

Title: Caram v. Court of Appeals (235 Phil. 369)

Facts:

This case revolves around Fermin Z. Caram, Jr. and Rosa O. De Caram (petitioners), who were being held solidarily liable for the preparation of a project study for the organization of Filipinas Orient Airways. Their co-defendants, Barretto and Garcia, initially requested these services from Alberto V. Arellano (private respondent). The case reached the Supreme Court of the Philippines after the petitioners challenged the decision of the Court of Appeals, which ordered them to pay the private respondent for services leading to the formation of the defendant corporation.

More specifically, the case began when Barretto and Garcia, upon envisioning the establishment of an airline company, engaged Arellano to prepare a project study. The results of this study were used to persuade the petitioners, among others, to invest in the proposed airline, which, ultimately, led to the organization of Filipinas Orient Airways with the petitioners as major stockholders. Following the organization of the airline, Arellano claimed compensation for his services.

The case first went through the trial court. In the trial court's decision, the Carams and the other defendants were held jointly and severally liable to pay Arellano for his technical services and project study. The petitioners appealed to the Court of Appeals, which affirmed the decision of the lower court. The petitioners then sought recourse from the Supreme Court, primarily arguing that they were not personally liable for the obligations of a corporation of which they were merely investors.

Issues:

The Supreme Court was tasked with deciding whether the petitioners were personally liable, either jointly or severally, for the expenses claimed by Arellano for the services performed during the organization of Filipinas Orient Airways.

Court's Decision:

The Supreme Court granted the petition, holding that the petitioners were not personally liable for the services rendered by Arellano, either in a joint or solidary capacity. The Court reasoned that the petitioners did not engage Arellano's services themselves, thus, they were not privy to the service agreement. They simply invested in the corporation based on Arellano's already completed project study. The Court determined it was the corporation and the individuals directly involved in securing Arellano's services that were responsible

for any compensation due, not the petitioners.

Doctrine:

The Supreme Court established the doctrine that mere investors in a corporation are not personally liable for obligations incurred by the corporation unless they directly contract for such services. Furthermore, it was reiterated that a corporation has a separate juridical personality, making it solely liable for its obligations unless the veil of corporate fiction is pierced.

Class Notes:

- Principle of Separate Juridical Entity: A corporation is a separate legal entity distinct from its members and stockholders.
- Personal Liability of Shareholders: Shareholders are generally not personally liable for the debts of the corporation unless there is evidence warranting the piercing of the corporate veil.

Historical Background:

The Filipinas Orient Airways case deals with corporate law principles established in the context of creating new business ventures in the Philippines. It underscores the importance of the separate juridical entity principle in protecting investors and maintaining trust in the corporate structure. This case also serves to clarify the extent of liability of corporate investors in the pre-incorporation phase of a business.