

****Title:** Ramon de la Rama et al. vs. Ma-ao Sugar Central Co., Inc. et al.**

****Facts:****

- In October 20, 1953, four minority stockholders filed a representative or derivative suit in the Court of First Instance (CFI) of Manila against Ma-ao Sugar Central Co., Inc. and its directors.

- The complaint spanned from November 1946 to October 1952, alleging:

1. Illegal and ultra-vires acts including self-dealing, irregular loans, and unauthorized investments.
2. Gross mismanagement.
3. Forfeiture of corporate rights warranting dissolution.
4. Claims for damages and attorney's fees.
5. Application for receivership.

- Plaintiffs sought: accounting, recovery of diverted funds, return of unauthorized withdrawals, dissolution of the corporation, and P300,000 in damages.

- Defendants denied the allegations and raised affirmative defenses, claiming complaint was premature and that no losses were suffered. They also counterclaimed for damages due to the allegedly malicious nature of the complaint.

- After trial, the CFI dismissed the petition for dissolution but ordered defendant J. Amado Araneta to pay P46,270 to the corporation with 8% interest. The court also made permanent a preliminary injunction restraining the corporation from making unauthorized loans and investments.

- Unsatisfied, both parties appealed to the Supreme Court.

****Issues:****

1. Whether the investment in Philippine Fiber Processing Co., Inc. was a violation of Section 17-1/2 of the Corporation Law.
2. Whether the Ma-ao Sugar Central Co., Inc. was insolvent.
3. Whether alleged discriminatory acts against planters amounted to mismanagement.
4. Whether the proven acts were sufficient to justify the dissolution of the corporation.
5. Whether J. Amado Araneta should repay the amount of P46,270 to Ma-ao Sugar Central Co., Inc.
6. Whether the counterclaim for damages filed by the defendants should be upheld.

****Court's Decision:****

1. ****Investment in Philippine Fiber Processing Co., Inc.:****

- The Court agreed with the lower court that the investment did not violate Section 17-1/2 of

the Corporation Law. This provision restricts investments in other corporations unless stockholders holding at least two-thirds of voting shares approve. However, such investment can be permitted if it aids the corporate purpose, and the subsequent board resolutions ratified it.

2. **Insolvency of Ma-ao Sugar Central Co., Inc.:**

- The Court found no clear evidence of insolvency. The company had continued operations and showed no deterioration since the suit was filed. Thus, it dismissed the claim that insolvency justified dissolution.

3. **Discriminatory Acts and Mismanagement:**

- The discriminatory acts against planters were found irrelevant for a derivative suit, as these were grievances at the level of planters, not stockholders.

4. **Corporate Dissolution:**

- Affirming the lower court, the Supreme Court held that mismanagement acts proven were insufficient grounds for corporate dissolution, not aligning dissolution as the only remedy.

5. **Repayment by J. Amado Araneta:**

- The Supreme Court agreed with the lower court's finding that the sum of P46,270 was not repaid as there was no substantial proof, like an official receipt or canceled check.

6. **Counterclaim by Defendants:**

- The Court supported the lower court's dismissal of the counterclaim, ruling that the complaint was neither premature nor malicious, and allegations in the complaint were privileged as part of court pleadings.

Doctrine:

- **Application of Sec. 17-1/2 of Corporation Law:** Investments aiding corporate purposes do not require two-thirds stockholder approval, provided they are subsequently ratified.

- **Dissolution Standards:** Proven acts of mismanagement must meet a high threshold and insolvency must be clearly evidenced; alternative remedies should be sought before dissolution.

- **Judicial Privilege in Pleadings:** Allegations made in court pleadings are privileged and not easily deemed abusive or malicious.

Class Notes:

- **Derivative Suits Requirements:** Adequate representation of minority stockholders and

exhaustion of intra-corporate remedies.

- **Corporate Mismanagement Standards:** Clear evidence needed; shown mismanagement must severely impact corporate viability or governance.
- **Investment in Other Corporations:** Requires board and possibly stockholder ratification unless directly aiding corporate purpose.

Historical Background:

- The case reflects the stringent governance and financial scrutiny applied during the 1950s, emphasizing legal recourses for minority stockholders against corporate overreach and mismanagement. The decision aids in interpreting competing provisions in Philippine Corporation Law regarding investments and internal corporate remedies.