

Title:

Magallanes Watercraft Association, Inc. vs. Margarito C. Auguis and Dioscoro C. Basnig,
G.R. No. 194964-65, January 11, 2016

Facts:

- **Parties Involved**: The petitioner is Magallanes Watercraft Association, Inc. (MWAI), represented by its Board of Trustees. The respondents are Margarito C. Auguis and Dioscoro C. Basnig, both members and officers of MWAI.
- **Initial Incident**: On December 5, 2003, MWAI's Board of Trustees passed a resolution suspending Auguis and Basnig's rights and privileges as association members for 30 days due to non-payment of membership dues and berthing fees. Auguis owed P4,059.00, while Basnig owed P7,552.00.
- **Further Actions by MWAI**: Despite the suspension, Auguis and Basnig did not settle their obligations, leading MWAI to issue another memorandum on January 8, 2004, extending their suspension for another 30 days.
- **Respondents' Legal Action**: On February 6, 2004, Auguis and Basnig filed an action for damages and attorney's fees, including a writ of preliminary injunction, before the Regional Trial Court (RTC) of Butuan City.
- **RTC's Decision**: On January 11, 2007, the RTC ordered Auguis and Basnig to pay their dues but also required MWAI to pay them actual damages and attorney's fees. Both parties appealed to the Court of Appeals (CA).
- **CA's Decision**: On March 14, 2013, the CA affirmed and modified the RTC's decision. The CA held that MWAI was guilty of an ultra vires act, as neither its Articles of Incorporation nor its By-Laws vested the Board with the power to impose disciplinary actions. The CA ruled that MWAI lacked the authority to suspend respondents' rights to operate their bancas, which resulted in financial loss for them. The CA awarded temperate damages instead of actual damages due to lack of evidence, and reduced attorney's fees. MWAI's motion for reconsideration was denied on January 17, 2014.
- **MWAI's Appeal to the Supreme Court**: MWAI filed a petition for review on certiorari under Rule 45 of the Rules of Court, questioning the award of temperate damages and attorney's fees.

Issues:

1. **Authority to Impose Disciplinary Actions**: Whether MWAI's Board of Trustees had the authority under its by-laws and articles of incorporation to suspend the respondents' rights and privileges.
2. **Ultra Vires Act**: Whether MWAI's actions constituted an ultra vires act beyond its

corporate powers.

3. **Award of Temperate Damages and Attorney's Fees**: The propriety of the CA's award of temperate damages and attorney's fees to the respondents.

Court's Decision:

- **On the Authority to Impose Disciplinary Actions**: The Supreme Court ruled that MWAI had the implied authority to impose sanctions on members for delinquency under its by-laws. Sections 3(a) and 3(c) of Article V of MWAI's By-Laws obliged members to comply with rules and pay dues. Hence, suspending rights for non-payment was within MWAI's implied powers.

- **On Ultra Vires Act**: The Court held that the suspension was not an ultra vires act. Utilizing the standard from *National Power Corporation v. Vera*, the Court found that MWAI's actions were lawful, reasonably necessary for corporate ends, and in direct furtherance of its business operations.

- **On Temperate Damages**: The Court found the award of temperate damages to be improper because MWAI's suspension of respondent's privileges was lawful. Therefore, respondents suffered *damnum absque injuria* (loss without injury), which does not entitle them to any form of damages.

- **On Attorney's Fees**: The Court ruled that awarding attorney's fees was unwarranted as respondents had litigated based on a mistaken belief in their cause's righteousness.

The Supreme Court reversed and set aside the CA's decision and dismissed the complaint for damages against MWAI for lack of merit.

Doctrine:

1. **Ultra Vires Acts**: An act that exceeds a corporation's powers explicitly granted by law or its articles of incorporation is ultra vires. However, actions necessary or incidental to the corporation's express powers and serving corporate ends are permissible.

2. **Implied Corporate Powers**: Corporations can perform acts that are necessary, incidental, and no less important to further corporate purposes even if not explicitly provided in the articles of incorporation or by-laws.

3. **Damnum Absque Injuria**: Damage without a legal wrong does not entitle the injured party to damages.

Class Notes:

- **Ultra Vires Acts**: Section 45, Corporation Code - Corporations cannot exercise powers beyond those conferred by law or the articles of incorporation, unless necessary or

incidental to those powers.

- ****Implied Corporate Powers****: Acts serving corporate ends and reasonably necessary to the corporation's goals can be within its implied authority.
- ****Temperate Damages****: Allowable under Article 2224, Civil Code, where pecuniary loss is shown but cannot be precisely quantified.
- ****Attorney's Fees****: Generally not awarded if litigation is pursued under a mistaken belief in the righteousness of a cause (Article 2208, Civil Code).

Historical Background:

This case provides insight into the exercise of corporate powers under the Philippine Corporation Code. The ruling emphasizes the importance of corporations adhering to their by-laws and articles of incorporation while also acknowledging the necessity of implied powers to ensure operational efficacy. The case echoes traditional legal principles regarding ultra vires acts and the rightful limits of corporate authority, situating it within a larger legal framework aimed at balancing corporate governance and member rights.