

Makati Sports Club, Inc. vs. Cecile H. Cheng, MC Foods, Inc., and Ramon Sabarre

Title:

Makati Sports Club, Inc. (MSCI) vs. Cecile H. Cheng, MC Foods, Inc., and Ramon Sabarre

Facts:

On October 20, 1994, the Board of Directors of Makati Sports Club, Inc. (MSCI) adopted a resolution authorizing the sale of 19 unissued shares at a floor price of PHP 400,000 for Class A shares and PHP 450,000 for Class B shares. Cecile H. Cheng had been a Treasurer and Director of MSCI in 1985.

- **October 20, 1994:** MSCI Board authorizes sale of 19 unissued shares.
- **July 7, 1995:** Joseph L. Hodreal expressed interest in purchasing a share, specifically requesting that his name be added to the waiting list.
- **November 1995:** MC Foods expressed interest in acquiring a share of MSCI.
- **November 28, 1995:** MC Foods paid MSCI PHP 1,800,000 for the share via manager's check from Allied Banking Corporation.
- **December 15, 1995:** Deed of Absolute Sale executed between MSCI and MC Foods, which was signed by Cheng.
- **December 27, 1995:** MC Foods sent a letter to MSCI offering the resale of the share for PHP 2,800,000.

During this same period, Hodreal paid MC Foods PHP 1,400,000 on November 24, 1995, and another PHP 1,400,000 on December 27, 1995, totaling PHP 2,800,000 for the share.

After an investigation conducted by MSCI in 1997, a prima facie case indicated Cheng's fraudulent participation due to her insider knowledge. Subsequently, MSCI sought damages totaling PHP 1,000,000, which represents the alleged amount defrauded plus interest and damages.

- **August 20, 2003:** RTC dismissed MSCI's complaint.
- MSCI then appealed the RTC's decision to the Court of Appeals (CA).
- **June 25, 2007:** CA affirmed the trial court's decision.

Issues:

1. Did the respondents Cheng and Sabarre defraud MSCI?
2. Was there any fraudulent participation by Cheng in the sale of MSCI's unissued Class A

share to MC Foods, Inc.?

3. Did MC Foods, Inc. act in bad faith by reselling the share at a profit?

Court's Decision:

The Supreme Court denied the petition and upheld the decision of the Court of Appeals, which affirmed the RTC's dismissal of the complaint filed by MSCI.

Issue 1: Fraudulent Actions by Cheng and Sabarre

****Resolution:**** The Court ruled that there was insufficient evidence proving fraudulent participation by Cheng despite MSCI's claims. The asserted irregularities and Cheng's involvement did not present compelling evidence of fraud.

Issue 2: Fraudulent Participation by Cheng

****Resolution:**** The Court found that Cheng acted on behalf of MC Foods and that MSCI failed to prove that she profited personally from the sale. There was no clear and convincing proof of fraudulent behavior directly attributable to Cheng. The burden to establish fraud was on MSCI, which it failed to meet.

Issue 3: Bad Faith by MC Foods

****Resolution:**** The resale by MC Foods followed a procedural and lawful process, including giving MSCI the pre-emptive right to repurchase the share within a 30-day period, as stipulated in MSCI's by-laws. MSCI did not avail of this right, and MC Foods legally sold the share to Hodreal after this period lapsed.

Doctrine:

- **Burden of Proof in Fraud Cases:**** Fraud must be established by clear and convincing evidence as held in ***Rementizo v. Heirs of Pelagia Vda. de Madarieta*** (G.R. No. 170318) and cannot be presumed.
- **Execution and Registration of Share Transfers:**** The acquisition of stock rights upon payment and execution of deeds, even prior to the issuance of the stock certificate, is valid and binding.

Class Notes:

- ****Corporate Law:**** Procedures and rights concerning the issuance and transfer of corporate shares.
- ****Fraud:**** Legal standards requiring the establishment of clear and convincing evidence to prove fraud.
- ****Pre-emptive Rights:**** The right of existing shareholders to purchase additional shares

before the shares are offered to new shareholders.

- **By-Laws Application:** Corporations must adhere to internal by-laws governing share transactions and transfers.

Relevant Legal Provisions:

- **Civil Code, Art. 1461:** Things having a potential existence may be the object of the contract of sale when subject to the condition of coming into existence.

- **General Corporation Law:** Restricts actions of corporations regarding issuance and transfer of shares.

Historical Background:

The context of the case revolves around corporate governance and the fiduciary duties of officers and directors within a corporation. This case provides a detailed exploration into the procedures and policies that govern the sale and transfer of corporate shares, emphasizing the importance of adherence to internal regulations and the evidentiary requirements to prove fraudulent activity within corporate transactions.