

Title: Nestor Ching and Andrew Wellington v. Subic Bay Golf and Country Club, Inc., et al.

Facts:

Nestor Ching and Andrew Wellington, representing themselves and the Subic Bay Golfers and Shareholders Inc. (SBGSI), filed a complaint with the RTC of Olongapo City against Subic Bay Golf and Country Club, Inc. (SBGCCI) and its board and officers. They contested the amendments to the Articles of Incorporation and By-Laws, alleging non-disclosure of changes that deprived shareholders of their proprietary interests, lack of regular shareholders' meetings, non-provision of financial statements, and various instances of fraud undermining the corporation's financial integrity and shareholders' investments. They sought a restraining order, the appointment of a receiver, and sought damages for reduced share value.

The SBGCCI directors denied the allegations and asserted proper management practices, regular meetings, and justified financial actions. They contended that the plaintiffs did not have authorization from SBGSI, lacked legal standing, did not exhaust internal corporate remedies, and that the suit was a harassment strategy to be dismissed under the Interim Rules of Procedure for Intra-Corporate Controversies.

The RTC dismissed the complaint, determining it to be a derivative suit requiring exhaustion of internal remedies, and cited the small shareholding of plaintiffs as indicative of a nuisance/harassment suit. The plaintiffs appealed to the Court of Appeals, which affirmed the RTC's decision.

Petitioners then filed the present Petition for Review.

Issues:

1. Whether or not the filed complaint constitutes a derivative suit.
2. Whether or not petitioners had sufficient legal standing and complied with the requirements for filing a derivative suit.
3. Whether or not the action was properly dismissed as a nuisance or harassment suit.

Court's Decision:

The Supreme Court denied the petition. The Court determined the case as a derivative suit since the causes of action pertained to the entire corporation rather than individual shareholders. They found the plaintiffs did not comply with requirements for filing a derivative suit, specifically the exhaustion of intra-corporate remedies, as stipulated in Rule 8 of the Interim Rules of Procedure for Intra-Corporate Controversies. Moreover, the Court

held that an allegation of futility in exhausting remedies should have been included in the complaint with specifics but was not. The Court did not agree with the lower courts' dismissal on the grounds of it being a nuisance or harassment suit merely for the minuscule shares owned by the petitioners. The Court of Appeals' decision was affirmed.

Doctrine:

This case reiterates the doctrine regarding the filing of derivative suits within the Philippine legal context: a plaintiff in a derivative suit must have been a shareholder at the time the transactions or acts took place and when the suit was filed, must detail efforts undertaken to exhaust all available intra-corporate remedies, no appraisal rights must be available, and the suit should not qualify as a nuisance or harassment suit. A suit is to be considered a derivative one when the allegations regard the welfare of the entire corporation and not just the individual/shareholder interests.

Class Notes:

- Derivative Suits: Enables a minority shareholder to sue on behalf of the corporation for wrongs against the corporation where the management fails to act.
- Legal requirements for such suits include:
 - Ownership of stock at the time of both the actionable transaction and the filing.
 - Exhaustion of all remedies within the corporation, stated with particularity in the complaint.
 - No rights of appraisal available for the acts complained of.
 - Is not a nuisance or harassment lawsuit.

Historical Background:

Derived from common law, the concept of a derivative suit in the Philippine legal system provides minority shareholders the ability to address wrongs done to the corporation when those in control have conflicts of interest. This creates a procedural avenue for the enforcement of corporate rights, particularly in cases where management is unwilling or unable to act against itself, even in the absence of statutory provisions explicitly authorizing such actions. This ensures that the principles of fair management and accountability outlined in the Corporation Code and similar statutes can be upheld.