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SECOND DIVISION

[G.R. No. 182770. September 17, 2014]

WPM INTERNATIONAL TRADING, INC. and WARLITO P. MANLAPAZ, *petitioners, vs.* **FE CORAZON LABAYEN,** *respondent.*

SYLLABUS

1. **REMEDIAL LAW; CIVIL PROCEDURE; APPEALS; FACTUAL FINDINGS OF THE LOWER COURTS, WHEN ADOPTED AND CONFIRMED BY THE COURT OF APPEALS, ARE FINAL AND CONCLUSIVE AND MAY NOT BE REVIEWED ON APPEAL EXCEPT WHEN THE JUDGMENT IS BASED ON MISAPPREHENSION OF FACTS.—** We note, at the outset, that the question of whether a corporation is a mere instrumentality or alter-ego of another is purely one of fact. This is also true with respect to the question of whether the totality of the evidence adduced by the respondent warrants the application of the piercing the veil of corporate fiction doctrine. Generally, factual findings of the lower courts are accorded the highest degree of respect, if not finality. When adopted and confirmed by the CA, these findings are final and conclusive and may not be reviewed on appeal, save in some recognized exceptions among others, when the judgment is based on misapprehension of facts. We have reviewed the records and found that the application of the principle of piercing the veil of corporate fiction is unwarranted in the present case.

2. **MERCANTILE LAW; CORPORATION LAW; PRIVATE CORPORATIONS; A DIRECTOR, OFFICER OR EMPLOYEE OF A CORPORATION IS GENERALLY NOT HELD LIABLE FOR OBLIGATIONS INCURRED BY THE CORPORATION, FOR A CORPORATION HAS A PERSONALITY SEPARATE AND DISTINCT FROM THE PERSONS ACTING FOR AND IN ITS BEHALF.—** The rule is settled that a corporation has a personality separate and distinct from the persons acting for and in its behalf and, in general, from the people comprising it. Following this principle, the obligations incurred by the corporate officers, or other persons acting as corporate agents, are the direct accountabilities of the corporation they represent, and not theirs.

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Thus, a director, officer or employee of a corporation is generally not held personally liable for obligations incurred by the corporation; it is only in exceptional circumstances that solidary liability will attach to them.

3. **ID.; ID.; ID.; DOCTRINE OF PIERCING THE CORPORATE VEIL; WHEN APPLICABLE.—** [T]he doctrine of piercing the corporate veil applies only in three (3) basic instances, namely: a) when the separate and distinct corporate personality defeats public convenience, as when the corporate fiction is used as a vehicle for the evasion of an existing obligation; b) in fraud cases, or when the corporate entity is used to justify a wrong, protect a fraud, or defend a crime; or c) **is used in alter ego cases, *i.e.*, where a corporation is essentially a farce, since it is a mere alter ego or business conduit of a person, or where the corporation is so organized and controlled and its affairs so conducted as to make it merely an instrumentality, agency, conduit or adjunct of another corporation.**

4. **ID.; ID.; ID.; ID.; PIERCING THE CORPORATE VEIL BASED ON THE ALTER EGO THEORY; ELEMENTS.—** Piercing the corporate veil based on the alter ego theory requires the concurrence of three elements, namely: (1) Control, not mere majority or complete stock control, but complete domination, not only of finances but of policy and business practice in respect to the transaction attacked so that the corporate entity as to this transaction had at the time no separate mind, will or existence of its own; (2) Such control must have been used by the defendant to commit fraud or wrong, to perpetuate the violation of a statutory or other positive legal duty, or dishonest and unjust act in contravention of plaintiff's legal right; and (3) The aforesaid control and breach of duty must have proximately caused the injury or unjust loss complained of. The absence of any of these elements prevents piercing the corporate veil.

5. **ID.; ID.; ID.; ID.; ID.; THE CONTROL NECESSARY TO INVOKE THE INSTRUMENTALITY OR ALTER EGO RULE, ELUCIDATED.—** [T]he control necessary to invoke the instrumentality or alter ego is not majority or even complete stock control but such domination of finances, policies and practices that the controlled corporation has, so to speak, no separate mind, will or existence of its own, and is but a conduit for its principal. The control must be shown to have been exercised at the time

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the acts complained of took place. Moreover, the control and breach of duty must proximately cause the injury or unjust loss for which the complaint is made.

6. **ID.; ID.; ID.; ID.; THE PIERCING OF THE VEIL OF CORPORATE FICTION CAN ONLY BE DONE IF IT HAS BEEN CLEARLY ESTABLISHED THAT THE SEPARATE AND DISTINCT PERSONALITY OF THE CORPORATION IS USED TO JUSTIFY A WRONG, PROTECT FRAUD, OR PERPETRATE A DECEPTION.—** [T]he piercing of the veil of corporate fiction is frowned upon and thus, must be done with caution. It can only be done if it has been clearly established that the separate and distinct personality of the corporation is used to justify a wrong, protect fraud, or perpetrate a deception. The court must be certain that the corporate fiction was misused to such an extent that injustice, fraud, or crime was committed against another, in disregard of its rights; it cannot be presumed.

7. **CIVIL LAW; DAMAGES; MORAL DAMAGES; MAY BE AWARDED IN CASES OF BREACH OF CONTRACT WHERE THE DEFENDANT ACTED IN BAD FAITH; CASE AT BAR.—** On the award of moral damages, we find the same in order in view of WPM's unjustified refusal to pay a just debt. Under Article 2220 of the New Civil Code, moral damages may be awarded in cases of a breach of contract where the defendant acted fraudulently or in bad faith or was guilty of gross negligence amounting to bad faith. In the present case, when payment for the balance of the renovation cost was demanded, WPM, instead of complying with its obligation, denied having authorized the respondent to contract in its behalf and accordingly refused to pay. Such cold refusal to pay a just debt amounts to a breach of contract in bad faith, as contemplated by Article 2220. Hence the CA's order to pay moral damages was in order.

APPEARANCES OF COUNSEL

John Alex A. Villena for petitioners.
Carlos Mayorico E. Caliwara for respondent.

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D E C I S I O N

BRION, *J.*:

We review in this petition for review on *certiorari*[1] the decision[2] dated September 28, 2007 and the resolution[3] dated April 28, 2008 of the Court of Appeals (*CA*) in CA-G.R. CV No. 68289 that affirmed with modification the decision[4] of the Regional Trial Court (*RTC*), Branch 77, Quezon City.

The Factual Background

The respondent, Fe Corazon Labayen, is the owner of H.B.O. Systems Consultants, a management and consultant firm. The petitioner, WPM International Trading, Inc. (*WPM*), is a domestic corporation engaged in the restaurant business, while Warlito P. Manlapaz (*Manlapaz*) is its president.

Sometime in 1990, WPM entered into a management agreement with the respondent, by virtue of which the respondent was authorized to operate, manage and rehabilitate Quickbite, a restaurant owned and operated by WPM. As part of her tasks, the respondent looked for a contractor who would renovate the two existing Quickbite outlets in Divisoria, Manila and Lepanto St., University Belt, Manila. Pursuant to the agreement, the respondent engaged the services of CLN Engineering Services (*CLN*) to renovate Quickbite-Divisoria at the cost of ₱432,876.02.

On June 13, 1990, Quickbite-Divisoria's renovation was finally completed, and its possession was delivered to the respondent. However, out of the ₱432,876.02 renovation cost, only the amount of ₱320,000.00 was paid to CLN, leaving a balance of ₱112,876.02.

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[1] Under Rule 45 of the Rules of Court; *rollo,* pp. 29-38.

[2] *Rollo*, pp. 8-24; penned by Associate Justice Ramon R. Garcia, and concurred in by Associate Justice Josefina Guevara-Salonga, and Associate Justice Vicente Q. Roxas.

[3] *Id.* at 26-27.

[4] *Id.* at 54-60; penned by Judge Vivencio S. Baclig dated April 19, 2000.

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Complaint for Sum of Money (Civil Case No. Q-90-7013)

On October 19, 1990, CLN filed a complaint for sum of money and damages before the RTC against the respondent and Manlapaz, which was docketed as Civil Case No. Q-90-7013. CLN later amended the complaint to exclude Manlapaz as defendant. The respondent was declared in default for her failure to file a responsive pleading.

The RTC, in its January 28, 1991 decision, found the respondent liable to pay CLN actual damages in the amount of ₱112,876.02 with 12% interest per annum from June 18, 1990 (the date of first demand) and 20% of the amount recoverable as attorney's fees.

Complaint for Damages (Civil Case No. Q-92-13446)

Thereafter, the respondent instituted a complaint for damages against the petitioners, WPM and Manlapaz. The respondent alleged that in Civil Case No. Q-90-7013, she was adjudged liable for a contract that she entered into for and in behalf of the petitioners, to which she should be entitled to reimbursement; that her participation in the management agreement was limited only to introducing Manlapaz to Engineer Carmelo Neri (*Neri*), CLN's general manager; that it was actually Manlapaz and Neri who agreed on the terms and conditions of the agreement; that when the complaint for damages was filed against her, she was abroad; and that she did not know of the case until she returned to the Philippines and received a copy of the decision of the RTC.

In her prayer, the respondent sought indemnification in the amount of ₱112,876.60 plus interest at 12% per annum from June 18, 1990 until fully paid; and 20% of the award as attorney's fees. She likewise prayed that an award of ₱100,000.00 as moral damages and ₱20,000.00 as attorney's fees be paid to her.

In his defense, Manlapaz claims that it was his fellow incorporator/director Edgar Alcansaje who was in-charge with the daily operations of the Quickbite outlets; that when Alcansaje left WPM, the remaining directors were compelled to hire the respondent as manager; that the respondent had entered into the renovation agreement with CLN in her own personal capacity; that when he found

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the amount quoted by CLN too high, he instructed the respondent to either renegotiate for a lower price or to look for another contractor; that since the respondent had exceeded her authority as agent of WPM, the renovation agreement should only bind her; and that since WPM has a separate and distinct personality, Manlapaz cannot be made liable for the respondent's claim.

Manlapaz prayed for the dismissal of the complaint for lack of cause of action, and by way of counterclaim, for the award of ₱350,000.00 as moral and exemplary damages and ₱50,000.00 attorney's fees.

The RTC, through an order dated March 2, 1993 declared WPM in default for its failure to file a responsive pleading.

The Decision of the RTC

In its decision, the RTC held that the respondent is entitled to indemnity from Manlapaz. The RTC found that based on the records, there is a clear indication that WPM is a mere instrumentality or business conduit of Manlapaz and as such, WPM and Manlapaz are considered one and the same. The RTC also found that Manlapaz had complete control over WPM considering that he is its chairman, president and treasurer at the same time. The RTC thus concluded that Manlapaz is liable in his personal capacity to reimburse the respondent the amount she paid to CLN in connection with the renovation agreement.

The petitioners appealed the RTC decision with the CA. There, they argued that in view of the respondent's act of entering into a renovation agreement with CLN in excess of her authority as WPM's agent, she is not entitled to indemnity for the amount she paid. Manlapaz also contended that by virtue of WPM's separate and distinct personality, he cannot be made solidarily liable with WPM.

The Ruling of the Court of Appeals

On September 28, 2007, the CA affirmed, with modification on the award of attorney's fees, the decision of the RTC. The CA held that the petitioners are barred from raising as a defense the respondent's alleged lack of authority to enter into the renovation agreement in view of their tacit ratification of the contract.

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The CA likewise affirmed the RTC ruling that WPM and Manlapaz are one and the same based on the following: (1) Manlapaz is the principal stockholder of WPM; (2) Manlapaz had complete control over WPM because he concurrently held the positions of president, chairman of the board and treasurer, in violation of the Corporation Code; (3) two of the four other stockholders of WPM are employed by Manlapaz either directly or indirectly; (4) Manlapaz's residence is the registered principal office of WPM; and (5) the acronym "WPM" was derived from Manlapaz's initials. The CA applied the principle of piercing the veil of corporate fiction and agreed with the RTC that Manlapaz cannot evade his liability by simply invoking WPM's separate and distinct personality.

After the CA's denial of their motion for reconsideration, the petitioners filed the present petition for review on *certiorari* under Rule 45 of the Rules of Court.

The Petition

The petitioners submit that the CA gravely erred in sustaining the RTC's application of the principle of piercing the veil of corporate fiction. They argue that the legal fiction of corporate personality could only be discarded upon clear and convincing proof that the corporation is being used as a shield to avoid liability or to commit a fraud. Since the respondent failed to establish that any of the circumstances that would warrant the piercing is present, Manlapaz claims that he cannot be made solidarily liable with WPM to answer for damages allegedly incurred by the respondent.

The petitioners further argue that, assuming they may be held liable to reimburse to the respondent the amount she paid in Civil Case No. Q-90-7013, such liability is only limited to the amount of ₱112,876.02, representing the balance of the obligation to CLN, and should not include the twelve 12% percent interest, damages and attorney's fees.

The Issues

The core issues are: (1) whether WPM is a mere instrumentality, alter-ego, and business conduit of Manlapaz; and (2) whether Manlapaz is jointly and severally liable with WPM to the respondent for reimbursement, damages and interest.

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Our Ruling

We find merit in the petition.

We note, at the outset, that the question of whether a corporation is a mere instrumentality or alter-ego of another is purely one of fact.[5] This is also true with respect to the question of whether the totality of the evidence adduced by the respondent warrants the application of the piercing the veil of corporate fiction doctrine.[6]

Generally, factual findings of the lower courts are accorded the highest degree of respect, if not finality. When adopted and confirmed by the CA, these findings are final and conclusive and may not be reviewed on appeal,[7] save in some recognized exceptions[8] among others, when the judgment is based on misapprehension of facts.

We have reviewed the records and found that the application of the principle of piercing the veil of corporate fiction is unwarranted

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[5] *Heirs of Ramon Durano, Sr. v. Uy*, 398 Phil. 125, 157 (2000).

[6] *Saverio v. Puyat*, G.R. No. 186433, November 27, 2013, 710 SCRA 747, 756.

[7] *Garong v. People of the Philippines*, 538 Phil. 296, 306 (2006).

[8] See *Samaniego-Celada v. Abena,* 579 Phil. 60, 66 (2008):

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(1) when the conclusion is a finding grounded entirely on speculation, surmises and conjectures;

(2) when the inference made is manifestly mistaken, absurd or impossible;

(3) where there is a grave abuse of discretion;

(4) when the judgment is based on a misapprehension of facts;

(5) when the findings of fact are conflicting;

(6) when the Court of Appeals, in making its findings, went beyond the issues of the case and the same is contrary to the admissions of both appellant and appellee;

(7) when the findings are contrary to those of the trial court;

(8) when the findings of fact are conclusions without citation of specific evidence on which they are based; (9) when the facts set forth in the petition as well as in the petitioners' main and reply briefs are not disputed by the respondents; and (10) when the findings of fact of the Court of Appeals are premised on the supposed absence of evidence and contradicted by the evidence on record.

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in the present case.

On the Application of the Principle of Piercing the Veil of Corporate Fiction

The rule is settled that a corporation has a personality separate and distinct from the persons acting for and in its behalf and, in general, from the people comprising it.[9] Following this principle, the obligations incurred by the corporate officers, or other persons acting as corporate agents, are the direct accountabilities of the corporation they represent, and not theirs. Thus, a director, officer or employee of a corporation is generally not held personally liable for obligations incurred by the corporation;[10] it is only in exceptional circumstances that solidary liability will attach to them.

Incidentally, the doctrine of piercing the corporate veil applies only in three (3) basic instances, namely: a) when the separate and distinct corporate personality defeats public convenience, as when the corporate fiction is used as a vehicle for the evasion of an existing obligation; b) in fraud cases, or when the corporate entity is used to justify a wrong, protect a fraud, or defend a crime; or c) **is used in alter ego cases, *i.e.*, where a corporation is essentially a farce, since it is a mere alter ego or business conduit of a person, or where the corporation is so organized and controlled and its affairs so conducted as to make it merely an instrumentality, agency, conduit or adjunct of another corporation**.[11]

Piercing the corporate veil based on the alter ego theory requires the concurrence of three elements, namely:

(1) Control, not mere majority or complete stock control, but complete domination, not only of finances but of policy and business practice in respect to the transaction attacked so that the corporate entity as to this transaction had at the time no separate mind, will or existence of its own;

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[9] *Supra* note 6, at 757.

[10] *Id*.

[11] *Prisma Construction and Development Corporation v. Menchavez*, G.R. No. 160545, March 9, 2010, 614 SCRA 590, 603.

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(2) Such control must have been used by the defendant to commit fraud or wrong, to perpetuate the violation of a statutory or other positive legal duty, or dishonest and unjust act in contravention of plaintiff's legal right; and

(3) The aforesaid control and breach of duty must have proximately caused the injury or unjust loss complained of.

The absence of any of these elements prevents piercing the corporate veil.[12]

In the present case, the attendant circumstances do not establish that WPM is a mere alter ego of Manlapaz.

Aside from the fact that Manlapaz was the principal stockholder of WPM, records do not show that WPM was organized and controlled, and its affairs conducted in a manner that made it merely an instrumentality, agency, conduit or adjunct of Manlapaz. As held in *Martinez v. Court of Appeals*,[13] the mere ownership by a single stockholder of even all or nearly all of the capital stocks of a corporation is not by itself a sufficient ground to disregard the separate corporate personality. To disregard the separate juridical personality of a corporation, the wrongdoing must be clearly and convincingly established.[14]

Likewise, the records of the case do not support the lower courts' finding that Manlapaz had control or domination over WPM or its finances. That Manlapaz concurrently held the positions of president, chairman and treasurer, or that the Manlapaz's residence is the registered principal office of WPM, are insufficient considerations to prove that he had exercised absolute control over WPM.

In this connection, we stress that the control necessary to invoke the instrumentality or alter ego rule is not majority or even complete stock control but such domination of finances, policies and practices that the controlled corporation has, so to speak, no separate mind,

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[12] *Philippine National Bank v. Hydro Resources Contractors Corporation*, G.R. Nos. 167530, 167561 and 167603, March 13, 2013, 693 SCRA 294, 308-310.

[13] 481 Phil. 450, 453 (2004).

[14] *Marubeni Corporation v. Lirag*, 415 Phil. 29, 39(2001).

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will or existence of its own, and is but a conduit for its principal. The control must be shown to have been exercised at the time the acts complained of took place. Moreover, the control and breach of duty must proximately cause the injury or unjust loss for which the complaint is made.

Here, the respondent failed to prove that Manlapaz, acting as president, had absolute control over WPM. Even granting that he exercised a certain degree of control over the finances, policies and practices of WPM, in view of his position as president, chairman and treasurer of the corporation, such control does not necessarily warrant piercing the veil of corporate fiction since there was not a single proof that WPM was formed to defraud CLN or the respondent, or that Manlapaz was guilty of bad faith or fraud.

On the contrary, the evidence establishes that CLN and the respondent knew and acted on the knowledge that they were dealing with WPM for the renovation of the latter's restaurant, and not with Manlapaz. That WPM later reneged on its monetary obligation to CLN, resulting to the filing of a civil case for sum of money against the respondent, does not automatically indicate fraud, in the absence of any proof to support it.

This Court also observed that the CA failed to demonstrate how the separate and distinct personality of WPM was used by Manlapaz to defeat the respondent's right for reimbursement. Neither was there any showing that WPM attempted to avoid liability or had no property against which to proceed.

Since no harm could be said to have been proximately caused by Manlapaz for which the latter could be held solidarily liable with WPM, and considering that there was no proof that WPM had insufficient funds, there was no sufficient justification for the RTC and the CA to have ruled that Manlapaz should be held jointly and severally liable to the respondent for the amount she paid to CLN. Hence, only WPM is liable to indemnify the respondent.

Finally, we emphasize that the piercing of the veil of corporate fiction is frowned upon and thus, must be done with caution.[15] It

[15] *Heirs of Fe Tan Uy v. International Exchange Bank*, G.R. Nos. 166282-83, February 13, 2013, 690 SCRA 519, 528.

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can only be done if it has been clearly established that the separate and distinct personality of the corporation is used to justify a wrong, protect fraud, or perpetrate a deception. The court must be certain that the corporate fiction was misused to such an extent that injustice, fraud, or crime was committed against another, in disregard of its rights; it cannot be presumed.

On the Award of Moral Damages

On the award of moral damages, we find the same in order in view of WPM's unjustified refusal to pay a just debt. Under Article 2220 of the New Civil Code,[16] moral damages may be awarded in cases of a breach of contract where the defendant acted fraudulently or in bad faith or was guilty of gross negligence amounting to bad faith.

In the present case, when payment for the balance of the renovation cost was demanded, WPM, instead of complying with its obligation, denied having authorized the respondent to contract in its behalf and accordingly refused to pay. Such cold refusal to pay a just debt amounts to a breach of contract in bad faith, as contemplated by Article 2220. Hence, the CA's order to pay moral damages was in order.

WHEREFORE, in light of the foregoing, the decision dated September 28, 2007 of the Court of Appeals in CA-G.R. CV No. 68289 is **MODIFIED** and that petitioner Warlito P. Manlapaz is **ABSOLVED** from any liability under the renovation agreement.

SO ORDERED.

*Carpio (Chairperson), del Castillo, Villarama, Jr.,** and *Leonen, JJ.,* concur.

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[16] Article 2220. Willful injury to property may be a legal ground for awarding moral damages if the court should find that, under the circumstances, such damages are justly due. The same rule applies to breaches of contract where the defendant acted fraudulently or in bad faith.

* Designated as Acting Member in lieu of Associate Justice Jose C. Mendoza, per Special Order No. 1767 dated August 27, 2014.