

FIRST DIVISION

[G.R. No. 150976, October 18, 2004]

**CECILIA CASTILLO, OSCAR DEL ROSARIO, ARTURO S. FLORES,
XERXES NAVARRO, MARIA ANTONIA TEMPLO AND MEDICAL
CENTER PARAÑAQUE, INC., PETITIONERS, VS. ANGELES
BALINGHASAY, RENATO BERNABE, ALODIA DEL ROSARIO,
ROMEO FUNTILA, TERESITA GAYANILO, RUSTICO JIMENEZ,
ARACELI** JO, ESMERALDA MEDINA, CECILIA MONTALBAN,
VIRGILIO OBLEPIAS, CARMENCITA PARRENO, CESAR REYES,
REYNALDO SAVET, SERAPIO TACCAD, VICENTE VALDEZ,
SALVACION VILLAMORA, AND HUMBERTO VILLAREAL,
RESPONDENTS.**

D E C I S I O N

QUISUMBING, J.:

For review on certiorari is the **Partial Judgment**^[1] dated November 26, 2001 in Civil Case No. 01-0140, of the Regional Trial Court (RTC) of Parañaque City, Branch 258. The trial court declared the February 9, 2001, election of the board of directors of the Medical Center Parañaque, Inc. (MCPI) valid. The Partial Judgment dismissed petitioners' first cause of action, specifically, to annul said election for depriving petitioners their voting rights and to be voted on as members of the board.

The facts, as culled from records, are as follows:

Petitioners and the respondents are stockholders of MCPI, with the former holding Class "B" shares and the latter owning Class "A" shares.

MCPI is a domestic corporation with offices at Dr. A. Santos Avenue, Sucat, Parañaque City. It was organized sometime in September 1977. At the time of its incorporation, Act No. 1459, the old Corporation Law was still in force and effect. Article VII of MCPI's original Articles of Incorporation, as approved by the Securities and Exchange Commission (SEC) on October 26, 1977, reads as follows:

SEVENTH. That the authorized capital stock of the corporation is TWO MILLION (P2,000,000.00) PESOS, Philippine Currency, divided into TWO THOUSAND (2,000) SHARES at a par value of P100 each share, whereby the ONE THOUSAND SHARES issued to, and subscribed by, the incorporating stockholders shall be classified as Class A shares while the other ONE THOUSAND unissued shares shall be considered as Class B shares. ***Only holders of Class A shares can have the right to vote and the right to be elected as directors or as corporate officers.***^[2]
(Stress supplied)

On July 31, 1981, Article VII of the Articles of Incorporation of MCPI was amended, to read thus:

SEVENTH. That the authorized capital stock of the corporation is FIVE MILLION (P5,000,000.00) PESOS, divided as follows:

| <u>CLASS</u> | <u>NO. OF SHARES</u> | <u>PAR VALUE</u> |
|--------------|----------------------|------------------|
| "A" | 1,000 | P1,000.00 |
| "B" | 4,000 | P1,000.00 |

Only holders of Class A shares have the right to vote and the right to be elected as directors or as corporate officers.^[3] (Emphasis supplied)

The foregoing amendment was approved by the SEC on June 7, 1983. While the amendment granted the right to vote and to be elected as directors or corporate officers only to holders of Class "A" shares, holders of Class "B" stocks were granted the same rights and privileges as holders of Class "A" stocks with respect to the payment of dividends.

On September 9, 1992, Article VII was again amended to provide as follows:

SEVENTH: That the authorized capital stock of the corporation is THIRTY TWO MILLION PESOS (P32,000,000.00) divided as follows:

| <u>CLASS</u> | <u>NO. OF SHARES</u> | <u>PAR VALUE</u> |
|--------------|----------------------|------------------|
| "A" | 1,000 | P1,000.00 |
| "B" | 31,000 | P1,000.00 |

Except when otherwise provided by law, only holders of Class "A" shares have the right to vote and the right to be elected as directors or as corporate officers^[4] (Stress and underscoring supplied).

The SEC approved the foregoing amendment on September 22, 1993.

On February 9, 2001, the shareholders of MCPI held their annual stockholders' meeting and election for directors. During the course of the proceedings, respondent Rustico Jimenez, citing Article VII, as amended, and notwithstanding MCPI's history, declared over the objections of herein petitioners, that no Class "B" shareholder was qualified to run or be voted upon as a director. In the past, MCPI had seen holders of Class "B" shares voted for and serve as members of the corporate board and some Class "B" share owners were in fact nominated for election as board members. Nonetheless, Jimenez went on to announce that the candidates holding Class "A" shares were the winners of all seats in the corporate board. The petitioners protested, claiming that Article VII was null and void for depriving them, as Class "B" shareholders, of their right to vote and to be voted upon, in violation of the Corporation Code (Batas Pambansa Blg. 68), as amended.

On March 22, 2001, after their protest was given short shrift, herein petitioners filed a Complaint for Injunction, Accounting and Damages, docketed as Civil Case No. CV-01-0140 before the RTC of Parañaque City, Branch 258. Said complaint was founded on two (2) principal causes of action, namely:

- a. Annulment of the declaration of directors of the MCPI made during the February 9, 2001 Annual Stockholders' Meeting, and for the conduct of an election whereat all stockholders, irrespective of the classification of the shares they hold, should be afforded their right to vote and be voted for; and
- b. Stockholders' derivative suit challenging the validity of a contract entered into by the Board of Directors of MCPI for the operation of the ultrasound unit.^[5]

Subsequently, the complaint was amended to implead MCPI as party-plaintiff for purposes only of the second cause of action.

Before the trial court, the herein petitioners alleged that they were deprived of their right to vote and to be voted on as directors at the annual stockholders' meeting held on February 9, 2001, because respondents had erroneously relied on Article VII of the Articles of Incorporation of MCPI, despite Article VII being contrary to the Corporation Code, thus null and void. Additionally, respondents were in estoppel, because in the past, petitioners were allowed to vote and to be elected as members of the board. They further claimed that the privilege granted to the Class "A" shareholders was more in the nature of a right granted to founder's shares.

In their Answer, the respondents averred that the provisions of Article VII clearly and categorically state that only holders of Class "A" shares have the exclusive right to vote and be elected as directors and officers of the corporation. They denied that the exclusivity was intended only as a privilege granted to founder's shares, as no such proviso is found in the Articles of Incorporation. The respondents further claimed that the exclusivity of the right granted to Class "A" holders cannot be defeated or impaired by any subsequent legislative enactment, e.g. the New Corporation Code, as the Articles of Incorporation is an intra-corporate contract between the corporation and its members; between the corporation and its stockholders; and among the stockholders. They submit that to allow Class "B" shareholders to vote and be elected as directors would constitute a violation of MCPI's franchise or charter as granted by the State.

At the pre-trial, the trial court ruled that a partial judgment could be rendered on the first cause of action and required the parties to submit their respective position papers or memoranda.

On November 26, 2001, the RTC rendered the Partial Judgment, the dispositive portion of which reads:

WHEREFORE, viewed in the light of the foregoing, the election held on February 9, 2001 is VALID as the holders of CLASS "B" shares are not entitled to vote and be voted for and this case based on the First Cause of Action is DISMISSED.

SO ORDERED.^[6]

In finding for the respondents, the trial court ruled that corporations had the power to classify their shares of stocks, such as "voting and non-voting" shares, conformably with Section 6^[7] of the Corporation Code of the Philippines. It pointed out that Article VII of both the original and amended Articles of Incorporation clearly provided that only Class "A" shareholders could vote and be voted for to the

exclusion of Class "B" shareholders, the exception being in instances provided by law, such as those enumerated in Section 6, paragraph 6 of the Corporation Code. The RTC found merit in the respondents' theory that the Articles of Incorporation, which defines the rights and limitations of all its shareholders, is a contract between MCPI and its shareholders. It is thus the law between the parties and should be strictly enforced as to them. It brushed aside the petitioners' claim that the Class "A" shareholders were in estoppel, as the election of Class "B" shareholders to the corporate board may be deemed as a mere act of benevolence on the part of the officers. Finally, the court brushed aside the "founder's shares" theory of the petitioners for lack of factual basis.

Hence, this petition submitting the sole legal issue of whether or not the Court a quo, in rendering the Partial Judgment dated November 26, 2001, has decided a question of substance in a way not in accord with law and jurisprudence considering that:

1. Under the Corporation Code, the exclusive voting right and right to be voted granted by the Articles of Incorporation of the MCPI to Class A shareholders is null and void, or already extinguished;
2. Hence, the declaration of directors made during the February 9, 2001 Annual Stockholders' Meeting on the basis of the purported exclusive voting rights is null and void for having been done without the benefit of an election and in violation of the rights of plaintiffs and Class B shareholders; and
3. erforce, another election should be conducted to elect the directors of the MCPI, this time affording the holders of Class B shares full voting right and the right to be voted.^[8]

The issue for our resolution is whether or not holders of Class "B" shares of the MCPI may be deprived of the right to vote and be voted for as directors in MCPI.

Before us, petitioners assert that Article VII of the Articles of Incorporation of MCPI, which denied them voting rights, is null and void for being contrary to Section 6 of the Corporation Code. They point out that Section 6 prohibits the deprivation of voting rights except as to preferred and redeemable shares only. Hence, under the present law on corporations, all shareholders, regardless of classification, other than holders of preferred or redeemable shares, are entitled to vote and to be elected as corporate directors or officers. Since the Class "B" shareholders are not classified as holders of either preferred or redeemable shares, then it necessarily follows that they are entitled to vote and to be voted for as directors or officers.

The respondents, in turn, maintain that the grant of exclusive voting rights to Class "A" shares is clearly provided in the Articles of Incorporation and is in accord with Section 5^[9] of the Corporation Law (Act No. 1459), which was the prevailing law when MCPI was incorporated in 1977. They likewise submit that as the Articles of Incorporation of MCPI is in the nature of a contract between the corporation and its shareholders and Section 6 of the Corporation Code could not retroactively apply to it without violating the non-impairment clause^[10] of the Constitution.

We find merit in the petition.