

****Title:**** Castillo, et al. v. Balinghasay, et al., G.R. No. 152822 (2003)

****Facts:****

- Cecilia Castillo, Oscar Del Rosario, Arturo S. Flores, Xerxes Navarro, Maria Antonia Templo, and Medical Center Parañaque, Inc. (MCPI) are the petitioners, while Angeles Balinghasay, Renato Bernabe, and several others are the respondents.
- Both parties are stockholders of MCPI, with the petitioners holding Class “B” shares and the respondents owning Class “A” shares.
- MCPI, a corporation established in 1977 under the old Corporation Law (Act No. 1459), defined in its original Articles of Incorporation that only holders of Class “A” shares could vote and be elected as directors or officers.
- Amendments to Article VII of MCPI’s Articles of Incorporation maintained the voting exclusivity for Class “A” shares across various modifications in 1981 and 1992, with approval by the SEC.
- On February 9, 2001, an election took place where petitioners were prevented from voting or being voted upon as directors, leading to their protest.
- Petitioners filed a complaint in the Regional Trial Court (RTC) of Parañaque City, arguing that the election was violating the Corporation Code (B.P. Blg. 68) as it deprived Class “B” shareholders of their rights.
- The RTC ruled in favor of respondents, validating the election and dismissing the petitioners’ claims on the first cause of action.

****Procedural Posture:****

- Petitioners filed a Complaint for Injunction, Accounting, and Damages (Civil Case No. CV-01-0140) before the RTC of Parañaque.
- A Partial Judgment in November 2001 dismissed the first cause of action.
- The petitioners appealed to the Supreme Court, which required a review of the lower court’s decision.

****Issues:****

1. Whether the provision in the Articles of Incorporation of MCPI, denying Class “B” shareholders voting rights, is null and void under Section 6 of the Corporation Code.
2. Whether the RTC erred in validating the February 9, 2001, election which deprived Class “B” shareholders of the right to vote and be voted for.
3. Whether the application of the Corporation Code to MCPI alters its pre-existing contract under the non-impairment clause of the Constitution.

Court's Decision:

1. **Deprivation of Voting Rights:**

- The Supreme Court found that Article VII's amendments must comply with the Corporation Code (B.P. Blg. 68).
- Section 6 of the Corporation Code explicitly states that only shares classified as "preferred" or "redeemable" may be deprived of voting rights.
- Class "B" shares at MCPI are neither preferred nor redeemable; thus, holders of Class "B" shares should not be deprived of voting rights.

2. **Validity of February 9, 2001 Election:**

- The February 9, 2001 election was invalidated due to the unlawful exclusion of Class "B" shareholders from voting and being elected. The Court mandated another election where Class "B" shareholders should be allowed to vote and be voted for.

3. **Non-Impairment of Contracts:**

- The Court held that the application of the Corporation Code does not impair the contractual obligations under the Articles of Incorporation since Section 148 of the Corporation Code provides that existing corporations are subject to its provisions.
- The addendum "except when otherwise provided by law" indicates an awareness of compliance with the newer Corporation Code and lawful mandates.

Doctrine:

- A corporation may not deprive any shareholder of voting rights except for shares classified as "preferred" or "redeemable," in accordance with Section 6 of the Corporation Code.
- Section 148 of the Corporation Code applies the provisions of the Corporation Code to corporations established before its effectivity.

Class Notes:

- **Corporation Code Section 6:**
 - No share may be deprived of voting rights except those issued as "preferred" or "redeemable" shares.
 - All classes must have at least one series with complete voting rights.
- **Constitutional Non-Impairment Clause:**
 - Article III, Section 10: No law impairing contractual obligations should be made.
 - Contracts must still comply with updated legal provisions, such as the Corporation Code.

Historical Background:

- The case contextualizes the ongoing evolution and application of corporate law in the Philippines, demonstrating the transition from the old Corporation Law (Act No. 1459) to the current Corporation Code (B.P. Blg. 68).
- It shows the enforcement of legislative updates on pre-existing corporate charters and the legal balancing act between upholding contractual rights and ensuring compliance with new statutory requirements to promote fair corporate governance.