

### Title: Aurbach v. Sanitary Wares Manufacturing Corporation

#### Facts:

Sanitary Wares Manufacturing Corporation (Saniwares), a Philippine domestic corporation, was incorporated in 1961 with the primary purpose of manufacturing and marketing sanitary wares. In pursuit of expansion, Saniwares entered into an agreement on August 15, 1962, with American Standard Inc. (ASI), a Delaware-domiciled corporation, to form a joint enterprise. ASI was initially allotted 30% of the stock which later increased to 40%. The governance agreement specified cumulative voting for directors and provided ASI with veto powers over major corporate actions, thereby ensuring certain protections for ASI as a minority stakeholder.

Over the years, disputes arose between the Filipino investors and ASI, principally over export operations. The pivotal conflict occurred at the annual stockholders' meeting on March 8, 1983. During this meeting, nominations for the board of directors were contested. ASI put forth three nominees (Wolfgang Aurbach, John Griffin, and David Whittingham) while the Filipino group nominated six. Eduard Ceniza and Luciano Salazar also nominated additional candidates, leading to a tumultuous vote.

After a series of procedural disputes and physical disruptions, two concurrent elections were held: the original meeting presided over by Baldwin Young (resulting in the election of nominees from the Filipino group and ASI) and the continued meeting presided over by Luciano Salazar (resulting in the election of ASI nominees and additional candidates).

Multiple petitions ensued with the Securities and Exchange Commission (SEC), leading to consolidated cases (SEC Case Nos. 2417 and 2718), each side claiming legitimate control of the board. The SEC ruled in favor of the Lagdameo Group, a decision affirmed by the SEC en banc. Appeals were filed with the Intermediate Appellate Court (IAU), which led to a directive that a new stockholders' meeting be convened by the SEC. The Court of Appeals subsequently issued an amended decision specifying that ASI could nominate only three directors, with the Filipino stockholders responsible for nominating six, employing cumulative voting internally.

#### Issues:

1. Whether the stockholders' meeting on March 8, 1983, resulted in a valid election of directors.
2. Whether the right to cumulative voting in the election of directors was properly applied.

3. Whether the allocation of board seats as stipulated in the 1962 Agreement restricted cumulative voting rights.
4. Whether ASI's actions, including the voting of additional equity, violated any provisions of the Anti-Dummy Law and nationalization policies of the Philippines.

#### Court's Decision:

The Supreme Court upheld the decision of the Court of Appeals with modifications. The Court ruled that:

1. **Validity of Election**: The election of directors conducted under Baldwin Young's faction during the March 8, 1983, meeting was upheld, recognizing Wolfgang Aurbach, John Griffin, David Whittingham, Ernesto V. Lagdameo, Baldwin Young, Raul A. Boncan, Ernesto R. Lagdameo, Jr., Enrique Lagdameo, and George F. Lee as the duly elected directors.
2. **Cumulative Voting**: Recognizing both the right of stockholders to cumulative voting and the specific allocation of directorship seats—three to ASI and six to Filipino stockholders—the Court ruled consistent with the agreement's intent. However, it emphasized maintaining the minority protection status of ASI while ensuring the majority control of Filipino stockholders.
3. **Allocation of Board Seats**: The Court affirmed that the Agreement's allocation of directors did not conflict with cumulative voting rights. Filipino stockholders can cumulatively vote for their six nominees without interference from ASI in their selection.
4. **Anti-Dummy Law and Nationalization**: Upholding the Agreement prevented ASI from effectively gaining control, which could potentially violate the nationalization requirements of the Constitution and the Anti-Dummy Law. Any action perceived to indirectly achieve what could not be accomplished overtly would be scrutinized and rendered invalid.

#### Doctrine:

1. **Agreement Compliance**: The joint venture agreement between the parties must be strictly adhered to, maintaining the agreed-upon allocation of board seats to preserve Filipino majority control.
2. **Protection of Minority Interests**: Agreements providing for minority interests (such as veto powers and designated managerial roles) are lawful and enforceable.
3. **Cumulative Voting**: The right to cumulative voting must be balanced with contractual arrangements, ensuring such rights do not subvert the designed minority-majority structure of joint ventures.
4. **Adherence to Anti-Dummy Law**: Any corporate action, including board elections, must comply with the Anti-Dummy Law, safeguarding nationalized business operations against foreign overreach.

#### Class Notes:

- **Joint Venture vs. Corporation**: Critical distinction in governance and minority protection mechanisms.
- **Cumulative Voting**:
- Section 24 of the Corporation Code: Ensures minority representation in corporate boards.
- Limitations based on contractual agreements.
- **Anti-Dummy Law (Commonwealth Act No. 108 as amended)**:
- Provisions against improper participation of foreign entities in nationalized industries.
- **Philippine Constitution**: Nationalization requirements reinforcing Filipino ownership/control in certain sectors.

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#### Historical Background:

The case is emblematic of the complexities in joint ventures between local Filipino companies and foreign partners. It reflects early attempts in the 1960s to industrialize the Philippines using foreign technological and marketing capital while navigating the robust legal requirements for Filipino ownership and control. The legal instruments and doctrines evolved to ensure both foreign investment protection and adherence to national policy, critical for socio-economic development during that era. The *Aurbach v. Saniwares* case underscores the importance of balancing investor rights with national sovereignty in business operations.