

Title: Ramon C. Lee and Antonio DM. Lacdao vs. The Hon. Court of Appeals, SACOBA Manufacturing Corp., Pablo Gonzales, Jr., and Thomas Gonzales

Facts:

The case originated from a complaint filed by the International Corporate Bank, Inc. (ICBI) against Sacoba Manufacturing Corp. and its officers, which then led to a third-party complaint against Alfa Integrated Textile Mills (ALFA) and its purported officers Ramon C. Lee and Antonio DM. Lacdao. A pivotal point in the case was the service of summons on ALFA, after the stockholders of ALFA entered into a voting trust agreement with the Development Bank of the Philippines (DBP), transferring legal title of their shares to the DBP.

The procedural history of the case is detailed:

- Complaint for a sum of money was filed by ICBI against Sacoba Manufacturing Corp. on November 15, 1985.
- Third-party complaint was filed against ALFA and the petitioners on March 17, 1986.
- September 17, 1987: Petitioners filed a motion to dismiss which was denied on June 27, 1988.
- Petitioners filed their answer to the third-party complaint on July 18, 1988.
- Trial court directed the issuance of an alias summons to ALFA through DBP on July 12, 1988.
- DBP declared it could not receive summons for ALFA in July 1988.
- August 16, 1988: Private respondents moved for declaration of proper service of summons with the trial court consenting a day later.
- Petitioners objected, citing improper service of summons as they were no longer officers of ALFA due to the voting trust agreement with DBP.
- January 2, 1989: Trial court deemed service of summons on ALFA through the petitioners valid.
- Trial court reversed its order on April 25, 1989, ruling the service through the petitioners invalid.
- Private respondents moved for reconsideration, but the order was upheld on August 14, 1989.
- Private respondents filed for certiorari with the Court of Appeals (CA), which set aside the trial court's orders and directed ALFA to file an answer.

Issues:

1. What is the nature of the voting trust agreement executed between ALFA stockholders

and the DBP?

2. Who owns the stocks of the corporation under the terms of the voting trust agreement?
3. How long can a voting trust agreement remain valid and effective?
4. Did the execution of the voting trust agreement result in the petitioners ceasing to be directors of ALFA?

Court's Decision:

The Supreme Court granted the petition, setting aside the CA decision and reinstating the RTC's orders dated April 25, 1989, and October 17, 1989. The Court held that the service of summons on ALFA through the petitioners was invalid as they were no longer officers of the corporation after entering into a voting trust agreement with DBP, which transferred legal title of their shares to the DBP. According to the Corporation Code, this dissolved their status as directors since they no longer held shares in their names in the books of the corporation.

Doctrine:

The Court reiterated the doctrine regarding voting trust agreements, which provide that the creation of such an agreement results in the separation of the voting rights of a stockholder from his other rights as a shareholder. Additionally, legal title to the shares subject to the agreement transfers to the trustee, rendering the original stockholders as merely beneficial or equitable owners—therefore, disqualifying them from directorship which requires holding legal title to at least one share registered in their name.

Class Notes:

- A voting trust agreement is a legal mechanism used by stockholders to confer voting and other rights related to their shares upon a trustee for a period not exceeding five years, extendable if linked to a loan agreement, upon certain conditions.
- Legal title to shares and management of the company are transferred to the trustee, while original stockholders retain equitable or beneficial ownership.
- A director must hold at least one share of the company in his name on the books of the corporation, else he ceases to be a director.
- Service of summons for a corporation may be made on the president, manager, secretary, cashier, agent, or any director as enumerated under Rule 14, Section 13 of the Revised Rules of Court.

Historical Background:

In the context of the Philippine legal system and corporate structure, this case underscores

how a voting trust agreement alters the legal and managerial dynamics within a corporation. Such agreements can significantly impact dispute resolution when it comes to the service of legal processes, serving as critical lessons in corporate governance and the maintenance of a company's separate legal identity from its stockholders and directors.