

EIGHTEENTH DIVISION

[CA G.R. SP NO. 07881, February 18, 2015]

MICHAEL YU, PETITIONER, VS. TREASURE ISLAND INDUSTRIAL CORPORATION, RESPONDENT.

D E C I S I O N

LOPEZ, J.:

Before the Court is a Petition for Review^[1] under Rule 42 of the 1997 Rules of Civil Procedure filed by Michael Yu (hereafter, "petitioner") against Treasure Island Industrial Corporation (hereafter, "respondent"), assailing the Decision^[2] dated March 25, 2013 and the Order^[3] dated July 15, 2013 of Branch 23, Regional Trial Court of Cebu City (hereafter, "court *a quo*") in Civil Case No. CEB-39391, which denied respondent's Motion for Reconsideration.

The antecedents are as follows:

The instant case originated from a Complaint^[4] for Sum of Money with Prayer for Preliminary Attachment and Damages filed by respondent against M.Y. Lines, Inc. (hereafter, "M.Y. Lines") and petitioner before the Municipal Trial Court in Cities (MTCC) of Cebu City.

Respondent in its complaint claimed that it is a domestic corporation engaged in selling assorted construction materials. M.Y. Lines purchased various construction materials from respondent, and postdated checks were issued by petitioner as payment. When the checks were presented for payment, petitioner ordered the drawee bank to stop payment. Another set of checks were then issued in lieu of the previously issued checks. These checks totaled P69,980.00. When this second set of checks were deposited to the drawee bank, the checks were returned for the reason of "Account Closed". Respondent then learned that M.Y. Lines stopped its operation. Respondent asserted that petitioner did not advise respondent of the impending closure and the subsequent actual closure of M.Y. Lines. It is the contention of respondent that petitioner was guilty of fraud in contracting the obligation considering that he, as the Vice-President for Finance and Administration of M.Y. Lines, had full knowledge of the financial trouble of M.Y. Lines and yet petitioner still issued the subject checks. Repeated demands on petitioner proved futile, hence, respondent maintained that petitioner should be held solidarily liable with M.Y. Lines.

On the other hand, petitioner in his Answer^[5] contended that respondent has no cause of action against him considering that there was no personal transaction between the parties. The issued checks were corporate checks of M.Y. Lines and he should not be held personally liable for these checks.

On September 24, 2012, Branch 4 of MTCC Cebu City rendered a Decision^[6] in favor of respondent. The dispositive portion reads:

WHEREFORE, evidence being considered and plaintiff having substantiated its claim with sufficient evidence, judgment is hereby rendered in favor of the plaintiff and against the defendant, ordering the latter to pay plaintiff the sum of P69,890.00 plus 12% interest thereon per annum from the filing of the complaint until fully paid, attorney's fees of Php10,000.00 and litigation expenses of Php5,000.00.

SO ORDERED.

Petitioner elevated the case to the court *a quo*.

On March 25, 2013, the court *a quo* issued the assailed Decision.^[7] The dispositive portion of the Decision reads:

WHEREFORE, premises considered, the appealed Decision is hereby affirmed in toto.

SO ORDERED.

Unfazed, petitioner filed a Motion for Reconsideration but the same was denied by the court *a quo* in an Order^[8] dated July 15, 2013.

Hence, this Petition for Review^[9] with the following assignment of errors:

I

THE COURT A QUO ERRED IN HOLDING THAT THERE WAS BAD FAITH ON THE PART OF PETITIONER HOLDING HIM RESPONSIBLE FOR THE CORPORATE OBLIGATIONS OF M.Y. LINES, INC. AND TOTALLY DISREGARDING THE SEPARATE AND DISTINCT PERSONALITY OF THE M.Y. LINES, INC.;

II

THE COURT A QUO ERRED IN AWARDING THE MONETARY CLAIMS OF RESPONDENT AGAINST PETITIONER;

III

THE COURT A QUO ERRED IN DENYING THE MOTION FOR RECONSIDERATION OF PETITION FOR LACK OF NOTICE OF HEARING DESPITE THE FACT THAT RESPONDENT WAS DULY FURNISHED COPY OF THE SAME.

The pivotal issue is whether or not petitioner should be held personally liable for the corporate checks where he was the signatory.

Petitioner, in his Memorandum, claims that the veil of corporate fiction should not be pierced as he is not guilty of bad faith thus, he cannot be held responsible for the corporate obligations of M.Y. Lines. Petitioner maintains that there is no evidence

proving that there was bad faith on his part. He contends that there was nothing in the complaint alleging that he assented to the unlawful act and that there was no evidence proving such unlawful acts. It is posited that he did not personally transacted with M.Y. Lines and was merely the signatory of the checks together with the other two authorized signatories of M.Y. Lines. Petitioner contends that respondent knew all along that M.Y. Lines was undergoing rehabilitation and that it was the reason for the issuance of the replacement checks. Furthermore, petitioner argues that solidary liability of officers of corporations is not applicable in this case. Lastly, petitioner contends that he is not liable for attorney's fees and litigation expenses.

Respondent's Memorandum counters that petitioner is guilty of bad faith, gross negligence and fraud in issuing the subject checks. It contends that the provision of B.P. Blg. 22 is clear that if the bounced check was issued by the corporation, the person who actually signed the same shall be held liable. Respondent maintains that petitioner cannot evade liability arising from his issuance of the bounced checks being the Vice-President for Finance and Administration of the company. Moreover, M.Y. Lines was a family corporation where the Corporation Code of the Philippines states that stockholders shall be personally liable for corporate torts. It is posited that the corporate fiction may be set aside where it would work injustice to the creditor. Lastly, respondent asserts that petitioner is liable for attorney's fees and litigation expenses.

The Ruling of the Court

The petition is denied.

Generally, the officer of the corporation is not personally liable for the debts of the corporation, which has a separate legal personality of its own. However, Section 31 of the Corporation Code lays down the exceptions to the rule, as follows:

Section 31. Liability of directors, trustees or officers. - Directors or trustees who wilfully and knowingly vote for or assent to patently unlawful acts of the corporation or who are guilty of gross negligence or bad faith in directing the affairs of the corporation or acquire any personal or pecuniary interest in conflict with their duty as such directors or trustees shall be liable jointly and severally for all damages resulting therefrom suffered by the corporation, its stockholders or members and other persons.

Section 31 makes an officer personally liable for corporate debts if he wilfully and knowingly votes for or assents to patently unlawful acts of the corporation. Section 31 also makes him personally liable if he is guilty of gross negligence or bad faith in directing the affairs of the corporation.^[10]

Moreover, the case of *Shrimp Specialist, Inc. v. Fuji-Triumph Agri-Industrial Corp.*^[11] citing *Uy v. Villanueva*^[12] enumerates the instances where the general rule does not apply:

1. When directors and trustees or, in appropriate cases, the officers of a corporation: (a) vote for or assent to patently unlawful acts of the corporation; (b) act in bad faith or with gross negligence in directing the