

SPEED DISTRIBUTING CORP., LITA MARCELO, IRENEO MARCELO AND PEDRO AQUINO, PETITIONERS, VS. COURT OF APPEALS AND RUFINA LIM, RESPONDENTS.

G.R. No. 149351. March 17, 2004

Ponente: CALLEJO, SR., J.

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CALLEJO, SR., J.:

This is a petition for review of the Decision[1] of the Court of Appeals in CA-G.R. No. 52214 (CV) reversing the November 21, 1995 Order[2] of the Regional Trial Court of Quezon City, Branch 222, dismissing the complaint in Civil Case No. Q-95-24588, and its August 8, 2001 Resolution denying the Motion for Reconsideration of the aforesaid decision.

The Antecedents

On September 20, 1953, Pastor Y. Lim married private respondent Rufina Luy Lim.[1] During the early part of their marriage, Pastor organized some family corporations using their conjugal funds. Among these corporations was Skyline International Corporation (Skyline, for brevity) which was engaged in the importation and sale of Hankook Brand Korean Tires and the acquisition of real estate. The couple were incorporators and major stockholders of the corporation and were also employed therein.

Pastor and the private respondent did not have a child. They decided to “adopt” Leonard Lim and petitioner Lita Lim Marcelo, who were children of their distant poor relatives in Zamboanga City. There was, however, no formal court adoption. Sometime thereafter, marital problems arose, as a result of which the private respondent stopped working at Skyline. As the domestic problems remained unresolved, Pastor and the private respondent jointly filed on August 13, 1968 a Petition before the Juvenile and Domestic Relations Court of Quezon City, for voluntary dissolution of conjugal properties. As their differences worsened, the private respondent filed on January 27, 1971 a petition for legal separation against Pastor on the ground of infidelity before the then Juvenile and Domestic Relations Court of Quezon City. The petition was amended into one for Support with Alimony and the case was docketed as Civil Case No. QE-0030.

On February 17, 1972, the court rendered a decision, awarding P3,000 monthly support to the private respondent and the children, the dispositive portion of which reads:

WHEREFORE, judgment is hereby rendered:

- Ordering defendant to pay plaintiff monthly support of P3,000.00 effective as of February, 1971;
- Ordering defendant to pay plaintiff attorney’s fees in the sum of P2,000.00, plus the cost of this suit. [4]

On June 24, 1975, the private respondent filed a motion for execution. The court issued an order granting the motion and the sheriff levied on the properties of Skyline. The latter filed, on December 19, 1975, a third-party

claim, alleging that the properties levied were its personal properties and not those of Pastor, who was only one of its stockholders. The private respondent filed a motion to quash Skyline's claim, which the court granted.

Skyline filed a petition for certiorari with prayer for temporary restraining order before the Court of Appeals for the nullification of the order of the trial court quashing the third-party claim. The case was docketed as CA-G.R. No. 05312 (SP). The appellate court issued a temporary restraining order on April 27, 1976. On June 23, 1976, the Court of Appeals rendered a decision dismissing the petition, thus, lifting the restraining order.[5] The appellate court ruled as follows:

While it is recognized as "lawful to obtain a corporation charter, even with a single substantial stockholder, to engage in a specific activity, and such activity may co-exist with other private activities of the stockholder" (Liddel & Co., Inc. vs. Collector of Internal Revenue, L-9687, June 30, 1961, 2 SCRA 632), the corporation's distinct personality will be disregarded when it is so "controlled and its affairs so conducted as to make it merely an instrumentality, agency or conduit of another" (NAMARCO vs. Associated Finance Company, supra).

It is not disputed that petitioner Skyline International, Inc. was a conjugal enterprise (p. 2, Decision) before its incorporation in December 1970 (p. 10, id.), when it was still a proprietorship. Petitioner Skyline International, Inc. is still engaged in the sale of automotive parts and dealership of Firestone Rubber and Tires which business it was already doing when it was still a proprietorship. Respondent Court found that the only assets of petitioner corporation are the conjugal properties. Thus, respondent Court concludes that "it is safe to assume that Skyline International Corporation is another name for Mr. and Mrs. Pastor Y. Lim in person." In fact, Pastor Y. Lim admitted that the other incorporators are their former employees and their respective shares are nominal (Decision, pp. 14-15).

The above facts are more than enough justification for respondent Court to pierce the veil of corporate fiction. Consequently, we find the questioned orders to be in order.[6]

Skyline, then, filed a petition for review before this Court, but the petition was dismissed in a Resolution dated August 6, 1976.[7]

On August 21, 1987, the Speed Distributing Corporation (Speed, for brevity), was registered with the Securities and Exchange Commission, with Pastor Lim as one of the incorporators. He owned ten shares, valued at P100.00 per share. The following were the names of the incorporators, the number of shares respectively subscribed to by them and the amount paid up:

Shares

Subscribed

Paid

Lita T. Lim

11,200

P 1,120,000.00

P 280,000.00

Leonard L. Lim

1,000

100,000.00

25,000.00

Lina S. Lim

150

15,000.00

3,750.00

Larry S. Lim

140

14,000.00

3,500.00

Pastor Y. Lim

10

1,000.00

250.00

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12,500

P1,250,000.00

P 312,500.00[8]

Petitioner Lita Lim-Marcelo was elected treasurer of the corporation.

On June 21, 1991, the Leslim Corporation (Leslim, for brevity), was registered with the Securities and Exchange Commission with a capital stock of P12,000,000.00, divided into 120,000 shares at par value of P100.00 per share. Pastor Lim subscribed to 95,700 shares valued at P9,570,000.00. The incorporators, the number of shares they subscribed to and the amounts paid for were indicated in the articles of incorporation as follows:

Name

No. of Share

Amount Subscribed

Teresa T. Lim

24,000

P2,400,000.00

Leonard L. Lim

100

10,000.00

Larry S. Lim

100

10,000.00

Lina L. Lim

100

10,000.00

Pastor Y. Lim

95,700

9,570,000.00

=====

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120,000

P12,000,000.00

...

...

...

The following persons have paid on the shares of the capital stock for which they have subscribed the amount set after their names respectively:

Name

Amount Paid

Teresa T. Lim

P600,000.00

Leonard L. Lim

2,500.00

Larry S. Lim

2,500.00

Lina L. Lim

2,500.00

Pastor Y. Lim

P2,392,500.00

=====

P3,000,000.00[9]

Under the articles of incorporation, Pastor Lim was the treasurer-in-trust of the corporation.[10] The Vice-President and Treasurer of the corporation was petitioner Lita Lim-Marcelo, now married to petitioner Ireneo Marcelo.

On August 26, 1994, Leslim Corporation executed a deed of absolute sale in favor of the Speed, represented by its Vice-President, petitioner Ireneo Marcelo, over the parcel of lot located at Diliman Quezon City, covered by TCT No. 36617 for the price of P3,900,000.00.[11] Petitioner Lita Lim-Marcelo, the Vice-President of Leslim[12] signed in the deed for and in behalf of the corporation. She was authorized by the Board of Directors in a Resolution August 19, 1994 to sign the said deed and to receive the purchase price for and in behalf of Leslim. The said Resolution was certified by corporate secretary Pedro Aquino on August 22, 1994.[13] Consequently, TCT No. 36617 which was in the name of Leslim, was cancelled and a new one, TCT No. T-116716, was issued to and in the name of Speed.[14]

On June 11, 1994, Pastor Lim died intestate and was survived by his wife, the private respondent. On March 17, 1995, the private respondent, through her nephew and attorney-in-fact George Luy, filed a petition for the administration of the estate of her deceased husband before the Regional Trial Court of Quezon City, docketed as Special Proceedings No. Q-95-23334.[15] The case was raffled to Branch 93. The private respondent filed a motion praying for the annotation of a notice of lis pendens at the dorsal portion of all titles over the properties in the name of Pastor. Included in the said properties were those registered in the name of other corporations of which Pastor was a stockholder, including that parcel of land covered by TCT No. T-116717 registered under the name of Speed. The court granted the motion. The affected corporations, including Speed, filed motions to cancel the notices of lis pendens and motions for exclusion of certain properties from Pastor's estate. On June 8, 1995, the Court granted the motions and ordered the exclusion of certain properties from the estate of Pastor and the cancellation of the notices of lis pendens on properties registered in the name of the said corporations, including that covered by TCT No. T-116716 under the name of Speed.

On June 27, 1995, the private respondent filed a verified amended petition in SP No. Q-95-23334 alleging, among others, that during his lifetime, Pastor substantially owned the following business entities: Skyline Sales Corporation, Speed Distributing, Inc., and Leslim Corporation:

- That the following real properties, although registered in the name of the above entities, were actually acquired by Pastor Y. Lim during his marriage with petitioner, to wit:

CORPORATION

TITLE

LOCATION

b. Leslim Corp.

TCT No. 36617

Quezon City

but now illegally transferred to and registered in the name of Speed Distributing, Inc. under TCT No.

116716.[16]

On July 4, 1995, the probate court issued an Order setting aside its June 8, 1995 Order and directed the Register of Deeds to reinstate the notice of lis pendens on TCT No. T-116716. The court denied the motion for the reconsideration of the said order.

Speed filed a petition for certiorari with the Court of Appeals for the nullification of the July 4, 1995 and September 12, 1995 Orders of the trial court, docketed as CA-G.R. No. 38617 (SP).

Meanwhile, on August 1, 1995, the private respondent filed a complaint against Speed, and the petitioners with the RTC of Quezon City, for the nullification of the Deed of Absolute Sale executed by Leslim in favor of Speed over the property covered by TCT No. T-36617, and the cancellation of TCT No. T-11676, with damages before the RTC of Quezon City. The case was raffled to Branch 222, and was docketed as Q-95-24588. The private respondent alleged, inter alia, that:

...

...

...

- Plaintiff is the surviving spouse of the late Pastor Y. Lim who died intestate on June 11, 1994, but leaving several properties, real and personal, situated in Quezon City, Makati City, Rizal Province, Las Piñas, Valenzuela, Manila, Cavite, Masbate and other parts of the country. ...

- During the existence of the marriage of plaintiff and Pastor Y. Lim, the latter formed, among others, Leslim Corporation, and he actually owned the same as in fact he had in his name 95,700 out of the 120,000 shares of the authorized capital stock. The remaining shares of stocks were listed in the name of some persons who were actually his dummies, and were made to appear as stockholders of Leslim Corporation only for purposes of registration with the Securities and Exchange Commission....

- Leslim Corporation, in turn, is a registered owner of a certain parcel of land located in Diliman, Quezon City, as evidenced by TCT No. 36617, issued by defendant Register of Deeds, copy of which is hereto attached as Annex "C."

- Plaintiff initiated an intestate proceedings on the estate of her deceased husband in order to lay claim on her conjugal share thereon. She then started to verify the various TCTs of the real property in the name of her deceased husband, including those in the name of Leslim Corporation, and she discovered that TCT No. 36617 had already been canceled and in lieu thereof, TCT No. 116716 was issued by defendant Register of Deeds in the name of defendant Corporation...

- Upon further verification, plaintiff discovered that the basis of the cancellation of TCT No. 36617 in favor of TCT No. 116716 is a Deed of Sale signed and executed by defendant Lita Marcelo who misrepresented herself as Vice President of Leslim Corporation and as such she was purportedly authorized to dispose of the property in question in favor of defendant corporation, which latter corporation was allegedly represented in the transaction by her husband, herein defendant Ireneo Marcelo who claimed himself as the Vice President of defendant corporation. ...

- To give a semblance of legality to the feigned transaction of sale, defendant Pedro Aquino, misrepresenting himself as the corporate secretary of Leslim Corporation, executed a simulated/falsified secretary's certificate,

wherein he stated that in an alleged special meeting of the Board of Directors of Leslim Corporation held on August 19, 1994 in its office at 1006 Quezon Avenue, Quezon City, defendant Lita Marcelo was allegedly authorized by the Board to enter into the transaction in question....

- The transfer of the property from Leslim to defendant corporation is imaginary, the deed of sale and the secretary's certificate are simulated, hence, null and void, as shown below:

- First of all, there was no such special meeting of the board of directors of Leslim Corporation on August 19, 1994, contrary to the allegation in the secretary's certificate. No notices to that effect were ever sent to Pastor Lim, a director and owner of 79.75 per cent of the capital stock of Leslim Corporation. Secondly, there was never a meeting of the stockholders wherein more than two-thirds of the stocks were present in order to approve the sale of all or substantially all of the assets consisting of real properties of Leslim Corporation. Indeed, no such meeting could have been held because Pastor Lim, who owned practically two-thirds of the total capital stock, had already died on June 11, 1994. The last meeting of stockholders of Leslim Corporation was held in January, 1994. Since then up to the present, no other stockholder's meeting, special or otherwise, was ever held by Leslim Corporation.

- Thirdly, the place of the alleged special stockholders meeting could not have occurred in the place where it was purportedly held, namely, 1006 Quezon Avenue, Quezon City. This place is the address of Accurate Distributing, Inc., which had been under the control of the group of Estrelita Cabarles since August 1994 up to the present. On the other hand, defendants Lita Marcelo, Ireneo Marcelo, and Pedro Aquino and their cohorts are the adversaries of Estrelita Cabarles in several cases, civil and criminal, pending before various courts in Metro Manila and suburbs. The control and possession by the group of Cabarles of the premises ineluctably shows that no meeting was ever held thereon by their adversaries. Fourthly, there was never any payment made to Leslim Corporation respecting the alleged purchase price.

- As a consequence of the above, defendant Lita Marcelo could not have been the Vice President of Leslim Corporation at the time the simulated deed of sale in question was executed, contrary to her claim thereon. Besides, defendant Lita Marcelo has never been a stockholder, much less a director of Leslim Corporation. Hence, it follows that the subject deed of absolute sale and the secretary's certificate are both simulated, and TCT No. 116716 of no force and effect, necessitating as it does its cancellation. The imaginary transaction of sale was clearly resorted to by defendants after the August 19, 1994 special stockholders' meeting of Accurate Distributing Inc., where in the ground of Estrelita Cabarles were elected as Board of Directors and corporate officers and in order to deprive plaintiff of her conjugal share and the other heirs of Pastor Y. Lim of their shares in his estate. In fact, all the real property registered in the name of Leslim Corporation and in Nellmart Corporation wherein Pastor Lim is also the majority stockholder had been transferred by defendants and their cohorts to themselves or to entities controlled by them, all at practically the same time. Thus:

- TCT No. 36617 – Deed of Sale dated August 22, 1994 – from Leslim to defendant Corporation. Amount P3,400,000.00.

- TCT No. 66001 – Deed of Sale dated August 26, 1994 – from Leslim to Auto Truck TBA. Amount

P10,500,000.00.

- TCT No. 101730 – Deed of Sale dated August 26, 1994 – from Leslim to Skyline Sales Corporation. Amount P15,500,00.00.

- TCT No. T-48028 in the name of Nellmart but illegally transferred to defendant corporation under TCT No. 116718.

- TCT No. 236236 in the name of Nellmart but illegally transferred to Alliance Marketing, Inc., under TCT No. 285400.

- TCT No. 236237 in the name of Nellmart but illegally transferred to Alliance Marketing, Inc. under TCT No. 285399.

- The same scheme was resorted to by defendants and their cohorts in divesting other corporations of all real property, where Pastor Lim is the stockholder. Thus, the motives of defendants in conspiracy with each other and with several other persons and entities are one and the same, namely: to monopolize the control, possession, enjoyment and ownership of all the estate of Pastor Lim, thereby depriving plaintiff of her conjugal share as well as her own share in her husband's own estate.

- By reason of these acts of defendants, plaintiff was constrained to hire the services of counsel for a fee of P50,000.00 and appearance fee of P1,500.00 per hearing. She likewise suffered sleepless nights and wounded feelings, which if converted into its monetary equivalent would be P100,000.00, more or less.

- In order to prevent defendants from repeating the unlawful acts, they should be condemned by pay exemplary damages in the amount of P100,000.00.[17]

The private respondent prayed that, after due proceedings, judgment be rendered in her favor, thus :

WHEREFORE, premises considered, it is respectfully prayed of this Honorable Court that after notice and hearing, judgment be rendered:

- declaring the secretary's certificate and the deed of sale under question null and void;

- cancelling TCT No. 116716 issued in the name of defendant Speed Distributing Corporation for being without basis in fact and in law;

- ordering defendants to pay jointly and severally the amount of P100,000.00 exemplary damages;

- ordering defendants to pay (sic) plaintiff jointly and severally the amount of P50,000.00 attorney's fees and

P1,000.00 appearance fee per hearing.

- Ordering defendants to pay the cost of suit.[18]

In their answer with compulsory counterclaim, the petitioners specifically denied the material allegations of the complaint, and by way of special and affirmative defenses, alleged that the private respondent (the plaintiff therein), was not privy to the deed of sale executed by Leslim and Speed. As such, she was not the real party-in-interest and had no cause of action against the defendants. Pursuant to Presidential Decree No. 902-A, the SEC, not the RTC, had jurisdiction over the complaint, as it was evident that the complaint involved an intra-corporate controversy.[19]

In her reply, the private respondent alleged that even if she was not privy to the deed of sale over the subject property, she was entitled to its income, and her right accrued at the time of Pastor's death on June 11, 1994.

On September 4, 1995, the RTC issued an Order in Special Proceedings No. 95-2334 granting the petition and appointed the private respondent as the co-administrator of Miguel Lim, with Atty. Donald Lee as special administrator.[20]

The court held a hearing on the special and affirmative defenses of the defendants (the petitioners herein) in Civil Case No. 95-24588. On November 25, 1995, the RTC issued an order dismissing the complaint, real party-in-interest. According to the court, she had no cause of action against the petitioners as she was not privy to the contract of sale between Leslim and Speed. Neither was she a stockholder of the defendant corporation; as such, she could not sue for the corporation. According to the court, the private respondent could not file the complaint in behalf of her deceased husband Pastor as she was unable to show that she was the authorized representative of his estate; even if she was so authorized, her claim was limited to the shares owned by Pastor, which could not extend to the properties of Leslim. The court also ruled that the action involved intra-corporate controversies over which the SEC had original and exclusive jurisdiction.

Aggrieved, the private respondent filed a motion for reconsideration of the order which was denied on February 9, 1996.[21] Dissatisfied, she appealed the order to the Court of Appeals,[22] docketed as CA-G.R. CV No. 52214. She ascribed the following errors to the court a quo:

I

THE LOWER COURT ERRED IN RULING THAT THE PLAINTIFF-APPELLANT IS NOT A REAL PARTY-IN-INTEREST TO FILE THE "COMPLAINT" BEFORE THE COURT A QUO.

II

THE LOWER COURT ERRED IN RULING THAT IT HAD NO JURISDICTION OVER THE "COMPLAINT" IN CIVIL CASE NO. Q-95-24588.

III.

THE LOWER COURT ERRED IN DISMISSING THE PLAINTIFF-APPELLANT'S "COMPLAINANT" IN CIVIL CASE NO. Q-95-24588.[23]

On April 18, 1996, the Court of Appeals rendered judgment in CA-G.R. SP No. 38617 nullifying the assailed orders. The CA ruled that the private respondent failed to prove that Pastor Lim, not Speed, owned the property. It also ruled that the finding of the probate court that the property belonged to Pastor Lim was only provisional in

nature. The private respondent then filed a petition for review on certiorari with this Court, docketed as G.R. No. 124715. On January 24, 2000, this Court rendered a Decision dismissing the petition.

On September 15, 2000, the CA rendered a decision in CA-G.R. CV No. 52214 setting aside the assailed orders and ordering the RTC to hear Civil Case No. Q-95-24588, thus:

WHEREFORE, premises considered, the Regional Trial Court, National Capital Judicial Region, Quezon City, Branch 222 is hereby ORDERED to try Civil Case No. Q-95-24588 without costs to plaintiff-appellant.[24]

The CA ruled that, as gleaned from the pleadings of the parties, the action involved intra-corporate controversies as defined in Section 5 of Presidential Decree (PD) No. 902-A; as such, the RTC had no jurisdiction over the action. However, in light of Rep. Act No. 8799 which transferred to courts of general jurisdiction or the appropriate RTC cases over which the SEC had jurisdiction, the CA ordered the remand of the case to the RTC, for the determination, among others, of the resolution of the issue of whether or not the private respondent was the real party-in-interest. The Court of Appeals stated, thus:

However, viewed in the light of Republic Act No. 8799, otherwise known as the Securities Regulation Code, approved on July 19, 2000 which has effectively divested the Securities and Exchange Commission of its quasi-judicial functions and transferred them to the Regional Trial Court, We rule that the latter may take cognizance of the instant case so as not to roundabout the judicial process, without prejudiced (sic) to its being ventilated as to whether or not appellant The private respondent Lim is a real party in interest to be determined during the trial on the merits before the appropriate court who has now the jurisdiction over the case at bar.[25]

The motion for reconsideration of the petitioners was denied by the CA, per its Resolution dated August 8, 2001.

In their petition at bar, the petitioners argue that —

THE HONORABLE COURT OF APPEALS ERRED IN HOLDING THAT THE TRIAL COURT HAS JURISDICTION OVER THE SUBJECT CASE BY VIRTUE OF THE EFFECTIVITY OF RA 8799 KNOWN AS SECURITIES REGULATION CODE.[26]

The petitioners contend that the RTC had no jurisdiction over the private respondent's complaint because the case involved intra-corporate controversies. Since Rep. Act No. 8799 took effect only on August 8, 2000, while the private respondent's appeal in the CA was pending, it should not be given retroactive effect. Furthermore, Section 5.2 of RA 8799 proscribes the transfer of cases to the RTC; as such, the CA should have dismissed the private respondent's appeal without prejudice to her right to refile her complaint in the RTC. The petitioners argue that the CA cannot order the case remanded to the RTC for the sake of convenience.

For her part, the private respondent asserts that the complaint does not involve intra-corporate controversies and the RTC had jurisdiction over the action and the issues raised by the parties in their pleadings. The private respondent, likewise, opines that there is nothing wrong with the CA's ruling directing the RTC to hear the case to avoid any consequent delay.

The sole issue in this case is whether or not the CA erred in remanding the case to the RTC and directing it to decide and hear the complaint on its merits, in view of Rep. Act No. 8799 which took effect on August 8, 2000, during the pendency of the case before it, effectively transferring jurisdiction over cases involving intra-corporate controversies from the SEC to the RTC.

The Private Respondent's
Action in the RTC Does
Not Involve an Intra-
Corporate Dispute.

Jurisdiction over the subject matter is conferred by law.[27] The nature of an action, as well as which court or body has jurisdiction over it, is determined based on the allegations contained in the complaint of the plaintiff, irrespective of whether or not plaintiff is entitled to recover upon all or some of the claims asserted therein.[28] It cannot depend on the defenses set forth in the answer, in a motion to dismiss, or in a motion for reconsideration by the defendant.[29]

Section 5 of P.D. No. 902-A provides that the SEC shall have original and exclusive jurisdiction over complaints, to hear and decide cases involving the following:

- (a) Devices or schemes employed by or any acts of the board of directors, business associates, its officers or partners, amounting to fraud and misrepresentation which may be detrimental to the interest of the public and/or stockholders, partners, members of associations registered with the Commission;
- (b) Controversies arising out of intra-corporate or partnership relations, between and among stockholders, members, or associates; between any or all of them and the corporation, partnership or association and the State insofar as it concerns their individual franchise or right as such entity;
- (c) Controversies in the election or appointment of directors, trustees, officers or managers of such corporations, partnership or associations;
- (d) Petitioners of corporations, partnerships or associations to be declared in the state of suspension of payment in cases where the corporation, partnership or association possesses sufficient property to cover all its debts but foresees the impossibility of meeting them when they fall due or in cases where the corporation, partnership or association has no sufficient assets to cover its liabilities but is under the management of a rehabilitation receiver or management committee created pursuant to this Decree.[30]

However, Section 5.2[31] of Rep. Act No. 8799, transferred the erstwhile exclusive and original jurisdiction of the SEC over actions involving intra-corporate controversies to the courts of general jurisdiction, or the appropriate RTC. All intra-corporate cases pending in the SEC were to be transferred to the appropriate RTC. Congress thereby recognized the expertise and competence of the RTC to take cognizance of and resolve cases involving intra-corporate controversies. In compliance with the law, the Court issued, on November 21, 2000 a Resolution designating certain branches of the RTC in the National Capital Region to try and decide cases enumerated in Section 5 of P.D. No. 902-A. For Quezon City cases, the Court designated Branches 46 and 93 of the RTC. Branch 222 of the Quezon City RTC, which dismissed the complaint of the private respondent, was not so designated by the Court. On March 13, 2001, the Court approved the Interim Rules of Procedure for Intra-Corporate Controversies, which took effect on April 1, 2001.

To determine whether a case involves an intra-corporate controversy, and is to be heard and decided by the Branches of the RTC specifically designated by the Court to try and decide such cases, two elements must concur: (a) the status or relationship of the parties; and (2) the nature of the question that is the subject of their controversy.[32]

The first element requires that the controversy must arise out of intra-corporate or partnership relations between any or all of the parties and the corporation, partnership or association of which they are stockholders, members or associates; between any or all of them and the corporation, partnership or association of which they are stockholders, members or associates, respectively; and between such corporation, partnership or association and the State insofar as it concerns their individual franchises. The second element requires that the dispute among the parties be intrinsically connected with the regulation of the corporation.[33] If the nature of the controversy involves matters that are purely civil in character, necessarily, the case does not involve an intra-corporate controversy. The determination of whether a contract is simulated or not is an issue that could be resolved by

applying pertinent provisions of the Civil Code.[34]

In the present recourse, it is clear that the private respondent's complaint in the RTC is not an intra-corporate case. For one thing, the private respondent has never been a stockholder of Leslim, or of Speed for that matter. The complaint is one for the nullification of the deed of absolute sale executed by Leslim in favor of Speed over the property covered by TCT No. T-36617 in the name of Leslim, the cancellation of TCT No. T-116716 in the name of Speed, as well as the Secretary's Certificate dated August 22, 1994. The private respondent alleged that since her deceased husband, Pastor Lim, acquired the property during their marriage, the said property is conjugal in nature, although registered under the name of Leslim under TCT No. T-36617. She asserted that the petitioners connived to deprive the estate of Pastor Lim and his heirs of their possession and ownership over the said property using a falsified Secretary's Certificate stating that the Board of Directors of Leslim had a meeting on August 19, 1995, when, in fact, no such meeting was held. Petitioner Lita Lim was never a stockholder of Leslim or a member of its Board of Directors; her husband, petitioner Ireneo Marcelo was the Vice-President of Speed; and, petitioner Pedro Aquino was Leslim's corporate secretary. The private respondent further averred that the amount of P3,900,000.00, the purchase price of the property under the deed of absolute sale, was not paid to Leslim, and that petitioners Spouses Marcelo and petitioner Pedro Aquino contrived the said deed to consummate their devious scheme and chicanery. The private respondent concluded that the Deed of Absolute Sale was simulated; hence, null and void.

We are convinced that on the basis of the material allegations of the complaint, the court a quo had jurisdiction over the case.

The Private Respondent is a
Real Party-in-Interest as
Plaintiff.

Rule 3, Section 2 of the Rules of Court, as amended, provides as follows:

SEC. 2. Parties in interest.— A real party in interest is the party who stands to be benefited or injured by the judgment in the suit, or the party entitled to the avails of the suit. Unless otherwise authorized by law or these Rules, every action must be prosecuted or defended in the name of the real party in interest.

The private respondent filed the complaint as one of the heirs of Pastor Lim, who died intestate on June 11, 1994. She was, in fact, the surviving spouse of the deceased, a compulsory heir by operation of law. The general rule under the law on succession is that successional rights are transmitted from the moment of death of the decedent and compulsory heirs are called upon to succeed by operation of law to the inheritance without the need of further proceedings. Under Article 776 of the New Civil Code, inheritance includes all the properties, rights and obligations of a party, not extinguished by his death.[35] Although the private respondent was appointed by the probate court as a special administratrix of the estate of Pastor Lim, she had the right, apart from her being a special administratrix, to file the complaint against the petitioners for the nullification of the deed of absolute sale, and TCT Nos. T-36617 and T-116716. Indeed, in *Emnace vs. Court of Appeals, et al.*,[36] we held that:

On the third issue, petitioner asserts that the surviving spouse of Vicente Tabanao has no legal capacity to sue since she was never appointed as administratrix or executrix of his estate. Petitioner's objection in this regard is misplaced. The surviving spouse does not need to be appointed as executrix or administratrix of the estate before she can file the action. She and her children are complainants in their own right as successors of Vicente Tabanao. From the very moment of Vicente Tabanao's death, his rights insofar as the partnership was concerned were transmitted to his heirs, for rights to the succession are transmitted from the moment of death of the decedent.

Whatever claims and rights Vicente Tabanao had against the partnership and petitioner were transmitted to respondents by operation of law, more particularly by succession, which is a mode of acquisition by virtue of which the property, rights and obligations to the extent of the value of the inheritance of a person are transmitted. Moreover, respondents became owners of their respective hereditary shares from the moment Vicente Tabanao died.

A prior settlement of the estate, or even the appointment of Salvacion Tabanao as executrix or administratrix, is not necessary for any of the heirs to acquire legal capacity to sue. As successors who stepped into the shoes of their decedent upon his death, they can commence any action originally pertaining to the decedent. From the moment of his death, his rights as a partner and to demand fulfillment of petitioner's obligations as outlined in their dissolution agreement were transmitted to respondents. They, therefore, had the capacity to sue and seek the court's intervention to compel petitioner to fulfill his obligations.[37]

All the Compulsory Heirs
of the Decedent and Leslim
Corporation are Indispensable
Parties.

In her complaint, the private respondent sought the nullification of the Deed of Absolute Sale executed by Leslim Corporation in favor of Speed, as well as TCT No. T-36617 under its name. Thus, Leslim Corporation is an indispensable party, and should be impleaded as a party-defendant conformably to Section 7, Rule 3 of the Rules of Court, as amended.

SEC. 7. Compulsory joinder of indispensable parties.— Parties in interest without whom no final determination can be had of an action shall be joined either as plaintiffs or defendants.

As Leslim Corporation was a party to the deed, its interests in the subject of the action and the outcome thereof is such that the trial court could not proceed without its presence. All actuaciones of the trial court subsequent to the filing of the complaint are null and void, not only as to Leslim Corporation, but also as to the present parties.[38] All the compulsory heirs of the deceased must also be impleaded as plaintiffs, being indispensable parties.[39] Thus, the private respondent needs to amend her complaint in the court a quo to include all indispensable parties; otherwise, her claim would be dismissed.

IN LIGHT OF ALL THE FOREGOING, the petition is DISMISSED. The records are remanded to the Regional Trial Court of Quezon City, Branch 222, for further proceedings on the merits of the case.

SO ORDERED.

Quisumbing, (Acting Chairman), Austria-Martinez, and Tinga, JJ., concur.

Puno, (Chairman), J., on leave.

[1] Penned by Associate Justice Mercedes-Gozo-Dadole, concurred in by Associate Justices Buenaventura L. Guerrero, Eugenio S. Labitoria, Hilarion Aquino and Wenceslao I. Agnir; promulgated on September 15, 2000.

[2] Penned by Judge Eudarilio B. Valencia.

[3] Records, p. 9.

- [4] CA Rollo, p. 54.
- [5] Id. at 61.
- [6] CA Records, p. 60.
- [7] Id. at 62.
- [8] Id. at 65.
- [9] RTC Records, p. 12.
- [10] Id. at 15.
- [11] Records, pp. 20-21.
- [12] Id. at 20.
- [13] RTC Records, p. 22.
- [14] Id. at 18-19.
- [15] *Lim v. Court of Appeals*, 323 SCRA 102, 2000.
- [16] CA Records, pp. 77-78.
- [17] Records, pp. 2-5.
- [18] Id. at 6-7.
- [19] Id. at 26-30.
- [20] Id. at 75-77.
- [21] Id. at 91.
- [22] Id. at 92.
- [23] CA Rollo, pp. 20-21.
- [24] Id. at p. 177.
- [25] Id. at 176.
- [26] Rollo, p. 8.
- [27] *De Rossi vs. NLRC*, 314 SCRA 245 (1999).
- [28] *Aleamar's (Sibal & Sons) vs. Court of Appeals*, 350 SCRA 333, 339 (2001).
- [29] *Intestate Estate of Alexander T. Ty vs. Court of Appeals*, 356 SCRA 661,665-667 (2001).
- [30] Section 5, PD 902-A.
- [31] 5.2. The Commission's jurisdiction over all cases enumerated under Section 5 of Presidential Decree No. 902-A is hereby transferred to the Courts of general jurisdiction or the appropriate Regional Trial Court: Provided, That the Supreme Court in the exercise of its authority may designate the Regional Trial Court branches that shall exercise jurisdiction over these cases. The Commission shall retain jurisdiction over pending cases involving intra-corporate disputes submitted for final resolution which should be resolved within one (1) year

from the enactment of this Code. The Commission shall retain jurisdiction over pending suspension of payments/rehabilitation cases filed as of 30 June 2000 until finally disposed.

[32] Saura vs. Saura, Jr., 313 SCRA 465 (1999).

[33] See Note 29.

[34] Ty vs. Court of Appeals, et al., supra.

[35] Rabadilla vs. Court of Appeals, 334 SCRA 522 (2000).

[36] 370 SCRA 431 (2001).

[37] Id. at 444-445.

[38] Arcelona vs. Court of Appeals, 280 SCRA 20 (1997).

[39] Dael vs. Teves, 136 SCRA 199 (1985).

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