

Title: *Datu Tagoranao Benito v. Securities and Exchange Commission and Jamiatul Philippine-Al Islamia, Inc.*

Facts:

Datu Tagoranao Benito was a shareholder of respondent Jamiatul Philippine-Al Islamia, Inc. (originally Kamilol Islam Institute, Inc.), which had its Articles of Incorporation approved by the SEC on December 14, 1962. The corporation's capital was set at P200,000.00, with Benito subscribing to P4,600.00 worth of shares. The corporation then increased its capital stock to P1,000,000.00 on October 28, 1975. A stockholders' meeting on November 25, 1975 approved the increase, with P110,980.00 worth of shares subsequently issued from the unissued original capital stock. Benito, being out of the country and not notified of the meeting, claimed the issuance violated his pre-emptive rights and that the capital increase was illegal for lack of proper notice.

Benito appealed to the SEC to cancel these new shares, to register shares he acquired from other shareholders, and to compel an accounting of funds from the corporation. The SEC, after a hearing, ruled in favor of the corporation, asserting that the issuance of shares without notice did not invalidate the transaction, that pre-emptive rights did not apply to the additional issue of originally authorized shares, and that the capital increase was valid. The commission directed the corporation to cancel certain stock certificates and issue them in Benito's name, comply with the requirement to file annual financial statements, and declared the election of trustees on October 30, 1976 irregular. A stockholders' meeting was ordered to elect a new set of trustees.

Benito then petitioned the Supreme Court for review by way of appeal, maintaining the invalidity of the share issuance, the illegality of the capital increase, and asserting a claim for damages.

Issues:

1. Whether the issuance of 11,098 shares without consent or consideration was valid.
2. Whether the increase in authorized capital stock from P200,000.00 to P1,000,000.00 was valid.
3. Whether Benito had the right to exercise his pre-emptive rights over the unissued shares and was entitled to subscribe to the increased capital stock.
4. Whether Benito was entitled to attorneys' fees, damages, and litigation expenses.

Court's Decision:

The Supreme Court affirmed the SEC's decision finding no merit in the petitioner's claims. The Court held:

1. The board of directors has the power to issue stocks, and additional issuance of originally authorized shares does not require the approval of the stockholders. The issuance was valid.
2. A stockholders' meeting did take place, approving the capital increase. Benito's failure to be notified did not invalidate the meeting, though it does entitle him to subscribe to the increased capital proportionate to his existing shares due to his non-waiver of pre-emptive rights.
3. Pre-emptive rights did not apply to the shares in question based on the established understanding that original subscribers are assumed to have accepted their proportionate part in the context of all authorized shares.
4. The claim for attorneys' fees, damages, and litigation expenses lacked merit.

Doctrine:

The case reiterates that the unilateral issuance of shares by a corporation does not require the approval of the stockholders and that administrative agencies' findings of fact are binding upon the courts unless their decisions lack jurisdiction, are unconstitutional, arbitrary, or made with grave abuse of discretion. The pre-emptive right of a stockholder is exercised only with respect to new issues of stock and not additional issues of originally authorized stock.

Class Notes:

1. Board of Directors' Authority: The issuance of shares within the originally authorized capital stock is within the board of directors' powers and does not require stockholders' consent.
2. Pre-emptive Rights: Stockholders have pre-emptive rights to subscribe to new issues of shares.
3. Notice and Consent for Capital Increase: A corporate increase in authorized capital stock requires stockholder approval, typically obtained at a duly convened stockholder meeting.
4. Legal Principle Cited: "[F]indings of fact by an administrative board or official, following a hearing, are binding upon the courts and will not be disturbed except where the board or official has gone beyond his statutory authority..." [Delua vs. Casteel, L-21906, Dec. 24, 1968].

Historical Background:

At the time of this case, corporate law in the Philippines was undergoing a development phase, reflecting a mixture of the Spanish civil law tradition and the American influence on

corporation statutes. The case underlines the importance of the sanctity of corporate processes, stockholder rights, and the doctrine of the finality of decisions made by administrative bodies such as the SEC, illustrating the legal landscape of corporate governance within the Philippine jurisdiction. It also emphasizes the role of the SEC in overseeing corporate transactions and protecting stockholder interests in the Philippines.