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FIRST DIVISION

[G.R. Nos. 116124-25. November 22, 2000]

BIBIANO O. REYNOSO, IV, *petitioner, vs.* **HON. COURT OF APPEALS and GENERAL CREDIT CORPORATION,** *respondents.*

SYNOPSIS

Sometime in the early 1960s, the Commercial Credit Corporation (CCC) a financing and investment firm, decided to organize franchise companies in different parts of the country, wherein it shall hold 30% equity. Employees of the CCC were designated as resident managers of the franchise companies. Petitioner Bibiano O. Reynoso, IV was designated as the resident manager of the franchise company in Quezon City known as CCC-QC. CCC-QC entered into an exclusive management contract with CCC wherein it was stipulated that CCC-QC shall sell, discount and/or assign its receivables to CCC. Subsequently, however, this discounting arrangement was discontinued pursuant to the so-called "DOSRI Rule" of the Central Bank which prohibited the lending of funds by corporations to its directors, officers, stockholders and other persons with related interests therein. Due to the new restrictions, CCC decided to form CCC-Equity Corporation. Under the new set-up, several officials of CCC, including petitioner Reynoso, became employees of CCC-Equity. While he continued to be the Resident Manager of CCC-QC, he drew his salaries and allowances from CCC-Equity. Petitioner, in order to boost the business activities of CCC-QC, deposited his personal funds in the company. In return, CCC-QC issued to him its interest-bearing promissory notes. On August 15, 1980, a complaint for sum of money with preliminary attachment was instituted against him by CCC-QC before the then Court of First Instance of Rizal, alleging that petitioner embezzled the funds of CCC-QC amounting to ₱1,300,593.11. But petitioner asserted that the said amount represented his money placement in CCC-QC as shown by 23 checks which he issued to the said company. In the meantime, he was dismissed from his employment by CCC-Equity. The trial court rendered a decision in favor of the

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petitioner. The decision became final and, accordingly, a Writ of Execution was issued. However, the judgment remained unsatisfied, prompting petitioner to file a Motion for *Alias* Writ of Execution. Meanwhile, in 1983, CCC became known as the General Credit Corporation (GCC). The Regional Trial Court of Quezon City then issued an Order directing GCC to file its comment on petitioner's motion. GCC alleged that it was not a party to the case. Consequently, the trial court ordered the issuance of an *alias* of writ of execution. Thus, GCC instituted a petition for *certiorari* with the Court of Appeals which nullified the order of the trial court. Hence, this petition.

The Court ruled that the defense of separateness will be disregarded where the business affairs of a subsidiary corporation are so controlled by the mother corporation to the extent that it becomes an instrument or agent of its parent. But even when there is dominance over the affairs of the subsidiary, the doctrine of piercing the veil of corporate fiction applies only when such fiction is used to defeat public convenience, justify wrong, protect fraud or defend crime. Factually and legally, the CCC had dominant control of the business operations of CCC-QC. The exclusive management contract insured that CCC-QC would be managed and controlled by CCC and would not deviate from the commands of the mother corporation. In addition, CCC appointed its own employee, petitioner, as the resident manager of CCC-QC. There were other indications in the record which attest to the applicability of the identity rule in this case, namely: the unity of interests, management, and control; the transfer of funds to suit their individual corporate conveniences; and the dominance of policy and practice by the mother corporation insure that CCC-QC was an instrumentality or agency of CCC. A court judgment becomes useless and ineffective if the employer, in this case CCC as a mother corporation, is placed beyond the legal reach of the judgment creditor. The decision of the Court of Appeals was REVERSED and SET ASIDE.

SYLLABUS

1. **MERCANTILE LAW; CORPORATION LAW; CORPORATION; DEFINED.** — A corporation is an artificial being created by operation of law, having the right of succession and the powers,

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attributes, and properties expressly authorized by law or incident to its existence. It is an artificial being invested by law with a personality separate and distinct from those of the persons composing it as well as from that of any other legal entity to which it may be related. It was evolved to make possible the aggregation and assembling of huge amounts of capital upon which big business depends. It also has the advantage of non-dependence on the lives of those who compose it even as it enjoys certain rights and conducts activities of natural persons.

2. **ID.; ID.; PIERCING THE VEIL OF CORPORATE ENTITY; CORPORATE FICTION HAS TO BE DISREGARDED WHEN NECESSARY IN THE INTEREST OF JUSTICE.** — Precisely because the corporation is such a prevalent and dominating factor in the business life of the country, the law has to look carefully into the exercise of powers by these artificial persons it has created. Any piercing of the corporate veil has to be done with caution. However, the Court will not hesitate to use its supervisory and adjudicative powers where the corporate fiction is used as an unfair device to achieve an inequitable result, defraud creditors, evade contracts and obligations, or to shield it from the effects of a court decision. The corporate fiction has to be disregarded when necessary in the interest of justice. In *First Philippine International Bank v. Court of Appeals, et al.,* we held: "When the fiction is urged as a means of perpetrating a fraud or an illegal act or as a vehicle for the evasion of an existing obligation, the circumvention of statutes, the achievement or perfection of a monopoly or generally the perpetration of knavery or crime, the veil with which the law covers and isolates the corporation from the members or stockholders who compose it will be lifted to allow for its consideration merely as an aggregation of individuals." Also in the above-cited case, we stated that this Court has pierced the veil of corporate fiction in numerous cases where it was used, among others, to avoid a judgment credit; to avoid inclusion of corporate assets as part of the estate of a decedent; to avoid liability arising from debt; when made use of as a shield to perpetrate fraud and/or confuse legitimate issues; or to promote unfair objectives or otherwise to shield them.

3. **ID.; ID.; ID.; APPLIES ONLY WHEN SUCH FICTION IS USED TO DEFEAT PUBLIC CONVENIENCE, JUSTIFY WRONG, PROTECT FRAUD OR DEFEND CRIME.** — The defense of

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separateness will be disregarded where the business affairs of a subsidiary corporation are so controlled by the mother corporation to the extent that it becomes an instrument or agent of its parent. But even when there is dominance over the affairs of the subsidiary, the doctrine of piercing the veil of corporate fiction applies only when such fiction is used to defeat public convenience, justify wrong, protect fraud or defend crime. We stated in *Tomas Lao Construction v. National Labor Relations Commission,* that the legal fiction of a corporation being a judicial entity with a distinct and separate personality was envisaged for convenience and to serve justice. Therefore, it should not be used as a subterfuge to commit injustice and circumvent the law.

4. **ID.; ID.; ID.; SEPARATE CORPORATE CHARACTER OF MOTHER CORPORATION AND ITS SUBSIDIARY CONTINUES FOR LEGITIMATE OBJECTIVES, HOWEVER, IT IS PIERCED IN ORDER TO REMEDY INJUSTICE.** — It is obvious that the use by CCC-QC of the same name of Commercial Credit Corporation was intended to publicly identify it as a component of the CCC group of companies engaged in one and the same business, *i.e.,* investment and financing. Aside from CCC-Quezon City, other franchise companies were organized such as CCC-North Manila and CCC-Cagayan Valley. The organization of subsidiary corporations as what was done here is usually resorted to for the aggrupation of capital, the ability to cover more territory and population, the decentralization of activities best decentralized, and the securing of other legitimate advantages. But when the mother corporation and its subsidiary cease to act in good faith and honest business judgment, when the corporate device is used by the parent to avoid its liability for legitimate obligations of the subsidiary, and when the corporate fiction is used to perpetrate fraud or promote injustice, the law steps in to remedy the problem. When that happens, the corporate character is not necessarily abrogated. It continues for legitimate objectives. However, it is pierced in order to remedy injustice, such as that inflicted in this case.

5. **ID.; ID.; ID.; IDENTITY RULE; APPLIED IN CASE AT BAR.** — Factually and legally, the CCC had dominant control of the business operations of CCC-QC. The exclusive management contract insured that CCC-QC would be managed and controlled

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by CCC and would not deviate from the commands of the mother corporation. In addition to the exclusive management contract, CCC appointed its own employee, petitioner, as the resident manager of CCC-QC. Petitioner's designation as "resident manager" implies that he was placed in CCC-QC by a superior authority. In fact, even after his assignment to the subsidiary corporation, petitioner continued to receive his salaries, allowances, and benefits from CCC, which later became respondent General Credit Corporation. Not only that. Petitioner and the other permanent employees of CCC-QC were qualified members and participants of the Employees Pension Plan of CCC. There are other indications in the record which attest to the applicability of the identity rule in this case, namely: the unity of interests, management, and control; the transfer of funds to suit their individual corporate conveniences; and the dominance of policy and practice by the mother corporation insure that CCC-QC was an instrumentality or agency of CCC. As petitioner stresses, both CCC and CCC-QC were engaged in the same principal line of business involving a single transaction process. Under their discounting arrangements, CCC financed the operations of CCC-QC. The subsidiary sold, discounted, or assigned its accounts receivables to CCC. The testimony of Joselito D. Liwanag, accountant and auditor of CCC since 1971, shows the pervasive and intensive auditing function of CCC over CCC-QC. The two corporations also shared the same office space. CCC-QC had no office of its own. The complaint in Civil Case No. Q-30583, instituted by CCC-QC, was even verified by the director-representative of CCC. The lawyers who filed the complaint and amended complaint were all in-house lawyers of CCC.

6. **ID.; ID.; ID.; COURT JUDGMENT BECOMES USELESS AND INEFFECTIVE IF THE EMPLOYER IS PLACED BEYOND THE LEGAL REACH OF THE JUDGMENT CREDITOR; CASE AT BAR.** — Paraphrasing the ruling in *Claparols v. Court of Industrial Relations*, reiterated in *Concept Builders, Inc. v. National Labor Relations,* it is very obvious that respondent "seeks the protective shield of a corporate fiction whose veil the present case could, and should, be pierced as it was deliberately and maliciously designed to evade its financial obligation of its employees." If the corporate fiction is sustained, it becomes a handy deception to avoid a

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judgment debt and work an injustice. The decision raised to us for review is an invitation to multiplicity of litigation. As we stated in *Islamic Directorate vs. Court of Appeals*, the ends of justice are not served if further litigation is encouraged when the issue is determinable based on the records. A court judgment becomes useless and ineffective if the employer, in this case CCC as a mother corporation, is placed beyond the legal reach of the judgment creditor who, after protracted litigation, has been found entitled to positive relief. Courts have been organized to put an end to controversy. This purpose should not be negated by an inapplicable and wrong use of the fiction of the corporate veil.

APPEARANCES OF COUNSEL

Soo Gutierrez Leogardo & Lee for petitioner.
Antonio R. Bautista and Partners for private respondent.

D E C I S I O N

YNARES-SANTIAGO, *J.*:

Assailed in this petition for review is the consolidated decision of the Court of Appeals dated July 7, 1994, which reversed the separate decisions of the Regional Trial Court of Pasig City and the Regional Trial Court of Quezon City in two cases between petitioner Reynoso and respondent General Credit Corporation (GCC).

Sometime in the early 1960s, the Commercial Credit Corporation (hereinafter, "CCC"), a financing and investment firm, decided to organize franchise companies in different parts of the country, wherein it shall hold thirty percent (30%) equity. Employees of the CCC were designated as resident managers of the franchise companies. Petitioner Bibiano O. Reynoso, IV was designated as the resident manager of the franchise company in Quezon City, known as the Commercial Credit Corporation of Quezon City (hereinafter, "CCC-QC").

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CCC-QC entered into an exclusive management contract with CCC whereby the latter was granted the management and full control of the business activities of the former. Under the contract, CCC-QC shall sell, discount and/or assign its receivables to CCC. Subsequently, however, this discounting arrangement was discontinued pursuant to the so-called "DOSRI Rule," prohibiting the lending of funds by corporations to its directors, officers, stockholders and other persons with related interests therein.

On account of the new restrictions imposed by the Central Bank policy by virtue of the DOSRI Rule, CCC decided to form CCC Equity Corporation, (hereinafter, "CCC-Equity"), a wholly-owned subsidiary, to which CCC transferred its thirty (30%) percent equity in CCC-QC, together with two seats in the latter's Board of Directors.

Under the new set-up, several officials of Commercial Credit Corporation, including petitioner Reynoso, became employees of CCC-Equity. While petitioner continued to be the Resident Manager of CCC-QC, he drew his salaries and allowances from CCC-Equity. Furthermore, although an employee of CCC-Equity, petitioner, as well as all employees of CCC-QC, became qualified members of the Commercial Credit Corporation Employees Pension Plan.

As Resident Manager of CCC-QC, petitioner oversaw the operations of CCC-QC and supervised its employees. The business activities of CCC-QC pertain to the acceptance of funds from depositors who are issued interest-bearing promissory notes. The amounts deposited are then loaned out to various borrowers. Petitioner, in order to boost the business activities of CCC-QC, deposited his personal funds in the company. In return, CCC-QC issued to him its interest-bearing promissory notes.

On August 15, 1980, a complaint for sum of money with preliminary attachment,[1] docketed as Civil Case No. Q-30583,

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[1] *Rollo*, pp. 60-63.

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was instituted in the then Court of First Instance of Rizal by CCC-QC against petitioner, who had in the meantime been dismissed from his employment by CCC-Equity. The complaint was subsequently amended in order to include Hidelita Nuval, petitioner's wife, as a party-defendant.[2] The complaint alleged that petitioner embezzled the funds of CCC-QC amounting to ₱1,300,593.11. Out of this amount, at least ₱630,000.00 was used for the purchase of a house and lot located at No. 12 Macopa Street, Valle Verde I, Pasig City. The property was mortgaged to CCC, and was later foreclosed.

In his amended Answer, petitioner denied having unlawfully used funds of CCC-QC and asserted that the sum of ₱1,300,593.11 represented his money placements in CCC-QC, as shown by twenty-three (23) checks which he issued to the said company.[3]

The case was subsequently transferred to the Regional Trial Court of Quezon City, Branch 86, pursuant to the Judiciary Reorganization Act of 1980.

On January 14, 1985, the trial court rendered its decision, the decretal portion of which states:

> Premises considered, the Court finds the complaint without merit. Accordingly, said complaint is hereby DISMISSED.
>
> By reason of said complaint, defendant Bibiano Reynoso IV suffered degradation, humiliation and mental anguish.
>
> On the counterclaim, which the Court finds to be meritorious, plaintiff corporation is hereby ordered:
>
> a) to pay defendant the sum of ₱185,000.00 plus 14% interest per annum from October 2, 1980 until fully paid;
>
> b) to pay defendant ₱3,639,470.82 plus interest thereon at the rate of 14% per annum from June 24, 1981, the date of filing of Amended Answer, until fully paid; from this amount may be deducted the remaining obligation of defendant under the

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[2] *Ibid.*, pp. 64-68.

[3] *Id.*, at, p. 19.

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promissory note of October 24, 1977, in the sum of ₱9,738.00 plus penalty at the rate of 1% per month from December 24, 1977 until fully paid;

c) to pay defendants ₱200,000.00 as moral damages;

d) to pay defendants ₱100,000.00 as exemplary damages;

e) to pay defendants ₱25,000.00 as and for attorney's fees; plus costs of the suit.

SO ORDERED.

Both parties appealed to the then Intermediate Appellate Court. The appeal of Commercial Credit Corporation of Quezon City was dismissed for failure to pay docket fees. Petitioner, on the other hand, withdrew his appeal.

Hence, the decision became final and, accordingly, a Writ of Execution was issued on July 24, 1989.[4] However, the judgment remained unsatisfied,[5] prompting petitioner to file a Motion for *Alias* Writ of Execution, Examination of Judgment Debtor, and to Bring Financial Records for Examination to Court. CCC-QC filed an Opposition to petitioner's motion,[6] alleging that the possession of its premises and records had been taken over by CCC.

Meanwhile, in 1983, CCC became known as the General Credit Corporation.

On November 22, 1991, the Regional Trial Court of Quezon City issued an Order directing General Credit Corporation to file its comment on petitioner's motion for *alias* writ of execution.[7] General Credit Corporation filed a Special Appearance and Opposition on December 2, 1991,[8] alleging that it was not a

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[4] *Id.*, p. 297.

[5] *Id.*, p. 299.

[6] *Id.*, p. 300.

[7] *Id.*, p. 320.

[8] *Id.*, pp. 321-324.

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party to the case, and therefore petitioner should direct his claim against CCC-QC and not General Credit Corporation. Petitioner filed his reply,[9] stating that the CCC-QC is an adjunct instrumentality, conduit and agency of CCC. Furthermore, petitioner invoked the decision of the Securities and Exchange Commission in SEC Case No. 2581, entitled, "*Avelina G. Ramoso, et al., Petitioner versus General Credit Corp., et al., Respondents*," where it was declared that General Credit Corporation, CCC-Equity and other franchised companies including CCC-QC were declared as one corporation.

On December 9, 1991, the Regional Trial Court of Quezon City ordered the issuance of an *alias* writ of execution.[10] On December 20, 1991, General Credit Corporation filed an Omnibus Motion,[11] alleging that SEC Case No. 2581 was still pending appeal, and maintaining that the levy on properties of the General Credit Corporation by the deputy sheriff of the court was erroneous.

In his Opposition to the Omnibus Motion, petitioner insisted that General Credit Corporation is just the new name of Commercial Credit Corporation; hence, General Credit Corporation and Commercial Credit Corporation should be treated as one and the same entity.

On February 13, 1992, the Regional Trial Court of Quezon City denied the Omnibus Motion.[12] On March 5, 1992, it issued an Order directing the issuance of an *alias* writ of execution.[13]

Previously, on February 21, 1992, General Credit Corporation instituted a complaint before the Regional Trial Court of Pasig against Bibiano Reynoso, IV and Edgardo C. Tanangco, in his capacity as Deputy Sheriff of Quezon City,[14] docketed as Civil

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[9] *Id.*, pp. 331-332.

[10] *Id.*, pp. 333-335.

[11] *Id.*, pp. 336-342.

[12] *Id.*, pp. 382-383.

[13] *Id.*, pp. 384-385.

[14] *Id.*, pp. 386-400.

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Case No. 61777, praying that the levy on its parcel of land located in Pasig, Metro Manila and covered by Transfer Certificate of Title No. 29940 be declared null and void, and that defendant sheriff be enjoined from consolidating ownership over the land and from further levying on other properties of General Credit Corporation to answer for any liability under the decision in Civil Case No. Q-30583.

The Regional Trial Court of Pasig, Branch 167, did not issue a temporary restraining order. Thus, General Credit Corporation instituted two (2) petitions for *certiorari* with the Court of Appeals, docketed as CA-G.R. SP No. 27518[15] and CA-G.R. SP No. 27683. These cases were later consolidated.

On July 7, 1994, the Court of Appeals rendered a decision in the two consolidated cases, the dispositive portion of which reads:

> WHEREFORE, in SP No. 27518 we declare the issue of the respondent court's refusal to issue a restraining order as having been rendered moot by our Resolution of 7 April 1992 which, by way of injunctive relief, provided that "the respondents and their representatives are hereby enjoined from conducting an auction sale (on execution) of petitioner's properties as well as initiating similar acts of levying (upon) and selling on execution other properties of said petitioner." The injunction thus granted, as modified by the words in parenthesis, shall remain in force until Civil Case No. 61777 shall have been finally terminated.
>
> In SP No. 27683, we grant the petition for *certiorari* and accordingly NULLIFY and SET ASIDE, for having been issued in excess of jurisdiction, the Order of 13 February 1992 in Civil Case No. Q-30583 as well as any other order or process through which the petitioner is made liable under the judgment in said Civil Case No. Q-30583.
>
> No damages and no costs.
>
> SO ORDERED.[16]

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[15] *Id.*, pp. 402-425.

[16] *Id.*, pp. 57-58.

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Hence, this petition for review anchored on the following arguments:

1. THE HONORABLE COURT OF APPEALS ERRED IN CA-G.R SP NO. 27683 WHEN IT NULLIFIED AND SET ASIDE THE 13 FEBRUARY 1992 ORDER AND OTHER ORDERS OR PROCESS OF BRANCH 86 OF THE REGIONAL TRIAL COURT OF QUEZON CITY THROUGH WHICH GENERAL CREDIT CORPORATION IS MADE LIABLE UNDER THE JUDGMENT THAT WAS RENDERED IN CIVIL CASE NO. Q-30583.

2. THE HONORABLE COURT OF APPEALS ERRED IN CA-G.R SP NO. 27518 WHEN IT ENJOINED THE AUCTION SALE ON EXECUTION OF THE PROPERTIES OF GENERAL CREDIT CORPORATION AS WELL AS INITIATING SIMILAR ACTS OF LEVYING UPON AND SELLING ON EXECUTION OF OTHER PROPERTIES OF GENERAL CREDIT CORPORATION.

3. THE HONORABLE COURT OF APPEALS ERRED IN HOLDING THAT GENERAL CREDIT CORPORATION IS A STRANGER TO CIVIL CASE NO. Q-30583, INSTEAD OF, DECLARING THAT COMMERCIAL CREDIT CORPORATION OF QUEZON CITY IS THE ALTER EGO, INSTRUMENTALITY, CONDUIT OR ADJUNCT OF COMMERCIAL CREDIT CORPORATION AND ITS SUCCESSOR GENERAL CREDIT CORPORATION.

At the outset, it must be stressed that there is no longer any controversy over petitioner's claims against his former employer, CCC-QC, inasmuch as the decision in Civil Case No. Q-30583 of the Regional Trial Court of Quezon City has long become final and executory. The only issue, therefore, to be resolved in the instant petition is whether or not the judgment in favor of petitioner may be executed against respondent General Credit Corporation. The latter contends that it is a corporation separate and distinct from CCC-QC and, therefore, its properties may not be levied upon to satisfy the monetary judgment in favor of petitioner. In short, respondent raises corporate fiction as its defense. Hence, we are necessarily called upon to apply the doctrine of piercing the veil of corporate entity in order to determine if General Credit Corporation, formerly CCC, may be held liable for the obligations of CCC-QC.

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The petition is impressed with merit.

A corporation is an artificial being created by operation of law, having the right of succession and the powers, attributes, and properties expressly authorized by law or incident to its existence.[17] It is an artificial being invested by law with a personality separate and distinct from those of the persons composing it as well as from that of any other legal entity to which it may be related.[18] It was evolved to make possible the aggregation and assembling of huge amounts of capital upon which big business depends. It also has the advantage of non-dependence on the lives of those who compose it even as it enjoys certain rights and conducts activities of natural persons.

Precisely because the corporation is such a prevalent and dominating factor in the business life of the country, the law has to look carefully into the exercise of powers by these artificial persons it has created.

Any piercing of the corporate veil has to be done with caution. However, the Court will not hesitate to use its supervisory and adjudicative powers where the corporate fiction is used as an unfair device to achieve an inequitable result, defraud creditors, evade contracts and obligations, or to shield it from the effects of a court decision. The corporate fiction has to be disregarded when necessary in the interest of justice.

In *First Philippine International Bank v. Court of Appeals, et al.,*[19] we held:

> When the fiction is urged as a means of perpetrating a fraud or an illegal act or as a vehicle for the evasion of an existing obligation, the circumvention of statutes, the achievement or perfection of a monopoly or generally the perpetration of knavery or crime, the veil with which the law covers and isolates the corporation from the members or stockholders who compose it will be lifted to allow for its consideration merely as an aggregation of individuals.

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[17] CORPORATION CODE, Section 2.

[18] *Yu v. National Labor Relations Commission*, 245 SCRA 134 [1995].

[19] 252 SCRA 259, 287-288 [1996].

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Also in the above-cited case, we stated that this Court has pierced the veil of corporate fiction in numerous cases where it was used, among others, to avoid a judgment credit;[20] to avoid inclusion of corporate assets as part of the estate of a decedent;[21] to avoid liability arising from debt;[22] when made use of as a shield to perpetrate fraud and/or confuse legitimate issues;[23] or to promote unfair objectives or otherwise to shield them.[24]

In the appealed judgment, the Court of Appeals sustained respondent's arguments of separateness and its character as a different corporation which is a non-party or stranger to this case.

The defense of separateness will be disregarded where the business affairs of a subsidiary corporation are so controlled by the mother corporation to the extent that it becomes an instrument or agent of its parent. But even when there is dominance over the affairs of the subsidiary, the doctrine of piercing the veil of corporate fiction applies only when such fiction is used to defeat public convenience, justify wrong, protect fraud or defend crime.[25]

We stated in *Tomas Lao Construction v. National Labor Relations Commission*,[26] that the legal fiction of a corporation being a judicial entity with a distinct and separate personality was envisaged for convenience and to serve justice. Therefore, it should not be used as a subterfuge to commit injustice and circumvent the law.

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[20] *Sibagat Timber Corp. v. Garcia*, 216 SCRA 470 [1992]; *Tan Boon Bee & Co., Inc. v. Jarencio*, 163 SCRA 205 [1988].

[21] *Cease v. CA*, 93 SCRA 483 [1979].

[22] *Arcilla v. CA*, 215 SCRA 120 [1992]; *Philippine Bank of Communications v. CA*, 195 SCRA 567 [1991].

[23] *Jacinto v. CA*, 198 SCRA 211 [1991].

[24] *Villanueva v. Adre*, 172 SCRA 876 [1989].

[25] *Union Bank of the Philippines v. Court of Appeals*, 290 SCRA 198 [1998].

[26] 278 SCRA 716 [1997].

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Precisely for the above reasons, we grant the instant petition.

It is obvious that the use by CCC-QC of the same name of Commercial Credit Corporation was intended to publicly identify it as a component of the CCC group of companies engaged in one and the same business, *i.e.*, investment and financing. Aside from CCC-Quezon City, other franchise companies were organized such as CCC-North Manila and CCC-Cagayan Valley. The organization of subsidiary corporations as what was done here is usually resorted to for the aggrupation of capital, the ability to cover more territory and population, the decentralization of activities best decentralized, and the securing of other legitimate advantages. But when the mother corporation and its subsidiary cease to act in good faith and honest business judgment, when the corporate device is used by the parent to avoid its liability for legitimate obligations of the subsidiary, and when the corporate fiction is used to perpetrate fraud or promote injustice, the law steps in to remedy the problem. When that happens, the corporate character is not necessarily abrogated. It continues for legitimate objectives. However, it is pierced in order to remedy injustice, such as that inflicted in this case.

Factually and legally, the CCC had dominant control of the business operations of CCC-QC. The exclusive management contract insured that CCC-QC would be managed and controlled by CCC and would not deviate from the commands of the mother corporation. In addition to the exclusive management contract, CCC appointed its own employee, petitioner, as the resident manager of CCC-QC.

Petitioner's designation as "resident manager" implies that he was placed in CCC-QC by a superior authority. In fact, even after his assignment to the subsidiary corporation, petitioner continued to receive his salaries, allowances, and benefits from CCC, which later became respondent General Credit Corporation. Not only that. Petitioner and the other permanent employees of CCC-QC were qualified members and participants of the Employees Pension Plan of CCC.

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There are other indications in the record which attest to the applicability of the identity rule in this case, namely: the unity of interests, management, and control; the transfer of funds to suit their individual corporate conveniences; and the dominance of policy and practice by the mother corporation insure that CCC-QC was an instrumentality or agency of CCC.

As petitioner stresses, both CCC and CCC-QC were engaged in the same principal line of business involving a single transaction process. Under their discounting arrangements, CCC financed the operations of CCC-QC. The subsidiary sold, discounted, or assigned its accounts receivables to CCC.

The testimony of Joselito D. Liwanag, accountant and auditor of CCC since 1971, shows the pervasive and intensive auditing function of CCC over CCC-QC.[27] The two corporations also shared the same office space. CCC-QC had no office of its own.

The complaint in Civil Case No. Q-30583, instituted by CCC-QC, was even verified by the director-representative of CCC. The lawyers who filed the complaint and amended complaint were all in-house lawyers of CCC.

The challenged decision of the Court of Appeals states that CCC, now General Credit Corporation, is not a formal party in the case. The reason for this is that the complaint was filed by CCC-QC against petitioner. The choice of parties was with CCC-QC. The judgment award in this case arose from the counterclaim which petitioner set up against CCC-QC.

The circumstances which led to the filing of the aforesaid complaint are quite revealing. As narrated above, the discounting agreements through which CCC controlled the finances of its subordinates became unlawful when Central Bank adopted the DOSRI prohibitions. Under this rule the directors, officers, and stockholders are prohibited from borrowing from their company. Instead of adhering to the letter and spirit of the regulations by avoiding DOSRI loans altogether, CCC used

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[27] TSN, March 24, 1982; *Rollo*, pp. 69-150.

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the corporate device to continue the prohibited practice. CCC organized still another corporation, the CCC-Equity Corporation. However, as a wholly owned subsidiary, CCC-Equity was in fact only another name for CCC. Key officials of CCC, including the resident managers of subsidiary corporations, were appointed to positions in CCC-Equity.

In order to circumvent the Central Bank's disapproval of CCC-QC's mode of reducing its DOSRI lender accounts and its directive to follow Central Bank requirements, resident managers, including petitioner, were told to observe a pseudo-compliance with the phasing out orders. For his unwillingness to satisfactorily conform to these directives and his reluctance to resort to illegal practices, petitioner earned the ire of his employers. Eventually, his services were terminated, and criminal and civil cases were filed against him.

Petitioner issued twenty-three checks as money placements with CCC-QC because of difficulties faced by the firm in implementing the required phase-out program. Funds from his current account in the Far East Bank and Trust Company were transferred to CCC-QC. These monies were alleged in the criminal complaints against him as having been stolen. Complaints for qualified theft and estafa were brought by CCC-QC against petitioner. These criminal cases were later dismissed. Similarly, the civil complaint which was filed with the Court of First Instance of Pasig and later transferred to the Regional Trial Court of Quezon City was dismissed, but his counterclaims were granted.

Faced with the financial obligations which CCC-QC had to satisfy, the mother firm closed CCC-QC, in obvious fraud of its creditors. CCC-QC, instead of opposing its closure, cooperated in its own demise. Conveniently, CCC-QC stated in its opposition to the motion for *alias* writ of execution that all its properties and assets had been transferred and taken over by CCC.

Under the foregoing circumstances, the contention of respondent General Credit Corporation, the new name of CCC, that the corporate fiction should be appreciated in its favor is without merit.

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Paraphrasing the ruling in *Claparols v. Court of Industrial Relations*,[28] reiterated in *Concept Builders Inc. v. National Labor Relations*,[29] it is very obvious that respondent "seeks the protective shield of a corporate fiction whose veil the present case could, and should, be pierced as it was deliberately and maliciously designed to evade its financial obligation of its employees."

If the corporate fiction is sustained, it becomes a handy deception to avoid a judgment debt and work an injustice. The decision raised to us for review is an invitation to multiplicity of litigation. As we stated in *Islamic Directorate vs. Court of Appeals*,[30] the ends of justice are not served if further litigation is encouraged when the issue is determinable based on the records.

A court judgment becomes useless and ineffective if the employer, in this case CCC as a mother corporation, is placed beyond the legal reach of the judgment creditor who, after protracted litigation, has been found entitled to positive relief. Courts have been organized to put an end to controversy. This purpose should not be negated by an inapplicable and wrong use of the fiction of the corporate veil.

WHEREFORE, the decision of the Court of Appeals is hereby *REVERSED* and *SET ASIDE*. The injunction against the holding of an auction sale for the execution of the decision in Civil Case No. Q-30583 of properties of General Credit Corporation, and the levying upon and selling on execution of other properties of General Credit Corporation, is *LIFTED*.

SO ORDERED.

Davide, Jr., C.J. (Chairman), Puno, Kapunan, and *Pardo, JJ.*, concur.

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[28] 65 SCRA 613 [1975].

[29] 257 SCRA 149 [1996].

[30] 272 SCRA 454 [1997].