



Republic of the Philippines
Supreme Court
 Baguio City

SUPREME COURT OF THE PHILIPPINES
 PUBLIC INFORMATION OFFICE
RECEIVED
 MAY 17 2017
 BY: COF 313
 TIME: _____

FIRST DIVISION

**CALIFORNIA MANUFACTURING
 COMPANY, INC.,**

G. R. No. 202454

Petitioner,

Present:

- versus -

SERENO, *CJ*, Chairperson,
 LEONARDO-DECASTRO,
 DEL CASTILLO,
 PERLAS-BERNABE, and
 CAGUIOA, *JJ*.

**ADVANCED
 SYSTEM, INC.,**

TECHNOLOGY

Promulgated:

Respondent.

APR 25 2017

X ----- X

DECISION

SERENO, *CJ*:

Before us is a Petition for Review on Certiorari assailing the Decision¹ of the Court of Appeals (CA) in CA-G.R. CV No. 94409, which denied the appeal filed by California Manufacturing Company, Inc. (CMCI) from the Decision² of Regional Trial Court (RTC) of Pasig City, Branch 268, in the Complaint for Sum of Money³ filed by Advanced Technology Systems, Inc. (ATSI) against the former.

The RTC ordered CMCI to pay ATSI the amount of ₱443,729.39 for the unpaid rentals for a Prodopak machine, plus legal interest from the date of extra-judicial demand until full payment; 30% of the judgment award as attorney's fees; and the costs of litigation. The CA affirmed the trial court's decision, but it deleted the award of attorney's fees for lack of factual and legal basis and ordered CMCI to pay the costs of litigation.

¹ *Rollo*, pp. 57-78. The Decision is dated 25 August 2011 and it was penned by Associate Justice Celia C. Librea-Leagogo, with Associate Justices Remedios Salazar-Fernando and Michael P. Elbinias concurring.

² *Id.* at 84-88. The Decision is dated 13 April 2009 and was penned by Judge Amelia C. Manalastas.

³ The case was docketed as Civil Case No. 69735.

THE ANTECEDENT FACTS

Petitioner CMCI is a domestic corporation engaged in the food and beverage manufacturing business. Respondent ATSI is also a domestic corporation that fabricates and distributes food processing machinery and equipment, spare parts, and its allied products.⁴

In August 2001, CMCI leased from ATSI a Prodopak machine which was used to pack products in 20-ml. pouches.⁵ The parties agreed to a monthly rental of ₱98,000 exclusive of tax. Upon receipt of an open purchase order on 6 August 2001, ATSI delivered the machine to CMCI's plant at Gateway Industrial Park, General Trias, Cavite on 8 August 2001.

In November 2003, ATSI filed a Complaint for Sum of Money⁶ against CMCI to collect unpaid rentals for the months of June, July, August, and September 2003. ATSI alleged that CMCI was consistently paying the rents until June 2003 when the latter defaulted on its obligation without just cause. ATSI also claimed that CMCI ignored all the billing statements and its demand letter. Hence, in addition to the unpaid rents ATSI sought payment for the contingent attorney's fee equivalent to 30% of the judgment award.

CMCI moved for the dismissal of the complaint on the ground of extinguishment of obligation through legal compensation. The RTC, however, ruled that the conflicting claims of the parties required trial on the merits. It therefore dismissed the motion to dismiss and directed CMCI to file an Answer.⁷

In its Answer,⁸ CMCI averred that ATSI was one and the same with Processing Partners and Packaging Corporation (PPPC), which was a toll packer of CMCI products. To support its allegation, CMCI submitted copies of the Articles of Incorporation and General Information Sheets (GIS)⁹ of the two corporations. CMCI pointed out that ATSI was even a stockholder of PPPC as shown in the latter's GIS.¹⁰

CMCI alleged that in 2000, PPPC agreed to transfer the processing of CMCI's product line from its factory in Meycauayan to Malolos, Bulacan. Upon the request of PPPC, through its Executive Vice President Felicisima

⁴ RTC Records, p. 41.

⁵ Id. at 6.

⁶ Id. at 1-11.

⁷ Id. at 125 (Order dated 2 August 2004).

⁸ Id. at 131-142. The title of the pleading is Answer Ad Cautelam as CMCI reserved the filing of a Petition for Certiorari within the period allowed by the Rules.

⁹ Id. at 149-204, 564-638.

¹⁰ Id. at 203.

Celones, CMCI advanced ₱4 million as mobilization fund. PPPC President and Chief Executive Officer Francis Celones allegedly committed to pay the amount in 12 equal instalments deductible from PPPC's monthly invoice to CMCI beginning in October 2000.¹¹ CMCI likewise claims that in a letter dated 30 July 2001,¹² Felicisima proposed to set off PPPC's obligation to pay the mobilization fund with the rentals for the Prodopak machine.

CMCI argued that the proposal was binding on both PPPC and ATSI because Felicisima was an officer and a majority stockholder of the two corporations. Moreover, in a letter dated 16 September 2003,¹³ she allegedly represented to the new management of CMCI that she was authorized to request the offsetting of PPPC's obligation with ATSI's receivable from CMCI. When ATSI filed suit in November 2003, PPPC's debt arising from the mobilization fund allegedly amounted to ₱10,766,272.24.

Based on the above, CMCI argued that legal compensation had set in and that ATSI was even liable for the balance of PPPC's unpaid obligation after deducting the rentals for the Prodopak machine.

After trial, the RTC rendered a Decision in favor of ATSI with the following dispositive portion:

WHEREFORE, foregoing premises considered, judgment is hereby rendered in favor of plaintiff and against the defendant, ordering the latter to pay the former, the following sums:

1. Php443,729.39 representing the unpaid rental for the prodopak machine plus legal interest from the date of extra judicial demand (October 13, 2003 – Exh. "E") until satisfaction of this judgment;
2. 30% of the judgment award as and by way of attorney's fees; and
3. costs of litigation.¹⁴

The trial court ruled that legal compensation did not apply because PPPC had a separate legal personality from its individual stockholders, the Spouses Celones, and ATSI. Moreover, there was no board resolution or any other proof showing that Felicisima's proposal to set-off the unpaid mobilization fund with CMCI's rentals to ATSI for the Prodopak Machine had been authorized by the two corporations. Consequently, the RTC ruled that CMCI's financial obligation to pay the rentals for the Prodopak machine

¹¹ Id. at 144, 612.

¹² Id. at 145, 560.

¹³ Id. at 146-148, 561-563.

¹⁴ Id. at 88.

stood and that its claim against PPPC could be properly ventilated in the proper proceeding upon payment of the required docket fees.¹⁵

On appeal by CMCI, the CA affirmed the trial court's ruling that legal compensation had not set in because the element of mutuality of parties was lacking. Likewise, the appellate court sustained the trial court's refusal to pierce the corporate veil. It ruled that there must be clear and convincing proof that the Spouses Celones had used the separate personalities of ATSI or PPPC as a shield to commit fraud or any wrong against CMCI, which was not existing in this case.¹⁶

Aside from the absence of a board resolution issued by ATSI, the CA observed that the letter dated 30 July 2001 clearly showed that Felicisima's proposal to effect the offsetting of debts was limited to the obligation of PPPC.¹⁷ The appellate court thus sustained the trial court's finding that ATSI was not bound by Felicisima's conduct.

Moreover, the CA rejected CMCI's argument that ATSI is barred by estoppel as it found no indication that ATSI had created any appearance of false fact.¹⁸ CA also held that estoppel did not apply to PPPC because the latter was not even a party to this case.

The CA, however, deleted the trial court's award of attorney's fees and costs of litigation in favor of ATSI as it found no discussion in the body of the decision of the factual and legal justification for the award.

CMCI filed a Motion for Reconsideration of the CA Decision, but the appellate court denied the motion for lack of merit.¹⁹ Hence, this petition.²⁰

¹⁵Id. at 87-88.

¹⁶Id. at 68-70.

¹⁷Id. at 71.

¹⁸Id. at 71-72.

¹⁹Id. at 80-82. The Order denying the Motion for Reconsideration is dated 21 June 2012, and it was penned by Associate Justice Celia C. Librea-Leagogo, with Associate Justices Remedios Salazar-Fernando and Michael P. Elbinias concurring.

²⁰Respondent did not file a Comment on the Petition despite several notices from the Court. The first Resolution requiring respondent to file a Comment was dated 21 January 2013 (*Rollo*, p. 102), which was received by Eric Sorodia, authorized agent of ATSI, on 5 April 2013 (Id. at 103). The subsequent Resolution dated 11 December 2013 containing a show cause and comply order intended was likewise received by respondent on 7 March 2014 through its authorized agent, Albert Prado (Id. at 107). The two resolutions were resent and duly received by respondent on 30 October 2014 as shown in the return card attached to the *rollo*. The last Resolution directing respondent to file a Comment was dated 5 August 2015 (Id. at 135). In the Resolution dated 27 July 2016 (Id. at 141-142), we noted that the show cause and comply order with copies of the Resolutions dated 21 January 2013 and 11 December 2013 were returned to the Court undelivered with the postal notation "RTS-moved out left no address." Accordingly, we ruled that respondent's right to file Comment was deemed waived and we directed the Clerk of Court, Court of Appeals, to elevate the complete records of the case.



THE ISSUE

The assignment of errors raised by CMCI all boil down to the question of whether the CA erred in affirming the ruling of the RTC that legal compensation between ATSI's claim against CMCI on the one hand, and the latter's claim against PPPC on the other hand, has not set in.

OUR RULING

We affirm the CA Decision *in toto*.

CMCI argues that both the RTC and the CA overlooked the circumstances that it has proven to justify the piercing of corporate veil in this case, i.e., (1) the interlocking board of directors, incorporators, and majority stockholder of PPPC and ATSI; (2) control of the two corporations by the Spouses Celones; and (3) the two corporations were mere alter egos or business conduits of each other. CMCI now asks us to disregard the separate corporate personalities of ATSI and PPPC based on those circumstances and to enter judgment in favor of the application of legal compensation.

Whether one corporation is merely an alter ego of another, a sham or subterfuge, and whether the requisite quantum of evidence has been adduced to warrant the puncturing of the corporate veil are questions of fact.²¹ Relevant to this point is the settled rule that in a petition for review on certiorari like this case, this Court's jurisdiction is limited to reviewing errors of law in the absence of any showing that the factual findings complained of are devoid of support in the records or are glaringly erroneous.²² This rule alone warrants the denial of the petition, which essentially asks us to reevaluate the evidence adduced by the parties and the credibility of the witnesses presented.

We have reviewed the evidence on record and have found no cogent reason to disturb the findings of the courts *a quo* that ATSI is distinct and separate from PPPC, or from the Spouses Celones.

Any piercing of the corporate veil must be done with caution.²³ As the CA had correctly observed, it 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 rights. Moreover, the wrongdoing must be clearly and convincingly established. *Sarona v. NLRC*²⁴ instructs, thus:

²¹ *Philippine National Bank v. Hydro Resources Contractors Corporation*, 706 Phil. 297 (2013).

²² *Bank of Philippine Islands v. Bank of Philippine Islands Employees Union-Metro Manila*, 693 Phil. 82 (2012) citing *Retuya v. Dumarpa*, 455 Phil. 734 (2003).

²³ *Vda. de Roxas v. Our Lady's Foundation, Inc.*, 705 Phil. 505 (2013).

²⁴ 679 Phil. 394 (2012).

Whether the separate personality of the corporation should be pierced hinges on obtaining facts appropriately pleaded or proved. However, any piercing of the corporate veil has to be done with caution, albeit the Court will not hesitate to disregard the corporate veil when it is misused or when necessary in the interest of justice. After all, the concept of corporate entity was not meant to promote unfair objectives.

The doctrine of piercing the corporate veil applies only in three (3) basic areas, namely: 1) defeat of public convenience as when the corporate fiction is used as a vehicle for the evasion of an existing obligation; 2) fraud cases or when the corporate entity is used to justify a wrong, protect fraud, or defend a crime; or 3) alter ego cases, where a corporation is merely 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 are so conducted as to make it merely an instrumentality, agency, conduit or adjunct of another corporation.²⁵

CMCI's alter ego theory rests on the alleged interlocking boards of directors and stock ownership of the two corporations. The CA, however, rejected this theory based on the settled rule that mere ownership by a single stockholder of even all or nearly all of the capital stocks of a corporation, by itself, is not sufficient ground to disregard the corporate veil. We can only sustain the CA's ruling. The instrumentality or control test of the alter ego doctrine requires not mere majority or complete stock control, but complete domination of finances, policy and business practice with respect to the transaction in question. The corporate entity must be shown to have no separate mind, will, or existence of its own at the time of the transaction.²⁶

Without question, the Spouses Celones are incorporators, directors, and majority stockholders of the ATSI and PPC. But that is all that CMCI has proven. There is no proof that PPC controlled the financial policies and business practices of ATSI either in July 2001 when Felicisima proposed to set off the unpaid ₱3.2 million mobilization fund with CMCI's rental of Prodopak **machines**; or in August 2001 when the lease agreement between CMCI and ATSI commenced. Assuming *arguendo* that Felicisima was sufficiently clothed with authority to propose the offsetting of obligations, her proposal cannot bind ATSI because at that time the latter had no transaction yet with CMCI. Besides, CMCI had leased only one Prodopak machine. Felicisima's reference to the Prodopak machines in its letter in July 2001 could only mean that those were different from the Prodopak machine that CMCI had leased from ATSI.

Contrary to the claim of CMCI, none of the letters from the Spouses Celones tend to show that ATSI was even remotely involved in the proposed offsetting of the outstanding debts of CMCI and PPC. Even Felicisima's letter to the new management of CMCI in 2003 contains nothing to support CMCI's argument that Felicisima represented herself to be clothed with

²⁵ *Supra*.

²⁶ *Supra* note 21.

authority to propose the offsetting. For clarity, we quote below the relevant portions of her letter:

Gentlemen:

I apologize for writing this letter. But kindly spare me your time and allow to ventilate my grievances against California Manufacturing Corporation x x x. I had formally lodged my grievances with the management of CMC, but until now, no action has been done yet. It is on this spirit and time tested principle of diplomacy that I write this letter.

I am the Executive Vice President of Processing Partners & Packaging Corporation (PPPC), a duly organized domestic corporation, engaged in the toll packing business.

Sometime in November of 1996, CMC availed of the toll packing services of PPPC. At the outset, business relationship between the two was going smoothly. In due time, PPPC proved its name to CMC in delivering quality toll packing services. As a matter of fact, after the expiration of the toll packing contract, CMC still retained the services of PPPC. Thus, sometime in the year 2000, CMC executed another toll packing contract with PPC.

However, the business relationship unexpectedly turned sour when CMC changed its Management in the latter part of 2002. Since then CMC's new management has been committing unsound business practices prejudicial to the interests of PPPC.

x x x x

Failure of CMC to honor its agreement with PPC anent the pickling machinery

x x x x

Leapfrog Plant/Jasmine and Rose Plant

x x x x

Pre-termination of toll [p]acking [a]greement for KLS Spaghetti Sauce without just cause

x x x x

Unpaid rentals for the lease of machinery from Advanced Technology Systems, Inc.

CMC has been leasing a machinery of Advanced Technology Systems, Inc. (Advanced Tech), a domestic corporation of which I am also the majority stockholder. **CMC owes Advanced Tech. unpaid rentals in**



the amount of ₱443,729.37, but despite various demands, CMC refused to pay Advanced Tech.

We have already formally lodged our grievances concerning the foregoing with the management of CMC. However, until now, no action has been done. We believe that before we take coercive actions available under the law, it is wise to bring said grievances first to your attention to exhaust available venues for amicable settlement.

Though **PPPC's grievances** are ripe for judicial action, we still hope that we can settle [the] same amicably. However, if we run out of choices, we will [be] constrained to invoke the aid of the appropriate court. (Emphases supplied)²⁷

Nothing in the narration above supports CMCI's claim that it had been led to believe that ATSI and PPC were one and the same; or, that ATSI's collectible was intertwined with the business transaction of PPC with CMCI.

In all its pleadings, CMCI averred that the ₱4 million mobilization fund was in furtherance of its agreement with PPC in 2000. Prior thereto, PPC had been a toll packer of its products as early as 1996. Clearly, CMCI had been dealing with PPC as a distinct juridical person acting through its own corporate officers from 1996 to 2003. CMCI's dealing with ATSI began only in August 2001. It appears, however, that CMCI now wants the Court to gloss over the separate corporate existence ATSI and PPC notwithstanding the dearth of evidence showing that either PPC or ATSI had used their corporate cover to commit fraud or evade their respective obligations to CMCI. It even appears that CMCI faithfully discharged its obligation to ATSI for a good two years without raising any concern about its relationship to PPC

The fraud test, which is the second of the three-prong test to determine the application of the alter ego doctrine, requires that the parent corporation's conduct in using the subsidiary corporation be unjust, fraudulent or wrongful. Under the third prong, or the harm test, a causal connection between the fraudulent conduct committed through the instrumentality of the subsidiary and the injury suffered or the damage incurred by the plaintiff has to be established.²⁸ None of these elements have been demonstrated in this case. Hence, we can only agree with the CA and RTC in ruling out mutuality of parties to justify the application of legal compensation in this case.

²⁷ Records, pp. 146-148.

²⁸ Supra note 20.

Article 1279 of the Civil Code provides:

ARTICLE 1279. In order that compensation may be proper, it is necessary:

(1) That each one of the obligors be bound principally, and that he be at the same time a principal creditor of the other;

(2) That both debts consist in a sum of money, or if the things due are consumable, they be of the same kind, and also of the same quality if the latter has been stated;

(3) That the two debts be due;

(4) That they be liquidated and demandable;

(5) That over neither of them there be any retention or controversy, commenced by third persons and communicated in due time to the debtor.

The law, therefore, requires that the debts be liquidated and demandable. Liquidated debts are those whose exact amounts have already been determined.²⁹

CMCI has not presented any credible proof, or even just an exact computation, of the supposed debt of PPC. It claims that the mobilization fund that it had advanced to PPC was in the amount of ₱4 million. Yet, Felicisima's proposal to conduct offsetting in her letter dated 30 July 2001 pertained to a ₱3.2 million debt of PPC to CMCI. Meanwhile, in its Answer to ATSI's complaint, CMCI sought to set off its unpaid rentals against the alleged ₱10 million debt of PPC. The uncertainty in the supposed debt of PPC to CMCI negates the latter's invocation of legal compensation as justification for its non-payment of the rentals for the subject Prodopak machine.

WHEREFORE, the Decision dated 25 August 2011 and Resolution dated 21 June 2012 issued by the Court of Appeals in CA-G.R. CV No. 94409 are **AFFIRMED**. The instant Petition is **DENIED** for lack of merit.

SO ORDERED.



MARIA LOURDES P. A. SERENO
Chief Justice, Chairperson

²⁹ *Asia Trust Development Bank v. Tuble*, 691 Phil. 732 (2012).

WE CONCUR:

Teresita Leonardo de Castro
TERESITA J. LEONARDO-DE CASTRO
Associate Justice

Mariano C. Del Castillo
MARIANO C. DEL CASTILLO
Associate Justice

Estela M. Perlas-Bernabe
ESTELA M. PERLAS-BERNABE
Associate Justice

Alfredo Benjamin S. Caguioa
ALFREDO BENJAMIN S. CAGUIOA
Associate Justice

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

Maria Lourdes P. A. Sereno
MARIA LOURDES P. A. SERENO
Chief Justice