

SECOND DIVISION

[G.R. No. 174909, January 20, 2016]

**MARCELINO M. FLORETE, JR., MARIA ELENA F. MUYCO AND RAUL A. MUYCO,
PETITIONERS, VS. ROGELIO M. FLORETE, IMELDA C. FLORETE, DIAMEL
CORPORATION, ROGELIO C. FLORETE JR., AND MARGARET RUTH C. FLORETE,
RESPONDENTS.**

[G.R. NO. 177275]

**ROGELIO M. FLORETE SR., PETITIONER, VS. MARCELINO M. FLORETE, JR.,
MARIA ELENA F. MUYCO AND RAUL A. MUYCO, RESPONDENTS.**

D E C I S I O N

LEONEN, J.:

A stockholder may suffer from a wrong done to or involving a corporation, but this does not vest in the aggrieved stockholder a sweeping license to sue in his or her own capacity. The determination of the stockholder's appropriate remedy—whether it is an individual suit, a class suit, or a derivative suit—hinges on the object of the wrong done. When the object of the wrong done is the corporation itself or "the whole body of its stock and property without any severance or distribution among individual holders,"^[1] it is a derivative suit, not an individual suit or class/representative suit, that a stockholder must resort to.

This resolves consolidated cases involving a Complaint for Declaration of Nullity of Issuances, Transfers and Sale of Shares in People's Broadcasting Service, Inc. and All Posterior Subscriptions and Increases thereto with Damages.^[2] The Complaint did not implead as parties the concerned corporation, some of the transferees, transferors and other parties involved in the assailed transactions. The Petition^[3] docketed as G.R. No. 174909 assails the Court of Appeals Decision affirming the dismissal of the Complaint and sustaining the award of P25,000,000.00 as moral damages and P5,000,000.00 as exemplary damages in favor of Rogelio Florete, Sr. The Petition^[4] docketed as G.R. No. 177275 assails the Court of Appeals Decision that disallowed the immediate execution of the same award of damages.

Spouses Marcelino Florete, Sr. and Salome Florete (now both deceased) had four (4) children: Marcelino Florete, Jr. (Marcelino, Jr.), Maria Elena Muyco (Ma. Elena), Rogelio Florete, Sr. (Rogelio, Sr.), and Teresita Menchavez (Teresita), now deceased.^[5]

People's Broadcasting Service, Inc. (People's Broadcasting) is a private corporation authorized to operate, own, maintain, install, and construct radio and television stations in the Philippines.^[6] In its incorporation on March 8, 1966,^[7] it had an authorized capital stock of P250,000.00 divided into 2,500 shares at P100.00 par value per share.^[8]

Twenty-five percent (25%) of the corporation's authorized capital stock were then subscribed to as follows:

Stockholder	Number of Shares
Marcelino Florete, Sr. (Marcelino, Sr.)	250 shares
Salome Florete (Salome)	100 shares
Ricardo Berlin (Berlin)	50 shares
Pacifico Sudario (Sudario)	50 shares
Atty. Santiago Divinagracia (Divinagracia), now deceased ^[9]	50 shares ^[10]

On November 17, 1967, Berlin and Sudario resigned from their positions as General Manager and Station Supervisor, respectively.^[11] Berlin and Sudario each transferred 20 shares to Raul Muyco and Estrella Mirasol.^[12]

Salome died on November 22, 1980.^[13] Marcelino, Sr. suffered a stroke on July 12, 1982, which left him paralyzed and bedridden until his death on October 3, 1990.^[14] After Marcelino, Sr.'s stroke, their son, Rogelio, Sr. started managing the affairs of People's Broadcasting.^[15]

In October 1993, People's Broadcasting sought the services of the accounting and auditing firm Sycip Gorres Velayo and Co. in order to determine the ownership of equity in the corporation.^[16] On November 2, 1994, Sycip Gorres Velayo and Co. submitted a report detailing the movements of the corporation's shares from November 23, 1967 to December 8, 1989.^[17] The relevant portion of this report reads:

B. PEOPLE'S BROADCASTING SERVICE, INC. (PBS)

The movements in the capital stock accounts (by beneficial stockholders) are as follows:

Beneficial Stockholder	Shareholdings Nov. 27, 1967 (A)	Additional Subscription Sept. 1, 1982 (B)	Transfer of Shares of Stock March 1, 1983 (C)	Transfer of Shares of Stock (D)	Transfer of Shares of Stock June 5, 1987 (E)	Increase (F)	Shareholdings Oct. 31, 1993
Marcelino M. Florete, Sr.	560	-	750	(680)	-	62,344.19	62,974.19
Salome M. Florete	30	(30)	-	-	-		
Rogelio M. Florete	20	5	1110	370	(5)	149,624.75	151,124.75
Ma. Elena F. Muyco	20	5	-	-	(25)	2,493.68	2,493.68
Teresita F. Menchavez	-	5	-	20	(25)	2,493.69	2,493.69
Marcelino M. Florete, Jr.	-	5	-	20	(20)	2,493.44	2,493.44
Santiago C. Divinagracia	20	-	-	270	75	29,925.25	30,290.25
Newsound Broadcasting ^[18]	610	-	(610)				
Consolidated Broadcasting	-	1,250	(1,250)				
Total	1,260	1,250				249,375.00	251,875.00

(A) The People's Broadcasting Service, Inc. was incorporated in 1965 with an authorized capital stock of P250,000 divided into 2,500 shares at P100 par value. As of November 23, 1967, the total subscribed shares of stock was [sic] 1,260. The 610 shares issued in the name of [Newsounds Broadcasting Network, Inc.] was [sic] authorized by the Board of Directors in payment for the obligation of the Corporation to [Newsounds Broadcasting Network, Inc.].

(B) On August 5, 1982, the Board of Directors passed Resolution No. 4 which

authorized Atty. Divinagracia to negotiate the purchase of two stations of Consolidated Broadcasting System, Inc. (CBS), DYMF and DXMF in Cebu and Davao, respectively. In consideration thereof, [People's Broadcasting Service, Inc.] shall issue 1,250 shares of stock in favor of [Consolidated Broadcasting System, Inc.]. In pursuance thereof, on September 1, 1982, the Corporation issued the remaining 1,240 shares of unissued capital stock to [Consolidated Broadcasting System, Inc.]. To complete the consideration of 1,250 shares, it was explained that [Salome] transferred her 10 shares to [Consolidated Broadcasting System, Inc.] and distributed her remaining 20 shares to her children, at 5 shares each.

- (C) On March 1, 1983, all the 610 shares of [Newsounds Broadcasting Network, Inc.] were transferred to [Rogelio, Sr.]. We were not able to determine the person who endorsed the certificate in [sic] behalf [of] [Newsounds Broadcasting Network, Inc.] as the certificate was not found on file. On the same day, the entire investment of [Consolidated Broadcasting System, Inc.] were transferred to [Marcelino, Sr.] and [Rogelio, Sr.] at the proportion of 750 shares and 500 shares, respectively. The cancelled certificates of [Consolidated Broadcasting System, Inc.] were endorsed by [Rogelio, Sr.] in [sic] its behalf.
- (D) On February 28 and August 1, 1983, [Marcelino, Sr.] transferred 680 shares from his block to the following:

Transferee	No. of Shares	Date of Transfer
Rogelio M. Florete [Sr.]	370	February 28, 1983
Santiago C. Divinagracia	270	August 1, 1983
Marcelino M. Florete, Jr.	20	August 1, 1983
Teresita F. Menchavez	20	August 1, 1983
Total	680	

- (E) On June 3, 1987, the Corporation effected the transfer of 75 shares to [Divinagracia] by virtue of the deeds of sale executed by the transferors concerned in his favor.
- (F) On December 8, 1989, the [Securities and Exchange Commission] approved the application of the Corporation to increase the authorized capital stock to P100,000,000.00 divided into 1,000,000 shares at P100 par value. Of the increase, 249,375 shares were subscribed for P24,937,500 and P6,234,375 thereof was paid-up. The subscribers to the increase were as indicated in the foregoing.

There were no other transactions affecting the interest of the beneficial stockholders up to October 31, 1993 except transfers to and from designated nominees[.]^[19]

Even as it tracked the movements of shares, Sycip Gorres Velayo and Co. declined to give a categorical statement on equity ownership as People's Broadcasting's corporate records were incomplete.^[20] The report contained the following disclaimer on the findings regarding the corporation's capital structure:

Because the procedures *included certain assumptions* as represented by the corporate secretaries mentioned in Attachment I and *we have not verified the documents supporting some of the transactions*, we do not express an opinion on the capital stock accounts of the respective companies [including People's Broadcasting] as at October 31, 1993.^[21] (Emphasis supplied)

On February 1, 1997, the Board of Directors of People's Broadcasting approved Sycip Gorres Velayo and Co.'s report.^[22]

In the meantime, Rogelio, Sr. transferred a portion of his shareholdings to the members of his immediate family, namely: Imelda Florete, Rogelio Florete, Jr., and Margaret Ruth Florete, as well as to

Diamel Corporation, a corporation owned by Rogelio, Sr.'s family.^[23]

As of April 27, 2002, the stockholders of record of People's Broadcasting were the following:^[24]

Stockholder	No. of Shares
1. Diamel Corporation	30,000.00
2. Rogelio Florete [Sr.]	153,881.53
3. Marcelino Florete, Jr.	18,240.99
4. Ma. Elena Muyco	18,227.23
5. Santiago Divinagracia	30,289.25
6. Imelda Florete	1,000.00
7. Rogelio Florete, Jr.	100.00
8. Margaret Ruth Florete	100.00
9. Raul Muyco	10.00
10. Manuel Villa, Jr.	10.00
11. Gregorio Rubias	1.00
12. Cyril Regaldao	1.00
13. Jose Mari Trenas	1.00
14. Enrico Jacomille	1.00
15. Joseph Vincent Go	1.00
16. Jerry Trenas	1.00
17. Efrain Trenas	10.00

On June 23, 2003, Marcelino, Jr., Ma. Elena, and Raul Muyco (Marcelino, Jr. Group) filed before the Regional Trial Court a Complaint^[25] for Declaration of Nullity of Issuances, Transfers and Sale of Shares in People's Broadcasting Service, Inc. and All Posterior Subscriptions and Increases thereto with Damages^[26] against Diamel Corporation, Rogelio, Sr., Imelda Florete, Margaret Florete, and Rogelio Florete, Jr. (Rogelio, Sr. Group).

On July 25, 2003, the Rogelio, Sr. Group filed their Answer with compulsory counterclaim.^[27]

On August 2, 2005, the Regional Trial Court issued a Decision (which it called a "Placitum") dismissing the Marcelino, Jr. Group's Complaint. It ruled that the Marcelino, Jr. Group did not have a cause of action against the Rogelio, Sr. Group and that the former is estopped from questioning the assailed movement of shares of People's Broadcasting. It also ruled that indispensable parties were not joined in their Complaint.

According to the trial court, the indispensable parties would include:

[Marcelino, Sr.] and/or his estate and/or his heirs, [Salome] and/or her estate and/or her heirs, [Divinagracia] and/or his estate and/or his successors-in-interest, [Teresita] and/or her estate and/or her own successors-in-interest, the other [People's Broadcasting Service, Inc.] stockholders who may be actually beneficial owners and not purely nominees, all the so called nominal stockholders. . . [and] the various [People's Broadcasting Service, Inc.] Corporate Secretaries[.]^[28]

The Regional Trial Court granted Rogelio, Sr.'s compulsory counterclaim for moral and exemplary damages amounting to P25,000,000.00 and P5,000,000.00, respectively, reasoning that Rogelio, Sr. suffered from the besmirching of his personal and commercial reputation.^[29]

The dispositive portion of the Regional Trial Court Decision reads:

WHEREFORE, premises duly considered, the instant "Complaint" of the plaintiffs is hereby DISMISSED for lack of merit.

The "Counterclaim" of defendant Rogelio Florete Sr. is hereby given DUE COURSE but only

insofar as the claims for moral and exemplary damages are concerned. Consequently, the plaintiffs herein are hereby ordered to pay, jointly and severally, defendant Rogelio Florete Sr., the following sums, to wit:

1. TWENTY FIVE MILLION PESOS (P25,000,000.00) as and for MORAL DAMAGES; and,
2. FIVE MILLION PESOS (P5,000,000.00) as and for EXEMPLARY DAMAGES.

The "Counterclaim(s)" of the other defendants and the prayer for the recovery of attorney's fees and litigation expenses of defendant Rogelio Florete, Sr. are hereby DISMISSED likewise for lack of merit.

SO ORDERED.^[30]

On August 15, 2005, Rogelio, Sr. filed a Motion for the immediate execution of the award of moral and exemplary damages pursuant to Rule I, Section 4^[31] of the Interim Rules of Procedure Governing Intra-Corporate Controversies.^[32]

On September 8, 2005, the Marcelino, Jr. Group filed before the Court of Appeals a Petition for Review^[33] with a prayer for the issuance of a temporary restraining order and/or writ of preliminary injunction to deter the immediate execution of the trial court Decision awarding damages to Rogelio, Sr.^[34] The Court of Appeals issued a temporary restraining order and, subsequently, a writ of preliminary injunction.^[35]

In its Decision^[36] dated March 29, 2006, the Court of Appeals denied the Marcelino, Jr. Group's Petition and affirmed the trial court Decision.^[37] It also lifted the temporary restraining order and writ of preliminary injunction.^[38]

The Court of Appeals ruled that the Marcelino, Jr. Group did not have a cause of action against those whom they have impleaded as defendants. It also noted that the principal obligors in or perpetrators of the assailed transactions were persons other than those in the Rogelio, Sr. Group who have not been impleaded as parties. Thus, the Court of Appeals emphasized that the following parties were indispensable to the case: People's Broadcasting; Marcelino, Sr.; Consolidated Broadcasting System, Inc.; Salome; Divinagracia; Teresita; and "other stockholders of [People's Broadcasting] to whom the shares were transferred or the nominees of the stockholders."^[39]

The Court of Appeals further emphasized that the estates of Marcelino, Sr. and Salome had long been settled, with those in the Marcelino, Jr. Group participating (in their capacity as heirs). As the Marcelino, Jr. Group failed to act to protect their supposed interests in shares originally accruing to Marcelino, Sr. and Salome, the group is estopped from questioning the distribution of Marcelino, Sr.'s and Salome's assets.^[40] Furthering the conclusion that the Marcelino, Jr. Group was bound by estoppel, the Court of Appeals noted that the Marcelino, Jr. Group was well aware of the matters stated in the report furnished by Sycip Gorres Velayo and Co. but failed to act on any supposed error in the report. Instead, the Marcelino, Jr. Group waited ten (10) years before filing their Complaint. In the interim, they even participated in the affairs of People's Broadcasting, voting their shares and electing members of the Board of Directors.^[41]

On April 26, 2006, the Marcelino, Jr. Group filed a Motion for Reconsideration dated April 24, 2006.^[42]

Pending resolution of the Marcelino, Jr. Group's Motion for Reconsideration, Rogelio, Sr. filed before the Regional Trial Court a Motion to resolve his earlier motion for the immediate execution of the awards of moral and exemplary damages, which was filed on August 15, 2005.^[43] The Regional Trial Court granted the Motion in its Order dated May 18, 2006.^[44] On May 23, 2006, a Writ of Execution was issued to enforce the award of moral and exemplary damages.^[45]

The Marcelino, Jr. Group filed a Petition for Certiorari^[46] before the Court of Appeals questioning the Regional Trial Court Order to immediately execute its Decision.^[47] On June 13, 2006, the Court of