

Title:

****Vazquez vs. De Borja: Determination of Personal Liability in Corporate Contracts****

Facts:

This case revolves around a dispute between Francisco de Borja (plaintiff) and Antonio Vazquez (defendant), over an unfulfilled contract for the sale of palay (unhusked rice). In January 1932, Vazquez, allegedly in conjunction with Fernando Busuego, agreed to sell 4,000 cavans of palay to De Borja at P2.10 per cavan, to be delivered in February 1932. De Borja paid P8,400 in advance. However, only 2,488 cavans were delivered, with the remaining 1,512 cavans and 1,510 empty sacks (utilized for the delivery of palay) not provided, leading to De Borja suing for the undelivered goods, value of the undelivered sacks, and additional damages.

Vazquez contended that the contract was not with him personally but with the Natividad-Vazquez Sabani Development Co., Inc., of which he was the acting manager. The trial court held Vazquez liable for the undelivered goods and sacks. Upon appeal, the Court of Appeals initially modified the decision but later, upon reconsideration, decided to remand the case for further proceedings. Both parties objected through petitions for certiorari.

Issues:

1. Whether Antonio Vazquez entered into the contract in his personal capacity or as the acting manager of Natividad-Vazquez Sabani Development Co., Inc.
2. Whether Vazquez could be personally liable for the corporation's failure to fulfill the contract.
3. The appropriateness of remanding the case for further proceedings on the grounds of insufficient evidence regarding a subsequent palay sale by the corporation.
4. The validity of Vazquez's counterclaim for damages due to the filing of the lawsuit.

Court's Decision:

The Supreme Court held that the contract was indeed made by Antonio Vazquez in his capacity as the acting manager of the Natividad-Vazquez Sabani Development Co., Inc., not in his personal capacity. It was determined that the evidence pointed to the corporation, not Vazquez personally, as the party to the contract. Based on this, the Court found that the corporate veil should not be pierced since Vazquez did not personally benefit nor acted in

bad faith regarding the contract.

Regarding the remand by the Court of Appeals, the Supreme Court found it unnecessary and a mistake, as the issue was besides the point of determining personal liability under the contract. Upon these conclusions, the Supreme Court reversed the decision of the Court of Appeals and dismissed the complaint against Vazquez, ruling that a corporation's contractual obligations cannot translate to personal liability for its agents absent evidence of malfeasance or benefit to the agent.

Doctrine:

The core legal doctrine established in this case is the principle of separate corporate personality. A corporation has a distinct legal personality separate from its officers and stockholders, and obligations entered into by the corporation, through its duly authorized agents, cannot result in personal liability for these agents absent evidence of fraud, bad faith, or direct personal benefit from the contract.

Class Notes:

1. **Separate Corporate Personality**: A corporation is an independent legal entity, distinct from its members and officers. As such, contractual obligations of a corporation cannot be imposed on its officers or agents personally, unless there is proof of wrongdoing.
2. **Limitation on Personal Liability**: Officers or agents of a corporation cannot be held personally liable for contracts made in the capacity of such roles for the corporation, barring evidence of personal benefit, bad faith, or intent to defraud.
3. **Evidence Principle in Contractual Litigation**: The liability in a contract, along with the capacity in which parties contract, must be established based on the preponderance of evidence, particularly when determining whether the contract was personal or in a representative capacity.

Historical Background:

This case reflects the judiciary's stance on the protection offered by the corporate veil, emphasizing that personal liability cannot be lightly ascribed to corporate officers absent clear evidence of misuse of the corporate form. It underscores the importance of the separate legal entity principle in corporate law, which serves as a foundational pillar for corporate operations and liability in the Philippines.