

Title: Anthony S. Yu, Rosita G. Yu and Jason G. Yu vs. Joseph S. Yukayguan, Nancy L. Yukayguan, Jerald Nerwin L. Yukayguan, and Jill Neslie L. Yukayguan, Winchester Industrial Supply, Inc.

Facts:

- **Background:** The case involves two families, the Yus, and the Yukayguans, who were stockholders in Winchester Industrial Supply, Inc.
- **15 October 2002:** Respondents (Yukayguans) file a complaint against petitioners (Yus) for accounting, inspection of corporate books, damages due to embezzlement, and falsification of corporate records before RTC of Cebu, docketed as SRC Case No. 022-CEB.
- **Respondents' Allegation:** Joseph Yukayguan claims that Winchester Inc. was incorporated with Anthony Yu holding shares in trust for Joseph. Petitioners controlled and misappropriated corporate funds. Respondents seek declaration of Joseph's ownership of shares, inspection of corporate records, accounting of misappropriated funds, and reimbursement for personal expenses charged to the corporation.
- **13 November 2002:** Petitioners deny allegations, claiming Anthony Yu individually owned the shares and managed Winchester, Inc. legitimately. They argue the complaint failed to meet conditions precedent, like efforts to settle disputes or exhausting corporate remedies.
- **Involvement and Proceedings:**
- **30 October 2002:** RTC begins hearing management committee appointment.
- **29 November 2002:** Hearing reset due to ongoing mediation.
- **Dispute Settlement Attempt:** Both parties agree to divide the corporation's assets and dissolve it. Distribution occurs but is later disputed by respondents.
- **25 June 2004:** Petitioners manifest amicable settlement; respondents repudiate, seeking pre-trial.
- **26 August 2004:** RTC sets case for judgment based on pleadings and affidavits.
- **10 November 2004:** RTC dismisses respondents' complaint for non-compliance with derivative suit prerequisites and insufficient evidence.
- **Appellate Proceedings:** Respondents appeal to the Court of Appeals.
- **15 February 2006:** CA affirms RTC decision.
- **23 February 2006:** Respondents file motions for reconsideration and to set for oral arguments.
- **30 March 2006:** CA hears oral arguments.
- **18 July 2006:** CA remands the case back to RTC for resolution of corporate concerns.

Issues:

1. **Compliance with Derivative Suit Prerequisites:** Whether respondents exhausted all corporate remedies and complied with mandatory prerequisites for a derivative suit.
2. **Admissibility of Supplemental Evidence:** Whether supplemental affidavits and additional documents submitted by respondents post-memorandum are admissible.
3. **Authority of Court of Appeals:** Whether CA overstepped jurisdiction by converting a derivative suit into liquidation proceedings.
4. **Violation of Summary Proceeding Nature:** Whether remanding the case to RTC violates the summary procedure for intra-corporate cases.

Court's Decision:

- **First Issue:** The Court ruled that respondents failed to meet the prerequisites for a derivative suit (Section 1, Rule 8). Allegations of attempting to talk with petitioners do not suffice as exhausting corporate remedies.
- **Second Issue:** Affirmed inadmissibility of supplemental affidavits/evidence submitted with respondents' memorandum, under Section 8, Rule 2 of Interim Rules which require evidence to be attached to the appropriate pleading or pre-trial brief.
- **Third Issue:** CA decision to remand for liquidation proceedings was reversed. The derivative suit cannot be converted into liquidation. The action was derided as lacking foundation due to absence of proof regarding petition for dissolution.
- **Fourth Issue:** Reaffirmed that requiring further action violated the expedited nature of such cases, remanding unnecessarily prolongs litigation.

Doctrine:

- Derivative suits necessitate exhausting all intra-corporate remedies with particularity in the complaint.
- Documentary evidence and affidavits must be appropriately submitted within procedural timelines to ensure fair trial and due process.
- Court of Appeals' limited scope prevents transforming derivative suits into liquidation without substantial proof and proper procedural initiation.

Class Notes:

- **Derivative Suit Requirements:** Stockholder/member status, exhaustion of corporation remedies, no appraisal rights, suit's genuine nature (Rule 8, Section 1).
- **Intra-Corporate Controversies:** Proper procedural adherence critical, evidence submission mandates strict timing (Rule 2, Section 8).
- **Liquidation Procedures:** Governed under Corporation Code Section 122, distinct from derivative suits.

Statutes Referenced:

- **Rule 16, Section 1(j) Rules of Court:** Grounds for motion to dismiss.
- **Rule 8, Section 1:** Requirements for derivative action.
- **Interim Rules on Intra-Corporate Controversies:** Rules 2, 4, 7, and 8 on procedural mandates.

Historical Background:

- Emerged from family-run corporation disputes escalating to intra-corporate litigation.
- Sheds light on procedural rigors and judicial restraint in transforming corporate disputes.