

****Title:**** Marshall-Wells Company v. Henry W. Elser & Co., Inc.

****Facts:****

Marshall-Wells Company, an Oregon corporation, sold goods amounting to P2,660.74 to Henry W. Elser & Co., Inc., a domestic corporation in the Philippines. The payment for these goods was supposed to be made through accepted drafts. However, Henry W. Elser & Co., Inc. failed to pay the owed amount, leading Marshall-Wells Company to sue for the unpaid balance.

The suit was filed in the Court of First Instance of Manila. Henry W. Elser & Co., Inc. responded with a demurrer, arguing that Marshall-Wells Company did not have the legal capacity to sue because it had not complied with Philippine laws regarding foreign corporations. Specifically, the complaint did not indicate that Marshall-Wells Company had obtained the necessary license to do business in the Philippines, as required by the Corporation Law (Act No. 1459).

The trial court sustained the demurrer and dismissed the complaint since Marshall-Wells Company could not prove compliance with the statute. Marshall-Wells Company appealed the decision.

****Issues:****

The primary legal issue before the Supreme Court was whether a foreign corporation, which had not obtained a license to do business in the Philippines, could maintain a suit in Philippine courts for the recovery of a debt.

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

The Supreme Court considered the pertinent provisions of the Corporation Law, notably Sections 68, 69, and related sections, which govern the conduct and legal standing of foreign corporations operating in the Philippines.

1. ****License Requirement (Sec. 68):**** Section 68 of the Corporation Law mandates that foreign corporations must obtain a license to transact business in the Philippines. However, the specific issue was the interpretation of Section 69, which precludes foreign corporations from maintaining any suit in the Philippines without such a license.

2. ****Interpretation of "Transacting Business":**** The Court noted that the statute aimed to subject foreign corporations engaging in continuous business activities in the Philippines to local jurisdiction and to ensure they complied with local regulations. However, the law did

not intend to bar foreign corporations from seeking legal redress for isolated transactions.

3. **Legal Capacity to Sue:** The Court held that the Corporation Law must be interpreted reasonably. It should not impose undue restrictions that would hamper international trade or defraud foreign entities involved in isolated transactions with Philippine entities. The Court emphasized a balanced approach that accommodated the objectives of the statute without leading to unreasonable consequences.

Therefore, the Supreme Court set aside the trial court's order and directed that the record be returned for further proceedings, allowing Marshall-Wells Company to pursue its claim.

Doctrine:

A foreign corporation not licensed to do business in the Philippines can still maintain a suit for isolated transactions. The Corporation Law's stipulations on licensing should not unduly restrict such corporations from seeking redress in local courts for single or occasional business dealings.

Class Notes:

- **Elements/Concepts:**

- Foreign Corporation Licensing (Section 68)
- Legal Capacity to Sue (Section 69)
- Interpretation of "Transacting Business"
- Affirmative Defense of Non-Compliance

- **Relevant Statutes:**

- Act No. 1459 (Corporation Law)
- Section 68: Mandates the licensing of foreign corporations.
- Section 69: Conditions for foreign corporations to maintain lawsuits.
- **Application:** The court clarified that compliance with the licensing requirement is necessary for foreign corporations doing continuous business but not necessarily for isolated transactions. Non-licensed foreign corporations can still sue for isolated transactions without contravening the intention of the Corporation Law.

Historical Background:

At the time of this decision, the Philippines was under American sovereignty, and the legal framework was heavily influenced by U.S. corporate law principles. This context necessitated a balance between stringent regulatory requirements and the pragmatic needs of fostering international trade relationships. The case's resolution demonstrates the

judiciary's role in ensuring laws are applied sensibly to support economic interactions without compromising statutory intentions.