

LATCHME MOTOOMULL, AND MANUEL LACSON, PETITIONERS, VS. JOFFRE DELA PAZ, FILOMENA ARANAS, LADHO CHUGANI, BHAGWANI CHUGANI, THE COURT OF APPEALS, AND THE SECURITIES & EXCHANGE COM...

G.R. No. L-45302. July 24, 1990

Ponente: PARAS, J.

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PARAS, J.:

This is a petition for review on certiorari of the November 4, 1976 resolution* of the Court of Appeals in CA-G.R. No. 05108-SP denying the issuance of a writ of preliminary injunction and lifting the restraining order previously issued; and the December 17, 1976 resolution of the same court denying the motion for reconsideration.

All the parties in this case are stockholders of Sarkara Trading Corporation. Said corporation was incorporated on September 7, 1973, with an authorized capital stock of P2,000,000.00, divided into 200,000 shares of the par value of P10.00 per share. Of the authorized stock, 51,500 shares valued at P515,000.00 were subscribed, of which P300,000.00 was paid up. The incorporators of the corporation with their initial capital contributions, were

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NAME

NO. OF SHARES SUBSCRIBED

AMOUNT

AMOUNT

PAID ON SUBSCRIPTION

Pacifico Aranas

5,000

P 50,000

P 25,000

Filomena G.Aranas

5,000

50,000

25,000

Latchme J. Motoomull

10,000

100,000

70,000

Manuel Lacson

10,000

100,000

70,000

Joeffre T. de la Paz

10,000

100,000

70,000

Lilaram Parmanand

5,000

50,000

25,000

Bhagwandas L. Chugani

2,500

25,000

12,500

Ladho L. Chugani

2,500

25,000

12,500

Rosalina M. Jesswani

1,500

15,000

10,000

TOTAL

51,500

P515,000**P300,000**

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The initial directors of the corporations were herein petitioners Latchme Motoomull and Manuel Lacson; and herein private respondents Filomena G. Aranas, Joeffre de la Paz, and Bhagwani Chugani. The officers were Latchme Motoomul president; Manuel Lacson, treasurer; and Filomena Aranas, secretary. A few months after its incorporation, the resources of the corporation expanded considerably brought about by the big volume of transactions in sugar and other products and a relatively high profit in its first year of operation. The business activity on sugar, however, abruptly sagged, and the corporation decided to engage in other ventures. Such was the state of affairs of the corporation until some factors developed which caused disunity among the stockholders. It started on May 4, 1974 when, perhaps with the view of augmenting its paid-up capital, the Board of Directors approved Resolution No. 27, authorizing the issuance of unissued shares of stock on a one to one basis to its stockholders on or before June 30, 1974. However, it is claimed by petitioners that on May 23, 1974, the Board of Directors amended the said resolution through its Resolution No. 33, authorizing the issuance of unissued shares out of the capital stock on a one to two basis to its stockholders payable on or before August 31, 1974. The resolution was to be submitted for the approval of all the stockholders in a special meeting to be called for the purpose two weeks from the date of the resolution. Allegedly, the resolution was approved by the stockholders at a special meeting held on June 11, 1974, with the qualification that a stockholder may not be required to exercise his right under said resolution. The resolution was submitted to the Securities and Exchange Commission by its corporate counsel Ricardo A. Nava through a letter dated June 25, 1974, which also included the list of stockholders indicating the number of shares to be allotted each of them from the unissued shares of stock, as follows:

NAME OF

STOCKHOLDERS

NO. OF

YEARS

VALUE OF SHARES

Latchme Motoomull

500

P 50,000.00

Joeffre de la Paz

500

50,000.00

Manuel Lacson

500

50,000.00

Filomena Aranas

250

25,000.00

Pacifico Aranas

250

25,000.00

Ladho L. Chugani

125

12,000.00

Bhagwandas L. Chugani

125

12,500.00

Lilaran Parmanand

250

25,000.00

Rosalina Jesswani

75

7,500.00

TOTAL

2,500

P257,500.00

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Petitioners Latchme Motoomull and Manuel Lacson purchased unissued stock in accordance with the resolution and within the period stated therein, while the other stockholders did not exercise their right. Payment of the exemption fee, however, was made only on November 29, 1974 and as such, the certificate of exemption or

resolution granting the same was issued by the Securities and Exchange Commission only on December 4, 1974. Meanwhile, because the by-laws provided that the annual stockholders' meeting should be held on the second Saturday of September of each year, a written notice for the holding thereof on September 14, 1974 was circularized on August 19, 1974 among the stockholders. The meeting was, however, advanced to September 11, 1974, after notification of the stockholders by telephone allegedly upon the request of Mr. and Mrs. Pacifico Aranas who were slated to leave on September 14, 1974 for Japan. The other stockholders allegedly agreed to this request. On this adjusted date, the meeting was held presided over by Manuel Lacson upon his designation by the President, petitioner Latchme Motoomull. During that meeting a financial statement was submitted, but the same was not approved by the stockholders. Thereafter, petitioner Lacson announced that an election for the members of the board of directors would be held. This was protested by private respondents who instead moved that the present set of officers be considered reelected. This was not given due course by petitioner Lacson who then distributed the ballots. The voting was by secret ballot, utilizing the cumulative system. Thereafter, the votes were canvassed by Mr. Despi, an accountant, who announced the result which showed that petitioners Lacson and Motoomull garnered more votes than what they should have considering the actual number of shares subscribed. The other stockholders, particularly the private respondents, evinced surprise on the number of votes garnered by petitioners Motoomull and Lacson. Petitioner Lacson explained that the additional number of shares was a result of the exercise of their rights to the additional shares of stocks taken from the unissued shares, as authorized by the stockholders in Resolution No. 33. This started the commotion, resulting in the walk-out of some stockholders. On September 14, 1974, another meeting was held, the proceedings of which appeared merely to be a repetition of the September 11 meeting. The minutes thereof (Exh. '27') show that the only stockholders present were Manuel Lacson, Latchme Motoomull, and Rosalina Jesswani. Nevertheless, the meeting was held, with Rosalina Jesswani acting as the secretary. Another election was held by these stockholders, resulting in the alleged election of the following as Directors, with the number of votes garnered indicated opposite their respective names –

Manuel V. Lacson.....	520,000
Latchme Motoomull	525,000
Rosalina Jesswani	510,000
Jeoffre de la Paz.....	10,000
Filomena Aranas.....	10,000

Proclamation No. G-74 (EXH. '27') was allegedly passed by the new members of the board of directors declaring the foregoing stockholders as directors of the Sarkara Trading Co., Inc., for the fiscal year 1974-75. The foregoing incident was apparently the ultimate reason which constrained the private respondents to institute action against petitioners.

First, private respondents filed Civil Case No. 11601, which is still pending trial in the then Court of First Instance of Negros Occidental. They filed a letter-complaint dated November 26, 1976 (Rollo, p. 75) with the Securities and Exchange Commission (SEC). In the said letter-complaint, the alleged acts committed by the petitioners that jeopardize their rights are:

“(a) Despite the provision in the by-laws fixing the date of the election of corporate directors, we were sent notices of a special meeting to be held earlier and then said officers rammed through a resolution for the election of directors on the earlier date.

“(b) In order to assure their election, said officers also surreptitiously acquired additional shares of stock from

the unissued shares of the corporation in derogation of our preemptive rights to purchase said shares.

"(c) We have insisted on the dissolution of the corporation in view of these development but have been unable to accomplish this due to the resistance of said officers.

"(d) We no longer have any control over the disbursements of corporate funds as there has been no meeting of the board of directors called.

"(e) We have been denied access to the corporate books and records and have been compelled to go to court to enforce this right."

After hearing, public respondent SEC rendered a decision dated May 9, 1975 (Rollo, pp. 42-45), the dispositive portion of which, reads:

"IN VIEW OF ALL THE FOREGOING, the Commission is of the opinion and so holds that the issuance of an additional 5,000 shares in favor of Latchme Motoomull and another 5,000 shares to Manuel Lacson on August 28, and 29, respectively or prior to the granting of the exception from registration thereof on December 4, 1974, is void under Section 38 of the Securities Act, and therefore, they could not have been legally voted by them in the said meetings of September 11 and 14, 1974. It follows that the said election of directors which would have had a different result had not the additional shares been utilized for voting, is null and void. Accordingly, the incumbents members of the board of directors at the time of the said meetings shall continue to hold office until their successors shall have been duly elected and qualified.

"For the purpose of electing their successors, the management of the corporation is hereby directed -

"1) to call a special meeting of the stockholders to elect the members of the board of directors for this year within a reasonable time but not later than one month from date of receipt of this order;

"2) to give all the stockholders the right to subscribe to additional shares in proportion to their holdings, pursuant to Resolution No. 33 dated May 23, 1974.

"This is necessary because the stockholders could not have legally exercised their right to subscribe up to the deadline fixed for subscription on August 31, 1974 as the exemption permit had not yet been secured from the Commission. Every stockholder shall be accorded full opportunity to subscribe or purchase shares in proportion to his holdings within a reasonable time prior to the date fixed for the new election of the board of directors.

"It shall, of course, be understood that those elected as directors in the special meeting of stockholders shall only hold office until the next annual election and qualification of the succeeding board of directors.

"We need not express our opinion on the other issues.

"SO ORDERED."

A Motion for Reconsideration was filed (Ibid., pp. 89-95), but the same was denied in an order dated February 5, 1976 (Ibid., p. 62)

Petitioners, on February 20, 1976, appealed to public respondent Court of Appeals under R.A. No. 5434, and on February 26, 1976, filed an Urgent Motion for Restraining Order and Preliminary Injunction (Ibid., pp. 63-74). Respondent Court of Appeals, in a resolution dated February 27, 1976, gave due course to the appeal and ordered the issuance of a restraining order (Ibid., p. 151).

On March 26, 1976, private respondents filed their opposition to petitioners' motion (Ibid., pp. 152-171), to which, petitioners filed their reply dated April 21, 1976 (Ibid., pp. 172-190) while private respondents filed a Rejoinder and Motion to Dismiss (Ibid., pp. 191-212).

After an extensive discussion of the issues by the parties in their pleadings, among which is to the effect that the Honorable Court of Appeals not only has no jurisdiction to issue the preliminary injunction prayed for, but altogether the Court has no jurisdiction to continue taking cognizance of the case because of the passage of P.D. No. 902-A which transferred the jurisdiction of the appeal from the Court of Appeals to the Supreme Court, Respondent Court of Appeals issued a resolution dated November 4, 1976 (Ibid., pp. 243-254), the decretal portion of which, reads:

"WHEREFORE, the appellant's motion for the issuance of a writ of preliminary injunction is hereby denied and the restraining order previously issued by this Court is hereby lifted."

A Motion for Reconsideration was filed (Ibid., pp. 255-261), but the same was denied in a resolution dated December 12, 1976 (Ibid., p. 273). Hence, the instant petition.

The First Division of this Court, after the parties had filed the required pleadings, in a resolution dated June 17, 1977 (Ibid., p. 319), resolved to give due course to the petition; and in a resolution dated July 20, 1977 (Ibid., p. 323), the case was declared submitted for decision.

The pivotal issue in this case is the meaning of the word "Court" as used in Section 5 of R.A. No. 5434, which reads:

"Sec. 5. Effect of appeal. - Appeal shall not stay the award, order, ruling, decision or judgment unless the officer or body rendering the same or the court, on motion, after hearing, and on such terms as it may deem just, should provided otherwise. The propriety of a stay granted by the officer or body rendering the award, order, ruling, decision or judgment may be raised only by motion in the main case."

Respondent Court of Appeals ruled that the word "court" in the said section refers to the Court of Agrarian Relations and not to the Court of Appeals, the former belonging to the group of bodies whose decision under R.A. 5434 is appealable to the latter. Otherwise stated, the power to stay the appealed decision clearly belongs to the lower court, officer or body rendering the decision, in this case to the SEC alone and not to the Court of Appeals.

On the other hand, petitioners maintain that the word "court" having been separated from the phrase officer or body rendering the same, refers to the Court of Appeals.

From the outset, the law unequivocally stated its declared objective that appeal shall not stay the appealed decision, award, order, etc. The exception given is where the officer or body rendering the same, or the court on motion, after hearing should provide otherwise. In line with the above objective, the law provides further that the propriety of a stay granted by the officer or body rendering the award, order, decision or ruling may be raised only by motion in the main case. Hence, the Court of Appeals correctly interpreted that if the adverse party intends to appeal from a decision of the SEC and pending appeal desires to stay the execution of the decision, then the motion must be filed with and be heard by the SEC before the adverse party perfects its appeal to the Court of Appeals (Rollo, p. 250).

By and large, such interpretation gives meaning and substance to the avowed purpose of the law where the need for immediacy of execution of decisions arrived at by said bodies, was recognized and considered imperative.

On the other hand, the contrary view would negate the expressed mandate of the law that appeal shall not stay the award, order, ruling, decision or judgment appealed from, should the appellate court and not the lower court or administrative body which tried the facts, be authorized to enjoin execution thereof.

More importantly, according to the maxim *noscitur a sociis* where a particular word or phrase is ambiguous in itself or is equally susceptible of various meanings, its correct construction may be made clear and specific by

considering the company of words in which it is found or with which it is associated (Gonzaga, "Statutes and Their Construction, p. 116 citing Black on Interpretation of Laws, 2d ed., pp. 194-196), or stated differently, its obscurity or doubt may be reviewed by reference to associate words (Luzon Stevedoring Co. v. Trinidad, 43 Phil. 804 [1922]). Accordingly, an interpretation which lead to patent inconsistency must be rejected as not in accordance with the legislative intent (Commissioner of Customs v. Philippine Acetylene Co., 39 SCRA 71 [1971]).

Thus, correct construction of the word "court" may be made clear by reference to Section 1 of R.A. No. 5434, where the court officer or bodies whose decision, award, etc. are appealable to the Court of Appeals, are enumerated as follows: Court of Agrarian Relations, the Secretary of Labor, the Land Registration Commission, the Securities and Exchange Commission, the Social Security Commission, the Civil Aeronautics Board, the Patent Office and the Agricultural Inventions Board.

From the said grouping, the enumeration in Section 5 is obviously derived and from which it is easy to see that the word "court" means Court of Agrarian Relations and not the Court of Appeals which by no stretch of the imagination can be deemed to belong to the same group.

As correctly stated by the Court of Appeals, while said Court possesses considerable power to issue writs of injunction either in the exercise of its original or in aid of its appellate jurisdiction, but where the law lodges the power to enjoin in some other body or court, as in the case at bar, the issuance of the writ by the Court of Appeals would constitute a virtual usurpation of authority on the part of said Court. Consequently, it is evident that R.A. 5434 merely grants the adverse party the right to appeal from such decision (Rolo, p. 253).

As to whether or not the Court of Appeals still has jurisdiction over this appeal which was perfected before P.D. 902-A transferring jurisdiction of the appeal to the SEC, is answered by this Court in the case of Bengzon v. Inciong (91 SCRA 248, 256 [1979]) in the affirmative. It was held:

"The rule is that where a court has already obtained and is exercising jurisdiction over a controversy, its jurisdiction to proceed to the final determination of the cause is not affected by new legislation placing jurisdiction over such proceedings in another tribunal. The exception to the rule is where the statute expressly provides, or is construed to the effect that it is intended to operate as to actions pending before its enactment. Where a statute changing the jurisdiction of a court has no retroactive effect, it cannot be applied to a case that was pending prior to the enactment of the statute. x x x."

The exception not having been provided in P.D. 902, it is obvious that the Court of Appeals retains its jurisdiction over the case despite the issuance of said decree.

Finally, while it may be desirable to remand this case to the Court of Appeals considering that, what is involved herein is merely an interlocutory order of said appellate Court but it is the consistent policy of this Court where public interests so demands, to broaden its inquiry into a case and decide the same on the merits rather than merely resolve the procedural question raised (Velasco v. Court of Appeals, 95 SCRA 616 [1980]). Applying the rule enunciated in Gayos v. Gayos (67 SCRA 146 [1975]) and reiterated in Alger Electric, Inc. v. Court of Appeals (135 SCRA 43 [1985]), the Court will always strive to settle the entire controversy in a single proceeding leaving no root or branch to bear the seeds of future litigation.

In view of the foregoing, it is evident that the disposition of the incident as well as the main issue in the case at bar is in consonance with an efficient administration of justice, now that the facts are before this Court.

The Securities and Exchange Commission carefully analyzed Section 30 and Section 38 of the Securities Act as amended and correctly arrived at the conclusion that under Section 30 thereof, the sale of the shares of stock made

in violation of the Act is merely voidable at the election of the purchaser who acts in good faith as when the latter is unaware, without his fault, that they have not been registered nor exempted from registration as provided by law. Consequently, such purchaser should not be deprived of his rights resulting from said purchase.

On the other hand, under Section 38 of said Act, the purchaser who acquires shares knowing that they are not registered nor exempted from registration participates in, and is equally guilty of the violation of law. Accordingly, he cannot be accorded any rights by virtue of such acquisition (Rollo, p. 51).

Applying the foregoing analysis to the case at bar, the SEC noted that the petition for exemption was filed on June 25, 1974, the exemption fee was paid on November 29, 1974 and the resolution exempting the share from registration was issued by the Commission only on December 4, 1974. Undoubtedly, therefore, the issuance of 10,000 additional shares on August 28 and 29, 1974 to Motoomull and Lacson respectively, which were divided equally between them, was made pending approval of the application for exemption. In the stockholders' meeting of September 11 and 14, 1974, these two stockholders made a surprise move by suddenly without the knowledge of private respondents utilized the additional shares for purposes of voting, thereby enabling them to gain control of the corporation.

Under the circumstances, Motoomull and Lacson, president and treasurer of subject corporation respectively, knew at the time they issued the shares in question to themselves that the exemption or filing fee had not yet been paid, much less has the corporation received the certificate or resolution of exemption from the Commission. They cannot, therefore, claim innocence of violation of law to whom the rights provided for under Section 30 of the Securities Act could be accorded. Consequently, the election of the Board of Directors which would have a different result had the additional shares not been utilized for voting was declared null and void and the incumbent members of the Board of Directors at the time of said meeting shall continue to hold office until their successors shall have been duly elected and qualified.

The foregoing view of the Securities and Exchange Commission can hardly be faulted.

This Court has time and time again reminded litigants that the interpretation of officers of laws which are entrusted to their administration is entitled to great respect (*Sierra Madre Trust v. Hon. Secretary of Agriculture, et al.*, 121 SCRA 38 [1983]), and have in their favor a presumption of legality (*Espanol v. Chairman PVA*, 137 SCRA 319 [1985]). Findings of administrative officials and agencies who have acquired expertise because their jurisdiction is confined to specific matters are generally accorded not only respect but at times even finality if such findings are supported by substantial evidence (*Lianga Bay Logging Co., Inc. v. Lopez Enage*, 152 SCRA 81 [1987]).

After a careful review of the records, no plausible reason could be found to disturb the findings and conclusions of the Securities and Exchange Commission. On the contrary, an opposite view would grant premium to violators of law and negate the very purpose for which it was enacted.

PREMISES CONSIDERED, the petition is hereby DENIED and the resolution of the Court of Appeals promulgated on November 4, 1976 in CA-G.R. No. 05108-SP and the decision of the SEC dated May 9, 1975, both entitled "*De la Paz v. Motoomull, et. al.*," are AFFIRMED.

SO ORDERED.

Melencio-Herrera, (Chairman), Padilla, Sarmiento, and Regalado, JJ., concur.

* Seventh Division; penned by Associate Justice Ramon C. Gaviola, Jr. and concurred to by Associate Justices

Mariano Serrano and Lorenzo Reolova.

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