

capital by pointing out that the company was not confined to such investments as trustees were authorized to make, and might lawfully invest in such securities as the directors might direct subject to the control of the general meeting.

The importance of the case lies in the fact that it is a very pronounced recognition of the right of directors who hold office by a majority vote (even though that majority vote is represented among the shareholders by the directors themselves) to retain or distribute the net profits of the company as they think expedient and to invest such profits as they retain either in absolutely safe securities or in securities of a more or less speculative nature.

This affords a point of view regarding joint stock companies which is no less important than those afforded by the two other cases referred to in this article. As a general rule the advantage of limited liability is recognized by all those who take or hold shares in joint stock companies—they look to the company for protection against liabilities on the outside, but they are not as much alive to the dangers which may arise from within.

A case illustrating those dangers arose recently not far from the City of Toronto. A joint stock company carrying on a commercial business was composed of five people, three of them held all but two shares, which two were held by employees. It was evident, therefore, that any two of the larger shareholders held a controlling interest in the company. The three largest shareholders were the directors of the company, and held the office of president, vice-president and manager, respectively, all drawing large salaries in addition to the income derived from the earnings of their stock. A quarrel arose, and at the next meeting of the shareholders two of the directors displaced their associate, electing in his place one of the small shareholders, and then passed a resolution depriving the former of his office and consequently of his salary. While he remained therefore a shareholder he became a complete outsider to the management of the business, although he had a right to attend a meeting once a year and criticise the action of the directors. The business (in which his money was invested to an equal extent with the two directors) could be managed by them in any way they choose, and large or small dividends paid upon it as they willed. It is obvious, of course, that they must pay him the same dividend as they paid themselves, and that if they did not pay a dividend but increased the reserve