

**CECILIA CASTILLO, OSCAR DEL ROSARIO, ARTURO S. FLORES,
XERXES NAVARRO, MARIA ANTONIA TEMPLO AND MEDICAL
CENTER PARAÑAQUE, INC., PETITIONERS, VS. ANGELES
BALINGHASAY, RENATO BERN...**

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

Ponente: QUISUMBING, J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-no-150976/>

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:

CLASS NO. OF SHARES PAR VALUE

"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:

CLASS NO. OF SHARES PAR VALUE

“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:

- 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
- 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:

- 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;
- 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
- 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.

When Article VII of the Articles of Incorporation of MCPI was amended in 1992, the phrase “except when otherwise provided by law” was inserted in the provision governing the grant of voting powers to Class “A” shareholders. This particular amendment is relevant for it speaks of a law providing for exceptions to the exclusive grant of voting rights to Class “A” stockholders. Which law was the amendment referring to? The determination of which law to apply is necessary. There are two laws being cited and relied upon by the parties in this case. In this instance, the law in force at the time of the 1992 amendment was the Corporation Code (B.P. Blg. 68), not the Corporation Law (Act No. 1459), which had been repealed by then.

We find and so hold that the law referred to in the amendment to Article VII refers to the Corporation Code and no other law. At the time of the incorporation of MCPI in 1977, the right of a corporation to classify its shares of stock was sanctioned by Section 5 of Act No. 1459. The law repealing Act No. 1459, B.P. Blg. 68, retained the same grant of right of classification of stock shares to corporations, but with a significant change. Under Section 6 of B.P. Blg. 68, the requirements and restrictions on voting rights were explicitly provided for, such that “no share may be deprived of voting rights except those classified and issued as “preferred” or “redeemable” shares, unless otherwise provided in this Code” and that “there shall always be a class or series of shares which have complete voting rights.” Section 6 of the Corporation Code being deemed written into Article VII of the Articles of Incorporation of MCPI, it necessarily follows that unless Class “B” shares of MCPI stocks are clearly categorized to be “preferred” or “redeemable” shares, the holders of said Class “B” shares may not be deprived of their voting rights. Note that there is nothing in the Articles of Incorporation nor an iota of evidence on record to show that Class “B” shares were categorized as either “preferred” or “redeemable” shares. The only possible conclusion is that Class “B” shares fall under neither category and thus, under the law, are allowed to exercise voting rights.

One of the rights of a stockholder is the right to participate in the control and management of the corporation that is exercised through his vote. The right to vote is a right inherent in and incidental to the ownership of corporate stock, and as such is a property right. The stockholder cannot be deprived of the right to vote his stock nor may the right be essentially impaired, either by the legislature or by the corporation, without his consent, through amending the charter, or the by-laws.[11]

Neither do we find merit in respondents’ position that Section 6 of the Corporation Code cannot apply to MCPI without running afoul of the non-impairment clause of the Bill of Rights. Section 148[12] of the Corporation Code expressly provides that it shall apply to corporations in existence at the time of the effectivity of the Code. Hence, the non-impairment clause is inapplicable in this instance. When Article VII of the Articles of

Incorporation of MCPI were amended in 1992, the board of directors and stockholders must have been aware of Section 6 of the Corporation Code and intended that Article VII be construed in harmony with the Code, which was then already in force and effect. Since Section 6 of the Corporation Code expressly prohibits the deprivation of voting rights, except as to “preferred” and “redeemable” shares, then Article VII of the Articles of Incorporation cannot be construed as granting exclusive voting rights to Class “A” shareholders, to the prejudice of Class “B” shareholders, without running afoul of the letter and spirit of the Corporation Code.

The respondents then take the tack that the phrase “except when otherwise provided by law” found in the amended Articles is only a handwritten insertion and could have been inserted by anybody and that no board resolution was ever passed authorizing or approving said amendment.

Said contention is not for this Court to pass upon, involving as it does a factual question, which is not proper in this petition. In an appeal via certiorari, only questions of law may be reviewed.[13] Besides, respondents did not adduce persuasive evidence, but only bare allegations, to support their suspicion. The presumption that in the amendment process, the ordinary course of business has been followed[14] and that official duty has been regularly performed[15] on the part of the SEC, applies in this case.

WHEREFORE, the petition is GRANTED. The Partial Judgment dated November 26, 2001 of the Regional Trial Court of Parañaque City, Branch 258, in Civil Case No. 01-0140 is REVERSED AND SET ASIDE. No pronouncement as to costs.

SO ORDERED.

Davide, Jr., C.J., (Chairman), Ynares-Santiago, and Carpio, JJ., concur.
Azcuna, J., on leave.

[**] Sometimes “Arceli” in some parts of the records.

[1] Rollo, pp. 44-47. Penned by Hon. Judge Raul E. De Leon.

[2] Id. at 128-129.

[3] Id. at 83-84.

[4] Id. at 71-72.

[5] Id. at 377.

[6] Rollo, p. 47.

[7] SEC. 6. Classification of shares. – The shares of stock of stock corporations may be divided into classes or series of shares, or both, any of which classes or series of shares may have such rights, privileges or restrictions as may be stated in the articles of incorporation: Provided, That no share may be deprived of voting rights except those classified and issued as “preferred” or “redeemable” shares, unless otherwise provided in this Code: Provided, further, That there shall always be a class or series of shares which have complete voting rights. Any or all of the shares or series of shares may have a par value or have no par value as may be provided for in the articles of incorporation: Provided, however, That banks, trust companies, insurance companies, public utilities, and building and loan associations shall not be permitted to issue no-par value shares of stock.

Preferred shares of stock issued by any corporation may be given preference in the distribution of the assets of the corporation in case of liquidation and in the distribution of dividends, or such other preferences as may be stated

in the articles of incorporation which are not violative of the provisions of this Code; Provided, That preferred shares of stock may be issued only with a stated par value. The Board of Directors, where authorized in the articles of incorporation, may fix the terms and conditions of preferred shares of stock or any series thereof: Provided, That such terms and conditions shall be effective upon filing of a certificate thereof with the Securities and Exchange Commission.

Shares of capital stock issued without par value shall be deemed fully paid and non-assessable and the holder of such shares shall not be liable to the corporation or to its creditors in respect thereto: Provided, That shares without par value may not be issued for a consideration less than the value of five (P5.00) pesos per share; Provided, further, That the entire consideration received by the corporation for its no-par value shares shall be treated as capital and shall not be available for distribution as dividends.

A corporation may, furthermore, classify its shares for the purpose of insuring compliance with constitutional or legal requirements.

Except as otherwise provided by the articles of incorporation and stated in the certificate of stock, each share shall be equal in all respects to every other share.

Where the articles of incorporation provide for non-voting shares in the cases allowed by this Code, the holders of such shares shall nevertheless be entitled to vote on the following matters:

- Amendment of the articles of incorporation;
- Adoption and amendment of by-laws;
- Sale, lease, exchange, mortgage, pledge or other disposition of all or substantially all of the corporate property;
- Incurring, creating or increasing bonded indebtedness;
- Increase or decrease of capital stock;
- Merger or consolidation of the corporation with another corporation or other corporations;
- Investment of corporate funds in another corporation or business in accordance with this Code; and
- Dissolution of the corporation.

Except as provided in the immediately preceding paragraph, the vote necessary to approve a particular corporate act as provided in this Code shall be deemed to refer only to stocks with voting rights.

[8] Rollo, p. 23.

[9] SEC. 5. The shares of any corporation formed under this Act may be divided into classes with such rights, voting powers, preferences, and restrictions as may be provided for in the articles of incorporation. Any or all of the shares may have a par value or have no par value, as provided in the articles of incorporation: Provided, however, That banks, trust companies, insurance companies, and building and loan associations shall not be permitted to issue no-par value shares of stock. Subject to the laws creating and defining the duties of the Public Service Commission, shares of capital stock without par value may be issued from time to time, (a) for such consideration as may be prescribed in the articles of incorporation; or (b) in the absence of fraud in the transaction, for such consideration as, from time to time, may be fixed by the board of directors pursuant to authority conferred in the articles of incorporation; or (c) for such consideration as shall be consented to or approved by the holders of a majority of the shares entitled to vote at a meeting called in the manner prescribed by the by-laws, provided the call for such meeting shall contain notice of such purpose. Any or all shares so issued

shall be deemed fully paid and non-assessable and the holder of such shares shall not be liable to the corporation or to its creditors in respect thereto: Provided, however, That shares without par value may not be issued for a consideration less than the value of five pesos per share. Except as otherwise provided by the articles of incorporation, and stated in the certificate of stock, each share shall be in all respects equal to every other share.

Preferred shares of stock issued by any corporation the holders of which are entitled to any preference in the distribution of the assets of the corporation in case of liquidation, may be issued only with a stated par value and, in all certificates for such shares of stock, the amount which the holder of each of such preferred shares shall be entitled to receive from the assets of the corporation in preference to holders of other shares, shall be stated.

The entire consideration received by the corporation for its no-par value shares shall be treated as capital, and shall not be available for distribution as dividends.

[10] THE 1987 CONSTITUTION OF THE REPUBLIC OF THE PHILIPPINES, Article III.

SEC. 10. No law impairing the obligation of contracts shall be passed.

[11] WILLIAM MEADE FLETCHER, 5 FLETCHER CYCLOPEDIA OF THE LAW OF PRIVATE CORPORATIONS § 2025, 116 (Revised Volume 1976).

[12] SEC. 148. Applicability to existing corporations. – All corporations lawfully existing and doing business in the Philippines on the date of the effectivity of this Code and heretofore authorized, licensed or registered by the Securities and Exchange Commission, shall be deemed to have been authorized, licensed or registered under the provisions of this Code, subject to the terms and conditions of its license, and shall be governed by the provisions hereof: Provided, That where any such corporation is affected by the new requirements of this Code, said corporation shall, unless otherwise herein provided, be given a period of not more than two (2) years from the effectivity of this Code within which to comply with the same. (Emphasis supplied)

[13] *Bangko Sentral ng Pilipinas v. Santamaria*, G.R. No. 139885, 13 January 2003, 395 SCRA 84, 92.

[14] See Revised Rules of Court, Rule 131, Section 3(q).

[15] *Id.* at Section 3(m).

ABOUT BATAS.ORG

Study smarter at BATAS.org

The Philippine bar review and law-school companion built around how your brain actually remembers.

The complete Philippine law library - free for everyone.

More than 100,000 Supreme Court decisions, Republic Acts, and executive issuances - full-text searchable, browsable by category and year, and always free. No paywall, no login. This PDF came from it.

Audio case-brief lectures.

Any decision becomes a podcast-style lecture - facts, issues, ruling, and doctrine - with read-along highlighting and a hands-free presentation mode. Study while commuting, working out, or resting your eyes.

Bar review built on the science of memory.

Complete, sequenced courses for all eight bar subjects, narrated like podcasts and reinforced with retrieval practice and spaced review - the study techniques with the strongest evidence behind them.

The full law-school curriculum.

One subscription unlocks the entire J.D. curriculum - every subject, every lesson, with your progress tracked down to the paragraph so you can pick up exactly where you left off, on any device.

Mock exams that tell you where you stand.

Timed multiple-choice exams graded instantly, with per-subject score breakdowns and focus suggestions that point you at your weakest topics first.

A study planner that keeps you on pace.

Set your schedule and BATAS tells you every day whether you are on track for bar day - and exactly which lesson to take next.

Start free at <https://batas.org>

The law library is free forever - and your first lesson is one click away.

The text of this document is an official public record and remains in the public domain. Formatting, presentation, and compilation © 2026 batas.org.

Downloaded free from the batas.org Law Library. Share it freely - the library is free for every law student, bar reviewee, and practitioner.