

****Title:****

Granger Associates vs. Microwave Systems, Inc. (267 Phil. 665)

****Facts:****

Granger Associates, a corporation based in the United States, filed a complaint in the Regional Trial Court of Pasay City, Philippines, against Microwave Systems, Inc. (MSI), a domestic corporation, for failure to pay US\$900,633.30 owed under a series of agreements. These agreements included:

1. A contract dated March 28, 1977, licensing MSI to manufacture and sell Granger's products in the Philippines.
2. A contract dated May 17, 1979, for the sale of Model 7100/7200 Multiplex Equipment to MSI.
3. A Supplemental and Amendatory Agreement concluded in December 1979, adjusting and establishing additional terms and transactions.

MSI argued that Granger had no capacity to sue because it was an unlicensed foreign corporation transacting business in the Philippines, in violation of Section 133 of the Corporation Code.

The trial court sided with MSI and dismissed the case. This decision was affirmed by the Court of Appeals, leading Granger to file a petition under Rule 45 of the Rules of Court, seeking the reversal of the lower courts' decisions.

****Issues:****

1. Whether Granger Associates, an unlicensed foreign corporation, was transacting business in the Philippines, thereby lacking the capacity to sue in Philippine courts.
2. Whether a single or series of transactions could constitute "transacting business" under Philippine law.

****Court's Decision:****

The Supreme Court affirmed the decision of the lower courts and denied the petition of Granger Associates.

- **On the Issue of Transacting Business:**

The court applied the definition provided in Section 1 of Rep. Act No. 5455 and Article 133 of the Corporation Code. It found that Granger Associates had entered into a series of agreements with MSI, indicating a continuity of commercial dealings rather than isolated

transactions.

Granger's various contracts, including those from March 1977 and May 1979, as well as the supplemental agreements, covered numerous aspects beyond initial transactions, such as continuous technical support, obligations tied to sales and warranties, and the development of markets in Mainland China and ASEAN countries. These activities went beyond incidental transactions, defining Granger's operations as doing business in the Philippines.

- **On the Requirement of a License:**

The Court cited previous jurisprudence and interpretations that one significant act could qualify as "doing business" if it demonstrated an intent to conduct further business in the Philippines. Granger's extensive involvement with MSI, including an influential seat on MSI's board, indicated substantial and ongoing business operations necessitating a local license.

Doctrine:

The case established that:

1. A series of commercial transactions, including even a single act of significant character indicative of intent to conduct further business, can constitute "doing business" in the Philippines under Section 133 of the Corporation Code.
2. Foreign corporations must secure the appropriate licenses to transact business in the Philippines to access its judicial system.

Class Notes:

- **Elements of Transacting Business:**

- Continuity of commercial dealings or arrangements.
- Performance of acts or works intended to achieve the entity's business objectives.
- Not necessarily dealing with the public but can involve a series of transactions with a local entity.

- **Key Statutory Provision:**

- **Section 133, Corporation Code:** Prohibits foreign corporations not licensed in the Philippines from maintaining any suit or proceeding in Philippine courts.

- **Jurisprudence:**

- Criteria set forth in Rep. Act No. 5455 and the interpretation in cases like *Mentholatum v. Mangaliman* and *Far East International Import and Export Corporation v. Nankai Kogyo Co., Ltd.* inform the understanding of "doing business".

****Historical Background:****

The decision contextualizes the legal landscape governing foreign corporations in the Philippines during the 1980s. It highlights the importance of licensing for foreign entities engaged in business activities within the country. This regulatory requirement serves to protect local commerce and ensure that foreign companies operating in the Philippines are subject to its laws and jurisdiction, safeguarding both local entities and ensuring fair commercial practices.