

Title: Forest Hills Golf and Country Club, Inc. vs. Fil-Estate Properties, Inc., and Fil-Estate Golf Development, Inc.
(790 Phil. 729)

Facts:

1. **Contract Formation and Initial Agreement:**

- On March 31, 1993, Kingsville Construction and Development Corporation (Kingsville) and Kings Properties Corporation (KPC) entered into a project agreement with Fil-Estate Properties, Inc. (FEPI).
- FEPI agreed to finance and develop Kingsville's land in Antipolo, Rizal, into Forest Hills Residential Estates and Golf and Country Club.
- FEPI was tasked to incorporate Forest Hills Golf and Country Club, Inc. (FHGCCCI) and contribute its development work as payment for its subscription to the club's capital stock.

2. **Corporate Assignments:**

- In 1995, FEPI assigned its rights and obligations to Fil-Estate Golf Development, Inc. (FEGDI).
- On July 19, 1996, Rainier L. Madrid purchased shares and became a member of FHGCCCI.

3. **Legal Demands and Non-Action:**

- Madrid issued demand letters to FHGCCCI's Board in October 2009 and March 2010, urging legal action against FEPI and FEGDI for the delay in the golf course's completion.
- The Board did not act on these demands.

4. **Initiation of Lawsuit:**

- On April 21, 2010, Madrid filed a derivative suit on behalf of FHGCCCI for specific performance and damages against FEPI and FEGDI.
- FEPI and FEGDI responded, challenging the legal bases and procedural propriety of the suit, including the failure to implead the Board of Directors.

5. **Procedural Rulings:**

- On May 14, 2012, the RTC dismissed the case for lack of jurisdiction, stating it fell under special commercial courts' purview.
- Petitioner's motion for reconsideration was denied by the RTC on February 1, 2013.
- The petitioner then elevated the matter to the Philippine Supreme Court.

Issues:

- Whether the complaint for specific performance with damages against FEPI and FEGDI is

cognizable by a regular court or should be handled by a special commercial court dealing with intra-corporate controversies.

Court's Decision:

1. **Jurisdiction:**

- The Supreme Court upheld the RTC's decision, affirming that the case, as a derivative suit, falls under the jurisdiction of special commercial courts due to the intra-corporate nature of the disputes involved.
- Petitioner's contention that the case is not intra-corporate because it targeted FEPI and FEGDI as developers, rather than as stockholders, was rejected.

2. **Intra-Corporate Controversy and Derivative Suits:**

- Intra-corporate disputes include allegations of interlocking directorships and conflicts of interest, which were present in the petitioner's complaint.
- Even though the petitioner classified the lawsuit as a derivative action, it embodies intra-corporate elements as it challenges actions/omissions of corporate directors.

3. **Procedural Shortcomings:**

- The court found that the petitioner failed to comply with procedural requirements for a derivative suit:
 - Lack of detailed allegations on exhaustion of intra-corporate remedies.
 - No explicit mention that there were no available appraisal rights.
 - Absence of a clear statement categorizing the suit as non-nuisance and non-harassment.

Doctrine:

- **Derivatives Suits and Jurisdiction:**

- Derivative suits, which are typically intra-corporate in nature, must be filed in special commercial courts as per Republic Act No. 8799 and A.M. No. 00-11-03-SC.

- **Procedural Requirements for Derivative Suits:**

- The minority stockholder must exhaust all intra-corporate remedies before filing.
- Precise documentation of efforts to resolve issues within the corporate governance framework is necessary.
- Explicit affirmations on the non-availability of appraisal rights and the nature of the suit (non-nuisance or non-harassment) are required.

Class Notes:

1. **Derivative Suits:**

- Key Elements: Minority shareholder's action on behalf of the corporation.
- Requirements: Shareholder status at the relevant time, exhaustive intra-corporate remedies, no available appraisal rights, and non-nuisance nature.

2. **Intra-Corporate Relations:**

- Governing Provisions: Republic Act No. 8799 (Securities Regulation Code).
- Covers: Shareholder-initiated suits, Board of Directors actions, election controversies, and inspection rights.

3. **Special Commercial Courts:**

- Designation: By the Supreme Court under A.M. No. 00-11-03-SC.
- Jurisdiction: All cases involving intra-corporate disputes as per the Interim Rules of Procedure.

Historical Background:

- The Securities Regulation Code (RA 8799) redefined the roles and jurisdictions of courts over corporate disputes, emphasizing the complexity of intra-corporate relations and the need for specialized adjudication.
- The procedural safeguards in derivative suits reflect historical abuses where majority shareholders dominated board decisions to the detriment of the corporation and minority shareholders, necessitating clear guidelines to protect minority interests.