Title: Fleischer v. Botica Nolasco Co., Inc.

Facts: Henry Fleischer, the plaintiff, acquired five shares of stock from Manuel Gonzalez in Botica Nolasco Co., Inc. Despite repeated demands, the corporation refused to register the shares in Fleischer's name which led to Fleischer initiating a legal action on August 14, 1923, against the corporation in the Court of First Instance of Oriental Negros. Initially, the action was against the board of directors for refusal to register the shares and for damages amounting to P500. After a demurrer by the defendant was sustained, the plaintiff amended his complaint directly against Botica Nolasco Co., Inc.

The corporation asserted their preferential right to purchase the said shares at par value plus dividends as stipulated in Article 12 of their by-laws. Fleischer refused the offer from the corporation. The lower court overruled another demurrer by the corporation and, after proceeding to trial, found in favor of Fleischer. The trial court determined that Article 12 of the corporation's by-laws was in conflict with Section 35 of Act No. 1459 (Corporation Law), ordering the registration of stocks in Fleischer's name. The defendant appealed the decision.

Issues:
– Whether Article 12 of the by-laws of Botica Nolasco Co., Inc. is in conflict with the Corporation Law (Act No. 1459), particularly with Section 35 which governs the transfer of stock shares.

Court's Decision:
The Supreme Court affirmed the ruling of the lower court. The Court held that Article 12 of the by-laws, granting the corporation a preferential right to acquire shares from retiring stockholders, is contrary to Section 35 of the Corporation Law (Act No. 1459). The said section expressly stipulates that shares of stock are personal property and may be transferred by the owner without restriction. The Court emphasized that the corporation has no power to restrain such transfers unless expressly conferred by statute or charter. Furthermore, the by-law in question cannot affect a third-party purchaser like Fleischer, who acquired the shares in good faith and without knowledge of the by-law.

Doctrine:
The power of a corporation to enact by-laws restraining the sale and transfer of stock must be expressly conferred by its governing statute or charter; a by-law cannot create restrictions or limitations on the transfer of stock that are inconsistent with the governing

law. By-laws must not violate property rights, be in restraint of trade, or impose obligations unknown to the law. The decision enforces the principle that shareholders have the right to transfer their shares without undue restraint imposed by corporate by-laws.

Class Notes:

– Shares of stock in a corporation are considered personal property that may be freely transferred, subject to the provisions of the Corporation Law.
– Any limitation on the transferability of corporate shares must be expressly authorized by law or charter.
– By-laws cannot impose restraints on property rights or engage in restraint of trade unless so authorized.
– In disputes over share registration, courts may use mandamus to compel corporate officers to effectuate the transfer on the books of the corporation when the owner's right to transfer is clear.
– Relevant statute: "No transfer, however, shall be valid, except as between the parties, until the transfer is entered and noted upon the books of the corporation." (Act No. 1459, Section 35)

Historical Background:

Botica Nolasco Co., Inc. was operating under Philippine corporate law, with by-laws that included preferential rights to stock repurchases. The case arose during the American colonial period when the Philippines' legal system integrated principles of American corporate jurisprudence. The Supreme Court's application of American corporate law principles illustrates the judicial approach to ensure that by-laws align with statutory requirements, protecting shareholder rights against unauthorized corporate limitations.