

****Title:****

The Board of Liquidators Representing the Government of the Republic of the Philippines v. Heirs of Maximo M. Kalaw, et al.

****Facts:****

The National Coconut Corporation (NACOCO), a governmental organization formed in 1940 to develop the coconut industry, modified its charter in 1946 to engage in copra trading. Maximo M. Kalaw served as general manager and chairman, while Juan Bocar and Casimiro Garcia were board members, and Leonor Moll joined on December 22, 1947.

NACOCO entered numerous copra contracts in mid-1947, primarily negotiated by Kalaw. From July to October 1947, Kalaw signed various contracts totaling thousands of long tons of copra with multiple companies, including Alexander Adamson & Co., Pacific Vegetable Co., Spencer Kellog & Sons, Franklin Baker Division, Pacific Vegetable Co., and others. A series of natural disasters struck the Philippines—four devastating typhoons from October to December 1947—which severely impacted copra production, making it impossible for NACOCO to fulfill its contracts and leading to financial losses.

In the face of these impending losses, Kalaw sought but did not immediately receive board approval for the contracts. Eventually, on January 30, 1948, the board approved Kalaw's actions retrospectively. Despite partial fulfillment of the contracts, the buyers threatened damage claims, many of which were settled out of court, including a significant claim by Louis Dreyfus & Co. settled for P567,024.52. In total, settlements amounted to P1,343,274.52.

Subsequently, in February 1949, NACOCO sued Kalaw and the board members, alleging negligence and bad faith. The trial court dismissed the complaint but awarded unpaid salaries to Kalaw's heirs. The ruling was then appealed to the Supreme Court.

****Issues:****

1. Whether the Board of Liquidators had the legal personality to continue the suit post the dissolution of NACOCO.
2. Whether the action survives against the heirs of Maximo Kalaw.
3. Whether Kalaw was justified in entering into the contracts without prior board approval.
4. Whether the contracts signed by Kalaw and later ratified by the board were valid corporate acts.
5. Whether the board's ratification of the contracts constituted bad faith or a breach of

trust.

6. Whether the damages suffered by NACOCO were attributable to Kalaw's negligence or force majeure.

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

****Issue 1:****

The Supreme Court ruled that the Board of Liquidators had the legal personality to continue the suit. Although NACOCO was dissolved by Executive Order 372, the order did not set a time limit for the dissolution activities carried out by the Board of Liquidators, which continued to exist and function for winding up the corporation's affairs, including prosecuting and defending suits.

****Issue 2:****

The action survived against the heirs of Maximo Kalaw. The court found that the suit revolved around alleged tortious acts and was not merely for the recovery of money arising from a contract. Actions based on torts survive the death of the alleged tortfeasor and can be prosecuted against the estate.

****Issue 3:****

The court held that Kalaw was justified in entering into the contracts without prior board approval. The court recognized the general manager's implied authority to enter into contracts necessary for the conduct of the corporation's ordinary business. In the case of NACOCO, forward sales of copra were essential due to the nature of the business and market conditions.

****Issue 4:****

The court found the contracts signed by Kalaw and later ratified by the board to be valid corporate acts. Even though the by-laws required prior approval, the corporation had a history and practice of allowing the general manager to negotiate and execute contracts independently. The board's ratification on January 30, 1948, cleansed any potential defects.

****Issue 5:****

The court concluded that the board's ratification of the contracts did not constitute bad faith or a breach of trust. The ratification was deemed an act of fairness, recognizing Kalaw's belief that he had the authority to make such contracts and that the contracts were made in the corporation's best interests at the time.

****Issue 6:****

The damages suffered by NACOCO were attributable to force majeure (the typhoons) and not to Kalaw's negligence. The court noted that Kalaw's actions were prudent and consistent with his responsibilities and that the typhoons were an unforeseeable natural force beyond anyone's control.

****Doctrine:****

1. ****Legal Personality of Liquidating Entities:**** The continuation of a corporation's legal actions post-dissolution can be validly carried out by specially constituted liquidating bodies, in this case, the Board of Liquidators.
2. ****Survival of Tort Actions:**** Torts committed by a decedent survive and can be pursued against the decedent's estate.
3. ****Implied Authority of General Managers:**** Corporate officers with general management responsibilities may enter into necessary contracts for the ordinary business operations without prior board approval.
4. ****Corporate Ratification:**** Ratification of an agent's unauthorized act by a corporation relates back to the original act, making it as lawful as if it initially held authorization.
5. ****Force Majeure:**** Natural disasters that significantly alter conditions and capabilities constitute force majeure, exempting contractual parties from certain liabilities if these events directly cause performance failures.

****Class Notes:****

- ****Legal Personality:**** Sections of the Corporation Law relevant to the winding up and liquidation of dissolved corporations, particularly in special contexts where government entities are involved.
- ****Survival of Actions:**** Comparison between claims that are non-transmissible after death and those that survive, such as actions based on delicts.
- ****Corporate Practices:**** The importance of established business practices and historical precedents in interpreting the scope of authority of corporate officers.
- ****Ratification in Corporate Law:**** The effects of corporate ratification on previously unauthorized acts.
- ****Force Majeure Doctrine:**** Application of force majeure in contract law, particularly related to unpredictable natural events impacting contractual obligations.

****Historical Background:****

The case should be viewed in the context of post-war Philippines, during a period of rebuilding and economic stabilization. The establishment of government corporations like

NACOCO was aimed at protecting and developing crucial industries like coconuts. The mid-20th century saw significant state intervention in economic activities. The case also highlights the challenges faced by even well-structured governmental entities in the face of natural disasters and how these challenges are adjudicated within the legal system. The shift from direct corporate management to liquidation efforts post-1950 reflects broader trends in the governance and restructuring of state enterprises.