Title: **Makati Sports Club Board Dispute: Bernas vs. Cinco**

Facts:

1. The Makati Sports Club (MSC) is a domestic corporation in the Philippines focused on providing social, cultural, recreational, and athletic activities to its members.
2. The Bernas Group, including Jose A. Bernas, Cecile H. Cheng, and others, served as the Board of Directors and Officers of MSC with tenures expected to expire by 1998 or 1999.
3. The Cinco Group, including Jovencio Cinco, Ricardo Librea, and Alex Pardo, sought to replace the Bernas Group due to alleged mishandling of corporate funds.
4. The MSC Oversight Committee (MSCOC), comprising past Club presidents, intervened at the behest of stockholders who represented at least 100 shares, demanding the resignation of the Bernas Group and calling for a special stockholders' meeting.
5. Despite petitions for injunction, the special meeting on December 17, 1997, was held where the Bernas Group was removed, and the Cinco Group was installed.
6. The Bernas Group challenged the validity of the meeting before the Securities and Exchange Commission (SEC), citing it was improperly called, as the authority to call such meetings lies with the Corporate Secretary and not with the MSCOC.
7. Subsequent ratifications of the meeting were held during the Annual Stockholders Meetings on April 20, 1998; April 19, 1999; and April 17, 2000.
8. The newly elected Cinco Group Board investigated Bernas, expelled him, and auctioned his shares.
9. The SEC's Securities Investigation and Clearing Department (SICD) invalidated the special meeting and annulled subsequent ratifications and the expulsion of Bernas.
10. The SEC En Banc reversed this decision, validating the special and subsequent annual stockholders' meetings.
11. The Court of Appeals declared the December 17, 1997, meeting invalid but upheld subsequent annual stockholders' meetings.

Issues:

1. Whether the December 17, 1997, Special Stockholders' Meeting was validly called.
2. Whether the annual stockholders' meetings held on April 20, 1998, April 19, 1999, and April 17, 2000 were valid, including their ratifications of the prior meeting.

Court's Decision:

1. **Validity of December 17, 1997, Special Stockholders' Meeting:**
– The Supreme Court held the meeting as invalid since it was called by MSCOC, which wasn't authorized under the Corporation Code or MSC by-laws. The power to call such

meetings belongs exclusively to the Corporate Secretary on order of the President or upon written demand by shareholders.
– Therefore, the removal of the Bernas Group and the election of the Cinco Group were null and void from inception (void ab initio).

2. **Validity of Annual Stockholders' Meetings:**
– Unlike the Special Stockholders' Meeting, the annual stockholders' meetings were procedurally compliant with the MSC by-laws stipulations (Section 8), conducted on set dates for annual meetings.
– The 1999 meeting, supervised by the SEC, was held under the regulatory and administrative powers to implement the Corporation Code.
– Thus, subsequent annual stockholders' meetings were deemed valid, but the ratifications of the illegal December 17, 1997 meeting cannot cure its fundamental defects.
– The expulsion of Bernas and the sale of his shares, initiated by the improperly elected Cinco Group, were declared void.

Doctrine:
– **Corporate Meeting Authority:** Only the President or the Board of Directors, or in their failure, the SEC upon stockholders' petition, holds the authority to call corporate meetings.
– **Void Acts:** An act contrary to statutory authority (here, corporate meeting calls) is void ab initio and cannot be ratified by subsequent meetings.
– **Ultra Vires vs. Illegal Acts:** Ultra vires acts can be ratified, while illegal acts, contrary to law, cannot.

Class Notes:
– Section 28 of the Corporation Code details the procedural and authority requirements for removing corporate directors.
– Section 50 of the Corporation Code allows the SEC to order calling of meetings when authorized persons fail to do so.
– Differentiate an act's legality: ultra vires (beyond corporate powers but not illegal, ratifiable) vs. void (illegal, not ratifiable).
– Ensure corporate by-laws align with statutory requirements and are strictly adhered to, especially in governance and disputes.

Historical Background:
– The case underscores the evolution of corporate governance in the Philippines, highlighting the rigid adherence to statutory procedures, judicial oversight, and reinforcing

principles of corporate legality. The backdrop involves alleged corporate malpractice, emphasizing regulatory frameworks to curb misuse of corporate powers, reinforcing statutory compliance, and ensuring fair shareholder practices. This legal context stems from clamorous demand for transparency and accountability in corporate governance, resonating with broader reforms over corporate conduct and oversight in the country.