

Title: Hall vs. Piccio (1949)

Facts: On May 26, 1947, C. Arnold Hall, Bradley P. Hall, Fred Brown, Emma Brown, Hipolita D. Chapman, and Ceferino S. Abella signed the articles of incorporation for Far Eastern Lumber and Commercial Co., Inc. in Leyte, which aimed to engage in the lumber business and related activities. An affidavit was attached confirming that shares had been subscribed and paid with certain properties now belonging to the corporation. The company began operations, adopted by-laws, and elected officers immediately thereafter. On December 2, 1947, the articles of incorporation were filed with the Securities and Exchange Commission but remained pending action.

Meanwhile, on March 22, 1948, Fred Brown, Emma Brown, Hipolita D. Chapman, and Ceferino S. Abella filed a suit (Civil Case No. 381) before the Court of First Instance of Leyte seeking the dissolution of the company alleging dissension, mismanagement, fraud by managers, and financial losses. The Halls filed a motion to dismiss, challenging the court's jurisdiction and the sufficiency of the case. The Hon. Edmundo S. Piccio ordered the company's dissolution and appointed Pedro A. Capuciong as the receiver upon a bond of 20,000 pesos.

The Halls sought to post a counter-bond to discharge the receiver, which was refused by Judge Piccio. The Halls then brought a special civil action to the Supreme Court, asserting that the lower court lacked jurisdiction to decree the dissolution and that the Browns, having signed the articles of incorporation, were estopped from asserting the entity was not a corporation but a partnership.

Issues:

1. Whether the Court of First Instance of Leyte had jurisdiction to decree the dissolution of the Far Eastern Lumber and Commercial Co., even though it claimed to be a de facto corporation.
2. Whether the estoppel principle applies to prevent the Browns from denying the corporate existence and claiming that it was a partnership instead.

Court's Decision:

1. The Supreme Court rejected the Halls' argument that the Far Eastern Lumber and Commercial Co. was a de facto corporation whose existence could not be questioned in a private suit. The issuance of a certificate of incorporation, still pending from the Securities and Exchange Commission, is a prerequisite for the existence of a corporation. Therefore,

the company could not be considered a corporation, and Section 19 of the Corporation Law, protecting de facto corporations from collateral attacks, did not apply.

2. The principle of estoppel did not apply to the Browns since there was no representation to third parties and no one was misled to their detriment or prejudice. Therefore, they were not estopped from claiming that the entity was an unincorporated partnership and seeking its dissolution.

Doctrine:

- The personality and existence of a corporation begin from the moment the certificate of incorporation is issued, not before.
- Section 19 of the Corporation Law, which protects de facto corporations from inquiries into their corporate existence in private suits, does not apply to entities that have not received a certificate of incorporation and cannot claim “in good faith” to be a corporation.

Class Notes:

- Key concepts include the certificate of incorporation necessity, de facto corporation protection under Section 19, and application of estoppel.
- Relevant legal provisions: Corporation Law, Section 19; Corporation Law, Section 11.
- Application: A certificate of incorporation is pivotal for the existence of a corporation. Without the certificate, an entity cannot enjoy de facto corporation protection, and its corporate existence can be questioned and dissolved in a private suit among the stockholders without state intervention.

Historical Background:

The case underscores the importance of securing official recognition of corporate status in post-World War II Philippines. It reflects the transitional phase in business and legal practice, where the establishment of proper corporate entities was critical for operations and where the judiciary had to navigate between unregistered partnerships and corporations in a developing legal landscape.