

Title: Yao Ka Sin Trading vs. Prime White Cement Corporation

Facts:

The case revolves around an undated letter-offer from Prime White Cement Corporation (PWCC), represented by President-Chairman Constancio B. Maglana, to Yao Ka Sin Trading (YKS), a single-proprietorship business operated by Yao Ka Sin. This letter contained an offer selling white cement under specified terms and conditions. Henry Yao, representing YKS, accepted the offer, and a check for P243,000.00 was given as down payment.

The letter-offer was presented as Exhibit "A" and signed in the office of Teodoro Catindig, Senior Vice-President of Consolidated Bank and Trust Corporation. After the agreement, the PWCC Board of Directors disapproved it during a meeting.

Despite disapproval, PWCC treated the P243,000.00 as payment for a separate commitment to sell 10,000 bags of white cement to YKS, which was outside the terms of the initial letter-offer. YKS received both delivery and official receipts for this without protest but later insisted that PWCC honor the original agreement for 45,000 bags.

YKS filed a complaint for Specific Performance with Damages against PWCC. PWCC argued that the letter-offer was unenforceable, as it lacked board approval. The case eventually reached the Supreme Court after progressing through lower courts and appeals.

Issues:

The principal issue was whether the letter-offer, as accepted by YKS, constitutes a contract binding upon PWCC. The secondary issues included the enforceability of the option to renew the contract contained in the letter-offer and the legal implications of the corporate president's actions without direct authorization from the Board of Directors.

Court's Decision:

The Supreme Court, in agreement with the Court of Appeals, concluded that the letter-offer (Exhibit "A") is an unenforceable contract, holding that Mr. Maglana, as President and Chairman, lacked the authority to execute it on behalf of the corporation without approval from the PWCC Board of Directors. The apparent authority of Mr. Maglana to execute such contracts could not be established, as YKS failed to prove that he had previously engaged in similar acts on behalf of PWCC. The option to renew the contract was also unenforceable due to the lack of a distinct consideration from the price. As for the procedural posture, it was noted that the failure to contest the genuineness of certain documents attached to PWCC's Answer did not apply to YKS since they were not a party to those documents.

Doctrine:

The case reaffirms the doctrine that no one may contract on behalf of another without proper authorization, as outlined in Article 1317 of the Civil Code of the Philippines. The corporate officer or agent's authority must be established by statutory provisions, the corporation's articles of incorporation, by-laws, or resolutions of the Board of Directors.

Class Notes:

1. Corporate Authority: A corporation acts through its officers and agents. Their authority must be found in law or corporate governance documents.
2. Contractual Capacity: Only parties with legal capacity may enter into enforceable contracts.
3. Board Approval: Contracts entered by corporate officers require board approval unless prior authorization is given or subsequent ratification occurs.
4. Apparent Authority: To be binding, the corporation must clothe an officer with apparent authority through consistent conduct.
5. Options: To be enforceable, an option needs a separate consideration from the underlying contract.
6. Genuineness of Documents: Denial under oath is required for an adverse party who is a party to the instrument, not for a non-party.

Historical Background:

This case illustrates the importance of corporate governance in contract formation. Despite Maglana's high-ranking position within PWCC, the Supreme Court emphasized the need for board authorization for corporate contracts. It reflects the legal principles that preserve the hierarchical structure of decision-making authority within corporations and underscores the limitations on the powers of corporate officers. The decision safeguards the corporation and its shareholders from unauthorized commitments by ensuring adherence to corporate rules and formalities.