

ALHAMBRA CIGAR & CIGARETTE MANUFACTURING COMPANY, INC., PETITIONER, VS. SECURITIES & EXCHANGE COMMISSION RESPONDENT.

G.R. No. L-23606. July 29, 1968

Ponente: SANCHEZ, J.

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SANCHEZ, J.:

To the question - May a corporation extend its life by amend-ment of its articles of incorporation effected during the three-year statutory period for liquidation when its original term of existence had already expired? – the answer of the Securities and Exchange Commissioner was in the negative. Offshoot is this appeal.

That problem emerged out of the following controlling facts:

Petitioner Alhambra Cigar and Cigarette Manufacturing Company, Inc. (hereinafter referred to simply as Alhambra) was duly incorporated under Philippine laws on January 15, 1912. By its corporate articles it was to exist for fifty years (50) from incorporation. Its term of existence expired on January 15, 1962. On that date, it ceased transacting business, entered into a state of liquidation.

Thereafter, a new corporation - Alhambra Industries, Inc. was formed to carry-on the business of Alhambra.

On May 1, 1962, Alhambra's stockholders, by resolution, named Angel S. Gamboa trustee to take charge of its liquidation.

On June 20, 1963 - within Alhambra's three-year statutory period for liquidation - Republic Act 3531 was enacted into law. It amended Section 18 of the Corporation Law; it empowered domestic private corporations to extend their corporate life beyond the period fixed by the articles of incorporation for a term not to exceed fifty years in any one instance. Previous to Republic Act 3531, the maximum non-extendible term of such corporations was fifty years.

On July 15, 1963, at a special meeting, Alhambra's board of directors resolved, to amend paragraph "Fourth" of its articles of incorporation to extend its corporate life for an additional fifty years, or a total, of 100 years from its incorporation.

On August 26, 1963 Alhambra's stockholders, representing more than two-thirds of its subscribed capital, stock, voted to approve the foregoing resolution. The "Fourth" paragraph of Alhambra's articles of incorporation was thus altered to read:

"FOURTH. That the term for which said corporation is to exist is fifty (50) years from and after the date of incorporation, and for an additional period of fifty (50) years thereafter".

On October 28, 1963, Alhambra's articles of incorporation as so amended, certified correct by its president, and secretary and a majority of its board of directors, were filed with respondent Securities and Exchange Commission (SEC).

On November 1, 1963, SEC, however, returned said amended articles of incorporation to Alhambra's counsel with the ruling that Republic Act 3531 "which took effect only on June 20, 1963, cannot be availed of by the said corporation, for the reason that its term of existence had already expired when the said law took effect; in short, said law has no retroactive effect".

On December 3, 1963, Alhambra's counsel sought recon-sideration of SEC's ruling aforesaid, refiled the amended articles of incorporation.

On September 8, 1964, SEC, after a conference-hearing, issued an order denying the reconsideration sought.

Alhambra now invokes the jurisdiction of this Court to overturn the conclusion below.[1]

1. Alhambra relies on Republic Act 3531, which amended Section 18 of the Corporation Law. Well, it is to take note of the old and the new statutes as they are framed. Section 18, prior to and after its modification by Republic Act 3531, covers the subject of amendment of the articles of incorporation of private corporation. A provision thereof which remains unaltered is that a corporation may amend its articles of incorporation by a majority vote of its board of directors or trustees and x x x by the vote or written assent of the stockholders representing at least two-thirds of the subscribed capital stock x x x".

But prior to amendment by Republic Act 3531, an explicit prohibition existed in Section 16, thus:

"x x x Provided, however, That the life of said corporation shall not be extended by said amend-ment beyond the time fixed in the original articles: x x x

This was displaced by Republic Act 3531 which enfranchises all private corporations to extend their corporate existence. Thus incorporated into the structure of Section 18 are the following:

" x x x Provided however, That should the amendment consist in extending the corporate life, the extension shall not exceed fifty years in any one instance: Provided further the original articles, and amended articles together shall contain all provisions required by law to be set out in the articles of incorporation: x x x".

As we look in retrospect at the facts, we find these: From July 15 to October 28, 1963, when Alhambra made its attempt to extend its corporate existence, its original term of fifty years had already expired (January 15, 1962); it was in the midst of the three year grace period statutorily fixed in Section 77 of the Corporation Law, thus:

"SEC. 77, Every corporation whose charter expires by its own limitation or is annulled by forfeiture or otherwise, or whose corporate existence for other purposes is terminated in any other manner, shall nevertheless be continued as a body corporate for three years after the time when it would have been so dissolved, for the purpose of prosecuting and defending suits or against it and of enabling it gradually to settle and close its affairs, to dispose of and convey its property and to divide its capital stock, but not for these of continuing the business for which it was established".[2]

Plain from the language of this provision is its meaning: continuance of a "dissolved" corporation as a body corporate for three years has for its purpose the final closure of its affairs, and no other the corporation is specifically enjoined from "continuing the business for which it was established". The liquidation of the corporation's affairs set forth in Section 77 became necessary precisely because its life had ended. For this reason alone, the corporate existence and juridical personality of that corporation to do business may no longer be extended,

Worth bearing in mind, at this juncture, is the basic development of corporation law.

The common law rule, at the beginning, was rigid and inflexible in that upon its dissolution, a corporation became legally dead for all purposes. Statutory authorizations had to be provided for its continuance after dissolution "for

limited and specified purposes incident to complete liquidation of its affairs".[3] Thus, the moment a corporation's right to exist as an "artificial person" ceases, its corporate powers are terminated "just as the powers of a natural person to take part in mundane affairs cease to exist upon his death".[4] There is nothing left but to conduct, as it were, the settlement of the estate of a deceased juridical person.

2. Republic let 3531, amending Section 18 of the Corporation Law, is silent, is true, as to when such act of extension may be made. But even with superficial knowledge of corporate principles, it does not take much effort to reach a correct conclusion. For, implicit in Section 77 heretofore quoted is that the privilege given to prolong corporate life under the amendment must be exercised before the expiry of the term, fixed in the articles of incorporation;

Silence of the law on the matter is not hard to understand. Specificity is not really necessary. The authority to prolong corporate life was inserted by Republic Act 3531 into a section of the law that deals with the power of a corporation to amend its articles of incorporation. (For, the manner of prolongation is through an amendment of the articles). And, it should be clearly evident that under Section 77 no corporation in a state of liquidation can act in any way, much less amend its articles, "for the purpose of continuing the business for which it was established".

All these dilute Alhambra's position that it could revivify its corporate life simply because when it attempted to do so, Alhambra was still in the process of liquidation. It is surely impermissible for us to stretch the law - that merely empowers a corporation to act in liquidation to inject therein the power to extend its corporate existence,

3. Not that we are alone in this view. Fletcher has written: "Since the privilege of extension is purely statutory, all of the statutory conditions precedent must be complied with in order that the extension maybe effectuated. And generally these conditions must be complied with, and the steps necessary to effect the extension must be taken during the life of the corporation and before the expiration of its term of existence as originally fixed by its charter or the general law, such as a rule the corporation is ipso factor dissolved as soon as that time expires. So where the extension is by amendment of the articles of incorporation, the amendment must be adopted before that time. And, similarly, the filing and recording of a certificate of extension after that time cannot relate back to the date of the passage of a resolution by the stockholders in favor of the extension so as to save the life of the corporation. The contrary is true, however, and the doctrine of relation will apply, where the delay is due to the neglect of the officer with whom the certificate is required to be filed, Or to a wrongful refusal on his part to receive it. And statutes in some states specifically provide that a renewal may be had within a specified time before or after the time fixed for the termination of the corporate existence".[5]

The logic of this position is well expressed in a four-square case decided by the court of Appeals of Kentucky.[6] There, pronouncement was made as follows:

"x x x But section 561 (section 2147) provides that, when any corporation expires by the terms of its articles of incorporation, it may be thereafter continued to act for the purpose of closing up its business, but for no other purpose. The corporate life of the Home Building Association expired on May 3, 1905. After that date, by the mandate of the statute, it could continue to act for the purpose of closing up its business, but for no other purpose. The proposed amendment was not made until January 16, 1908, or nearly three years after the corporation expired by the terms of the articles of incorporation. When the corporate life of the corporation was ended, there was nothing to extend. Here it was proposed nearly three years after the corporate life of the association had expired to revivify the dead body, and to make that relate back some two years and eight months in other words, the association for two years and eight months had only existed for the purpose of winding up its business, and, after this length of time, it was proposed to revivify it and. Make it a live corporation for the two years and eight months during which it had not been such.

The law gives a certain length of time for the filing of records in this court, and provides that the time may be extended by the court, but under this provision it has uniformly been held that when the time has expired, there is nothing to extend, and that the appeal must be dismissed; x x x So, when the articles of a corporation have expired, it is too late to adopt an amendment extending the life of a corporation; for, the corporation having expired, this is in effect to create a new corporation. x x x".[7]

True it is, that the Alabama Supreme Court has stated in one case,[8] that a corporation empowered by statute to renew its corporate existence may do so even after the expiration of its corporate life, provided renewal is taken advantage, of within the extended statutory period for purposes of liquidation. That ruling, however, is inherently weak as persuasive authority for the situation at bar for at least two reasons: First. That case was a suit for mandamus to compel a former corporate officer to turn over books and records that came into his possession and control by virtue of his office. It was there held that such officer was obliged to surrender his books and records even if the corporation had already expired. The holding on the continued existence of the corporation was a mere dictum. Second. Alabama's law is different. Corporations in that state were authorized not only to extend but also to renew their corporate existence. That very case defined the word "renew as follows: "To make new again; to restore to freshness; to make new spiritually; to regenerate; to begin again; to recommence; to resume; to restore to existence; to revive; to re-establish; to recreate; to replace; to grant or obtain an extension of Webster's New International Dict; 34 Cyc. 1330; Carter v. Brooklyn Life Ins. Co., 110 N.Y. 15, 21, 22, 17 N.E. 396; 54 C.J. 379, Sec. 1[9]

On this point, we again draw from Fletcher: "There is a broad distinction between the extension of a charter and the grant of a new one. To renew a charter is to revive a charter which has expired, or, in other words, to give a new existence to one which has been forfeited, or which has lost its vitality by lapse of time. To extend a charter is to increase the time for the existence of one which would otherwise reach its limit at an earlier period"[10] Nowhere in our statute Section 18, Corporation Law, as amended by Republic Act 3531 - do we find the word "renew" in reference to the authority given to corporations to protract their lives. Our law limits itself to extension of corporate existence. And, as so understood, extension may be made only before the term provided in the corporate charter expires.

Alhambra draws attention to another case[11] which declares that until the end of the extended period for liquidation, a dissolved corporation "does not become an extinguished entity". But this statement was obviously lifted out of context. That case dissected the question whether or not suits can be commenced by or against a corporation within its liquidation period. Which was answered in the affirmative. For, the corporation still exists for the settlement of its affairs.

People ex rel. vs. Greer,[12]also invoked by Alhambra, is as unavailing. There, although the corporation amended its articles to extend its existence at a time when it had no legal authority yet, it adopted the amended articles later on when it had the power to extend its life and during its original term when it could amend its articles.

The foregoing notwithstanding, Alhambra falls back on the contention that its case is arguably within the purview of the law. It says that before cessation of its corporate life, it could not have extended the same, for the simple reason that Republic Act 3531 had not then become law. It must be remembered that Republic Act 3531 took effect on June 20, 1963, while the original term of Alhambra's existence expired before that date - on January 15, 1962. The mischief that flows from this theory is at once apparent. It would certainly open the gates for all defunct corporations - whose charters have expired even long before Republic Act 3531 came into being - to resuscitate their corporate existence.

4. Alhambra brings into argument Republic Act 1932, which amends Section 196 of the Insurance Act, now reading as follows

"SEC. 196. Any provision of law to the contrary notwithstanding, every domestic life insurance corporation, formed for a limited period under the provisions of its articles of incorporation, may extend its corporate existence for a period not exceeding fifty years in any one instance by amendment to its articles of incorporation on or before the expiration of the term so fixed in said articles x x x".

To be observed is that the foregoing statute - unlike Republic Act 3531 - expressly authorizes domestic insurance corporations to extend their corporate existence "on or before the expiration of the term" fixed in their articles of incorporation. Republic Act 1932 was approved on June 22, 1957, long before the passage of Republic Act 3531 in 1963. Congress, Alhambra points out, must have been aware of Republic Act 1932 when it passed Republic Act 3531. Since the phrase "on or before" etc., was omitted in Republic Act 3531, which contains no similar limitation, it follows, according to Alhambra, that it is not necessary to extend corporate existence on or before the expiration of its original term.

That Republic Act 3531 stands mute as to when extension of corporate existence may be made, assumes no relevance. We have already said, in the face of a familiar precept, that a defunct corporation is bereft of any legal faculty not otherwise expressly sanctioned by law.

Illuminating here is the explanatory note of H.B 1774, later Republic Act 3531 now in dispute. Its first paragraph states that "Republic Act No. 1932 allows the automatic extension of the corporate existence of domestic life insurance corporations upon amendment of their articles of incorporation on or before the expiration of the terms fixed by said articles". The succeeding lines are decisive: "This is a good law, a sane and sound one. There appears to be no valid reason why it should not be made to apply to other private corporations".[13]

The situation here presented is not one where the law under consideration is ambiguous, where courts have to put in harness extrinsic aids such as a look at another statute to disentangle doubts. It is an elementary rule in legal hermeneutics that where the terms of the law are clear, no statutory construction may be permitted. Upon the basic conceptual scheme under which corporations operate, and with Section 77 of the Corporation Law particularly in mind, we find no vagueness in Section 18, as amended by Republic Act 3531. As we view it, by directing attention to Republic Act 1932, Alhambra would seek to create obscurity in the law; and, with that, ask of us a ruling that such obscurity be explained. This, we dare say, cannot be done.

The *pari materia* rule of statutory construction, in fact, commands that statutes must be harmonized with each other.[14] So harmonizing, the conclusion is clear that Section 18 of the Corporation Law; as amended by Republic Act 3531 in reference to extensions of corporate existence, is to be read in the same light as Republic Act 1932. Which means that domestic corporations in general, as with domestic insurance companies, can extend corporate existence only on or before the expiration of the term fixed in their charters.

5. Alhambra pleads for munificence in interpretation, one which brushes technicalities aside. Bases for this posture are that Republic Act 3531 is a remedial statute, and that extension of corporate life is beneficial to the economy.

Alhambra's stance does not induce assent. Expansive construction is, possible only when there is something to expand. At the time of the passage of Republic Act 3531, Alhambra's corporate life had already expired. It had overstepped the limits of its limited existence. No life there is to prolong.

Besides, a new corporation - Alhambra Industries, Inc., with but slight change in stockholdings[15] has already been established. Its purpose is to carry on, and it actually does carry on,[16] the business of the dissolved entity. The beneficial-effects argument is off the mark.

The way the whole case shapes up then, the only possible drawbacks to Alhambra might be that, instead of the

new corporation (Alhambra Industries, Inc.) being written off, the old one (Alhambra Cigar & Cigarette Manufacturing Company, Inc.) has to be wound up; and that the old corporate name cannot be retained fully in its exact form.[17] What is important though is that the word Alhambra the name that counts [it has goodwill], remains.

For the reasons given, the ruling of the Securities and Exchange Commission of November 18, 1963, and its order of September 8, 1904, both here under review, are hereby affirmed.

Costs against petitioner Alhambra Cigar & Cigarette Manufacturing Company, Inc.

SO ORDERED.

Concepcion, CJ., Reyes, JBL, Dizon, Makalintal, Zaldivar, Ruiz Castro, Angeles, and Fernando, JJ., concur.

[1] Rule 43, Rules of Court.

[2] Emphasis supplied.

[3] 19 C.J.S., p.??487.

[4] Id., p. 1485 at footnote 76 citing Sharp vs. Eagle Lake Lumber Co, 212 P. 933, 60 Cal. App. 386.

[5] 8 Fletcher, Cyclopedia Corporations, Perm. ed., 1931, pp. 559- 560, citing cases. Emphasis supplied.

[6] Home Bldg. Ass'n. vs. Bruner, 120 S.W. 306, 307.

[7] Citing cases; emphasis supplied.

[8] Rayburn vs. Guntersville Realty Company, 93 A.L.R. 1055, 1059-1060, cited by petitioner.

[9] At p. 1059.

[10] 8 Fletcher, p. 535. In 18 Am. Jur. 2d., p. 612, we find at footnote 14 the following: "Loeffler v Federal Supply Co. 187 Okla 37 102 P2d 862, wherein the court notes a distinction between the words 'extend' and 'renew'. The court said that the word 'extend' means to prolong or lengthen in time, whereas the word 'renew' means to restore to existence, to revive, re-establish, or recreate".

[11] Abercrombie vs. United Light & Power Co., 7 F. Supp. 530, 54:

[12] 116 Mich. 505, 74 LW. 714.

[13] Emphasis supplied.

[14] 82 C.J.S, p. 801.

[15] Tr., p. 18.

[16] Tr., p. 17.

[17] Tr., pp. 17-19.

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