

THIRD DIVISION

[G.R. No. 185894, August 30, 2017]

**BELO MEDICAL GROUP, INC., PETITIONER, VS. JOSE L. SANTOS
AND VICTORIA G. BELO, RESPONDENTS.**

DECISION

LEONEN, J.:

A conflict between two (2) stockholders of a corporation does not automatically render their dispute as intra-corporate. The nature of the controversy must also be examined.^[1]

In this Petition for Review on Certiorari^[2] under Rule 45 of the Rules of Court, Belo Medical Group, Inc. (Belo Medical Group) assails the Regional Trial Court December 8, 2008 Joint Resolution in Civil Case No. 08-397.^[3] This Joint Resolution granted respondent Jose L. Santos' (Santos) Motion to Dismiss and Belo Medical Group's Complaint for interpleader and Supplemental Complaint for Declaratory Relief against Santos and Victoria G. Belo (Belo), and declared all other pending incidents as moot.^[4]

The controversy began on May 5, 2008^[5] when Belo Medical Group received a request from Santos for the inspection of corporate records.^[6] Santos claimed that he was a registered shareholder and a co-owner of Belo's shares, as these were acquired while they cohabited as husband and wife.^[7] Santos sought advice on his probable removal as director of the corporation considering that he was not notified of meetings where he could have been removed. He also inquired on the election of Alfredo Henares (Henares) as Corporate Secretary in 2007 when Santos had not been notified of a meeting for Henares' possible election. Finally, he sought explanation on the corporation's failure to inform him of the 2007 annual meeting and the holding of an annual meeting in 2008.^[8] Santos' concern over the corporate operations arose from the alleged death of a patient in one (1) of its clinics.^[9]

Santos was unsuccessful in inspecting the corporate books as Henares, the officer-in-charge of corporate records, was travelling. Belo Medical Group asked for time in order for Henares to accommodate Santos' request.^[10]

After the first attempt to inspect, Belo wrote Belo Medical Group on May 14, 2007 to repudiate Santos' co-ownership of her shares and his interest in the corporation. She claimed that Santos held the 25 shares in his name merely in trust for her, as she, and not Santos, paid for these shares. She informed Belo Medical Group that Santos already had a pending petition with the Regional Trial Court to be declared as co-owner of her properties. She asserted that unless a decision was rendered in Santos' favor, he could not exercise ownership rights over her properties.^[11]

Belo also informed Belo Medical Group that Santos had a business in direct competition with it. She suspected that Santos' request to inspect the records of Belo Medical Group was a means to obtain a competitor's business information, and was, therefore, in bad faith.^[12]

A second inspection was attempted through a written demand by Santos on May 15, 2008.^[13] Again, he was unsuccessful.

Belo wrote to Belo Medical Group on May 20, 2008 to reiterate her objections to Santos' attempts at inspecting corporate books and his inquiry regarding a patient. Belo further manifested that she was exercising her right as a shareholder to inspect the books herself to establish that the 25 shares were not owned by Santos, and that he did not pay for these shares.^[14]

Thus, Belo Medical Group filed a Complaint for Interpleader^[15] with Branch 149, Regional Trial Court, Makati City on May 21, 2008. Belo Medical Group alleged that while Santos appeared to be a registered stockholder, there was nothing on the record to show that he had paid for the shares under his name. The Complaint was filed "to protect its interest and compel [Belo and Santos] to interplead and litigate their conflicting claims of ownership of, as well as the corresponding right of inspection arising from, the twenty-five (25) [Belo Medical Group] shares between themselves pursuant to **Rule 62** of the 1997 Rules of Civil Procedure . . ."^[16] The following reliefs were prayed for:

(i) issue an Order summoning and requiring defendants Santos and Belo to interplead with each other to resolve their conflicting claims of ownership of the 25 shares of stock of [Belo Medical Group], including their opposing claims of exclusive entitlement to inspect [Belo Medical Group] corporate records;

(ii) after due proceedings render judgment in favor of the proper defendant; and

(iii) allow plaintiff [Belo Medical Group] to recover attorney's fees and litigation expenses in the amount of at least Php1,000,000.00 jointly and solidarity against both defendants and for them to pay the costs of suit.

^[17]

On the same day, Henares wrote Belo's and Santos' respective counsels to inform them of the Complaint.^[18] Despite receipt, Santos' counsel still proceeded to Belo Medical Group's Makati office on May 22, 2008, where, again, they were unsuccessful in inspecting the corporate books.^[19]

Santos, for the third time, sent a letter on May 22, 2008 to schedule an inspection of the corporate books and warned that continued rejection of his request exposed the corporation to criminal liability.^[20] Nothing came out of this last attempt as well.

Bela and Bela Medical Group wrote to Santos on May 27, 2008 to inform him that he was barred from accessing corporate records because doing so would be inimical to Belo Medical Group's interests.^[21] Through another letter on May 28, 2008, Santos

was reminded of his majority share in The Obagi Skin Health, Inc. the owner and operator of the House of Obagi (House of Obagi) clinics. He was likewise reminded of the service of a notice of the 2007 special meeting of stockholders to his address at Valero Street, Makati City, contrary to his claim.^[22]

On May 29, 2008, Belo Medical Group filed a Supplemental Complaint^[23] for declaratory relief under Rule 63 of the Rules of Court. In its Supplemental Complaint, Belo Medical Group relied on Section 74^[24] of the Corporation Code to deny Santos' request for inspection. It prayed that Santos be perpetually barred from inspecting its books due to his business interest in a competitor.^[25] Should the ruling for interpleader be in favor of Santos, Belo Medical Group prayed that the trial court:

- a. exercise its power under Rule 63 of the Revised Rules of Civil Procedure and give a proper construction of Sections 74 and 75 of the Corporation Code in relation to the facts presented above, and declare that plaintiff can rightfully decline defendant Santos's request for inspection under those sections and related provisions and jurisprudence; and
- b. allow plaintiff to recover attorney's fees and litigation expenses from defendant Santos in the amount of at least PHP1,000,000.00 and the costs of suit.^[26]

Belo Medical Group's Complaint and Supplemental Complaint were raffled to Branch 149 of the Regional Trial Court of Makati, a special commercial court,^[27] thus classifying them as intra-corporate.^[28]

Belo filed her Answer *Ad Cautelam* with Cross-Claim to put on record her defenses that Santos had no right to inspect the books as he was not the owner of the 25 shares of stock in his name and that he was acting in bad faith because he was a majority owner of House of Obagi.^[29]

Belo further argued that the proceedings should not have been classified as intra-corporate because while their right of inspection as shareholders may be considered intra-corporate, "it ceases to be that and becomes a full-blown civil law question if competing rights of ownership are asserted as the basis for the right of inspection."^[30]

Meanwhile, on several dates, the trial court sheriff attempted to personally serve Santos with summons.^[31] After unsuccessful attempts,^[32] the sheriff resorted to substituted service in Santos' Makati office condominium unit.^[33]

On July 4, 2008, Belo Medical Group filed an Omnibus Motion for Clarificatory Hearing and for Leave to File Consolidated Reply,^[34] praying that the case be tried as a civil case and not as an intra-corporate controversy. It argued that the Interim Rules of Procedure Governing Intra-Corporate Controversies^[35] did not include special civil actions for interpleader and declaratory relief found under the Rules of Court. Belo Medical Group clarified that the issue on ownership of the shares of stock must first be resolved before the issue on inspection could even be considered

ripe for determination.^[36]

Belo Medical Group later on moved that Santos be declared in default.^[37] Instead of filing an answer Santos filed a Motion to Dismiss.^[38]

Apart from procedural infirmities, Santos argued that Belo Medical Group's Complaint and Supplemental Complaint must be dismissed "for its failure to state, and ultimately, lack of, a cause of action."^[39] No ultimate facts were given to establish the act or omission of Santos and Belo that violated Belo Medical Group's rights. There was simply no conflict on the ownership of the 25 shares of stock under Santos' name. Based on the corporation's 2007 Articles of Incorporation and General Information Sheet, Santos was reflected as a stockholder and owner of the 25 shares of stock. No documentary evidence was submitted to prove that Belo owned these shares and merely transferred them to Santos as nominal shares.^[40]

Santos further argued that the filing of the complaints was an afterthought to take attention away from Belo Medical Group's criminal liability when it refused Santos' demand to inspect the records of the corporation. For years, neither Belo Medical Group nor Belo questioned Santos' standing in the corporation. No change in ownership from Santos to another person was reflected in the company's General Information Sheet.^[41]

Santos also invoked the doctrine of piercing the corporate veil as Belo owned 90% of Belo Medical Group. Her claim over the 25 shares was a ploy to defeat Santos' right to inspect corporate records. He asserts that the Complaint for interpleader was an anticipatory move by the company to evade criminal liability upon its denial of Santos' requests.^[42]

In addition, Santos argued that a prerequisite to filing these cases is that the plaintiff has not yet incurred liability to any of the parties. Since Belo Medical Group had already incurred criminal liability, it could no longer file a complaint for interpleader or declaratory relief.^[43]

Santos denied any conflict of interest because Belo Medical Group's products and services differed from House of Obagi's.^[44] Belo Medical Group's primary purpose was the management and operation of skin clinics^[45] while the House of Obagi's main purpose was the sale and distribution of high-end facial products.^[46]

On October 29, 2008, Belo Medical Group filed its Opposition^[47] and argued that the Motion to Dismiss was a prohibited pleading under Section 8 of the Interim Rules of Procedure Governing Intra-Corporate Controversies.

Belo Medical Group reiterated that Belo and Santos must litigate against each other to determine who rightfully owned the 25 shares. An accommodation of one of them, absent a resolution to this issue, would make Belo Medical Group liable to the other.^[48]

On its supposed criminal liability when it refused Santos access to corporate records, Belo Medical Group explained that the independent liability necessary to defeat

complaints for interpleader arose from a final judgment and not merely a cause of action that has accrued.^[49]

Finally, Belo Medical Group averred that substantiation must be done during trial. The dismissal of the case would be premature.^[50]

Belo's Opposition dated October 29, 2008 raised the same arguments of Belo Medical Group.^[51]

Santos filed his Reply to the Oppositions on November 18, 2008.^[52] He agreed that the controversy was not intra-corporate but civil in nature, as it involved ownership.^[53] However, he stood firm on his arguments that the case should be dismissed due to the Complaints' failure to state a cause of action^[54] and the trial court's failure to acquire jurisdiction over his person.^[55]

On December 8, 2008, the assailed Joint Resolution^[56] was issued by the trial court resolving the following incidents: Belo Medical Group's Omnibus Motion for Clarificatory Hearing and for Leave to File Consolidated Reply and Motion to Declare Santos in Default, and Santos' Motion to Dismiss. The trial court declared the case as an intra-corporate controversy but dismissed the Complaints.^[57]

The trial court characterized the dispute as "intrinsically connected with the regulation of the corporation as it involves the right of inspection of corporate records."^[58] Included in Santos and Belo's conflict was a shareholder's exclusive right to inspect corporate records. In addition, the issue on the ownership of shares requires the application of laws and principles regarding corporations.^[59]

However, the Complaint could not flourish as Belo Medical Group "failed to sufficiently allege conflicting claims of ownership over the subject shares."^[60] In justifying failure to state a cause of action, the trial court reasoned:

Plaintiff clearly admits in the complaint that defendant Santos is the registered stockholder of the subject shares albeit no records show that he made any payments thereof. Also, notwithstanding defendant Belo's claim that she is the true owner thereof, there was no allegation that defendant Santos is no longer the holder on record of the same or that it is now defendant Belo who is the registered stockholder thereof. In fact, the complaint even alleges that defendant Santos holds the 25 BMGI shares merely as nominal qualifying shares in trust for defendant Belo. Thus, the complaint failed to state a cause of action that would warrant the resort to an action for interpleader.^[61]

Though a motion to dismiss is a prohibited pleading under the Interim Rules of Procedure Governing Intra-Corporate Controversies, the trial court ruled that Section 2, Rule 1 of these rules allowed for the Rules of Court to apply suppletorily. According to the Rules of Court, motions to dismiss are allowed in interpleader cases.^[62]

Finally, the Complaint for Declaratory Relief was struck down as improper because it sought an initial determination on whether Santos was in bad faith and if he should