Committee Rehabilitation Case)

Facts:

Ruby Industrial Corporation (RUBY), a glass manufacturing company, experienced severe liquidity difficulties beginning in 1980. On December 13, 1983, RUBY filed for suspension of payments with the Securities and Exchange Commission (SEC), which was granted on December 20, 1983.

A management committee (MANCOM) was formed on August 10, 1984, comprising representatives from various stakeholders, including RUBY. Two rehabilitation plans were submitted: the BENHAR/RUBY Plan, proposed by the majority stockholders, and the Alternative Plan by the minority stockholders led by Miguel Lim. The BENHAR/RUBY Plan favored the majority stockholders' interests and would effectively place RUBY's assets beyond reach of unsecured creditors, while the Alternative Plan sought equitable payment to all creditors without securing additional loans.

The SEC Hearing Panel approved the BENHAR/RUBY Plan, but this was challenged through several appeals, culminating in a Court of Appeals (CA) decision that enjoined the plan's implementation and was later upheld by the Supreme Court (SC).

Despite injunctions, BENHAR paid off some of RUBY's secured creditors, which led to motions against the validity of those payments and assignments. The SEC nullified the deeds of assignment in favor of BENHAR.

A revised rehabilitation plan by the majority (Revised BENHAR/RUBY Plan) was submitted, and despite objections, the SEC approved it, creating a new management committee with BENHAR as a member. Again contested in court, the CA set aside the plan, a decision subsequently affirmed by the SC, highlighting the plan's irregularities and the undue advantages given to BENHAR.

Post-SC ruling, MANCOM filed for removal of the suspension order, while RUBY opposed, citing pending issues, including the questionable increase in majority shareholder holdings and an unapproved corporate life extension.

The SEC ordered the lifting of the suspension order, leading to appeals before the CA by the minority stockholders and MANCOM, which resulted in the CA setting aside the SEC order

and directing liquidation.

Issues:

1. Whether the SEC erred in dismissing RUBY's petition for suspension of payments.
2. If the lifting of the suspension order without ordering liquidation was valid.
3. Whether there was forum shopping when separate petitions were filed before the CA.
4. If the validity of RUBY's corporate life extension, capital infusion, and assignments were properly handled.

Court's Decision:

The Supreme Court (SC) denied the petitions for review on certiorari. It affirmed the CA's decision with the modification that the SEC must transfer the case to the Regional Trial Court (RTC) for liquidation supervision under R.A. No. 10142. The SC found the SEC erred in dismissing RUBY's petition for suspension of payments and in not proceeding with liquidation despite RUBY's financial incapability to rehabilitate and the irregularities involving the majority shareholders.

Doctrine:

The unwinding of nullified credit assignments of a debtor is critical for the fair settlement of creditor claims and the protection of all stakeholders according to the principle that no creditor should be preferred over another in case of suspension of payments or rehabilitation procedures. The SEC has the power for dissolution but not liquidation, which falls under the RTC's jurisdiction.

Class Notes:

- Pre-emptive rights of stockholders are subject to exceptions and restrictions but must be exercised within a reasonable period.
- Management committees can be formed during rehabilitation to manage and preserve a debtor's assets.
- Deeds of assignment executed in favor of new creditors during the suspension of payments may be nullified if found to be prejudicial to the debtor or other creditors.
- The SEC can order dissolution, but liquidation proceedings fall under RTC jurisdiction.

Historical Background:

The Ruby case illustrates the complex interactions within a corporation among majority stockholders, minority interests, creditors, and the management committee within the broader framework of the Philippine corporate recovery and insolvency laws. It reflects the

evolution of these laws and the shifting of insolvency jurisdiction from the SEC to the RTC, underlining the importance of equity and fairness in corporate governance and insolvency proceedings.