

**\*\*Title:\*\*** Cagayan Fishing Development Co., Inc. vs. Teodoro Sandiko

**\*\*Facts:\*\***

Manuel Tabora owned four parcels of land in Barrio Linao, Aparri, Cagayan, secured by three mortgages for loans from the Philippine National Bank and Severina Buzon. On May 31, 1930, he “sold” these lands to the not-yet-incorporated Cagayan Fishing Development Co., Inc. for P1, subject to the existing mortgages. The company’s incorporation was completed on October 22, 1930. Subsequently, the company’s board authorized the sale of these lands to Teodoro Sandiko for P42,000 in October 1931. By February 15, 1932, a deed of sale, a promissory note for P25,300, and a mortgage deed were executed between the parties, with Sandiko agreeing to pay the amount and assume the mortgages. Sandiko failed to pay, leading the plaintiff to sue for the recovery of P25,300 in 1934. The Court of First Instance of Manila absolved Sandiko, a decision objected to by the plaintiff, leading to an appeal to the Supreme Court.

**\*\*Issues:\*\***

1. Was the contract of sale between Tabora and the plaintiff company valid despite the company not being incorporated at the time of the transaction?
2. Could the plaintiff company lawfully sell the lands to Sandiko and later enforce the sales agreement considering its non-existence at the time of the initial sale?

**\*\*Court’s Decision:\*\***

The Supreme Court affirmed the Court of First Instance’s decision, holding that the initial transfer from Tabora to the unincorporated Cagayan Fishing Development Co., Inc. was null. The Court found that a corporation must be duly organized and existing under the law at the time it enters into a contract. Since the company was not yet incorporated at the time of the initial sale, it lacked juridical capacity to enter into the contract, making the subsequent sale to Sandiko unenforceable.

**\*\*Doctrine:\*\***

The principle established is that a corporation must be duly incorporated and possess juridical capacity at the time of entering a contract. Acts done on behalf of a corporation prior to its incorporation have no legal standing, and such entity cannot acquire or dispose of properties.

**\*\*Class Notes:\*\***

- **\*Juridical Capacity and Incorporation:** Before a corporation can act, it must be properly

incorporated and possess the legal capacity to enter into contracts. This stresses the importance of confirming the legal existence of an entity before engaging in transactions.

- **\*Ratification of Pre-Incorporation Contracts:\*** Although there are exceptions where a corporation may ratify acts done on its behalf before incorporation, such ratification is contingent on the nature of the acts and the corporation's subsequent adoption of those acts post-incorporation.

- **\*Legal Consequence of Non-Existence:\*** An attempt by an entity to act as a corporation without legal existence results in nullity of those acts, highlighting the critical role of corporate formation procedures.

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Key Statutory Provisions Applied:

- Corporation Law (Act No. 1459, Sections 13, pars. 5 and 9, 14, and Sections 6 et seq.), emphasizing requirements for corporation formation and the scope of corporate powers.

- Civil Code Articles on juridical capacity and conditions affecting contract validity.

**\*\*Historical Background:\*\***

The case reflects the legal intricacies surrounding contracts and transactions involving corporations in the Philippines during the early 20th century. It underscores the importance of adhering to the statutory requirements for incorporation and the limitations on the contractual capacity of entities before their formal legal establishment. This decision reinforces the principle of corporate entity theory, emphasizing that a corporation's existence and its rights commence only upon its formal registration and recognition under the law.