

Title: Enano-Bote, et al. v. Alvarez, et al.

Facts:

On February 3, 1999, Subic Bay Metropolitan Authority (SBMA) leased Building 8324 at Subic Bay International Airport to Centennial Air, Inc. (CAIR), represented by Roberto Lozada, for five years at a rent of US\$2.50 per square meter per month. CAIR defaulted on payments, accumulating debts. SBMA demanded payment but received an inadequate response from CAIR, which proposed a payment scheme not fully complied with. On January 14, 2004, SBMA terminated the lease and demanded CAIR vacate the premises. CAIR's outstanding obligations totaled US\$163,341.89.

SBMA filed a Complaint against CAIR and its stockholders, including Jennifer Enano-Bote, Virgilio A. Bote, and others (collectively, petitioners), who filed an Answer denying liability, having transferred their shares to Jose Ch. Alvarez per a Deed of Assignment of Subscription Rights (DASR). They maintained they were not CAIR stockholders during the lease and thus not liable for breaches. Separately, Alvarez filed an Answer with Counterclaim disputing SBMA's actions, including the claim and timeframe of liability.

CAIR was initially declared in default for failing to answer but was later permitted to adopt the defense of other defendants. The petitioners filed a Third-Party Complaint against Alvarez, asserting he assumed responsibility for their unpaid subscriptions upon their assignment of shares and was the active President of CAIR during lease execution. Alvarez responded by reiterating defenses from the main case and denying allegations in the petitioners' Admission Request.

After both parties presented evidence and others waived their rights, the trial court ruled in favor of SBMA, affirming CAIR's liability. The Court of Appeals upheld this decision, and the petitioners' subsequent motion for reconsideration was denied.

Issues:

1. Whether the CA erred in applying the trust fund doctrine to hold petitioners personally liable for CAIR's unpaid rentals.
2. Whether Alvarez should be held liable for independent and separate payment of moral damages and attorney's fees to Jennifer and Virgilio, as per the Third-Party Complaint.

Court's Decision:

The Supreme Court reversed the CA's decisions. CAIR and not the individual petitioners should be held accountable for its debts to SBMA, and no basis for the application of the

trust fund doctrine against petitioners was found. The SC dismissed the complaint against Roberto Lozada and the Third-Party Complaint against Alvarez.

Doctrine:

1. The trust fund doctrine, allowing creditors to reach unpaid subscription amounts of stockholders, is applicable primarily when a corporation is insolvent or dissolved without providing for the payment of creditors.
2. Corporate debts and outstanding obligations are first chargeable to the corporation before turning to individual stockholders.

Class Notes:

- Creditors' right to satisfaction of their claims can extend to the unpaid stock subscriptions of the corporation's stockholders, but conditions apply.
- A corporation and its individual stockholders maintain separate legal identities, and the latter are typically not liable for corporate obligations unless certain exceptions apply, including insolvency or fraud.
- Transfer of corporate shares is valid only if it complies with the formalities outlined in the Corporation Code, such as delivery of the stock certificate, endorsement, and recording in corporate books.

Historical Background:

The evolution of the trust fund doctrine demonstrates its primary use in cases where creditors of insolvent corporations seek to compel stockholders to pay unpaid balances on subscriptions to capital stock. The Philippine adoption of the trust fund doctrine aligns with American jurisprudence, emphasizing the protection of creditors when corporate solvency is in question.