

FIRST DIVISION

[G.R. No. 202454, April 25, 2017]

**CALIFORNIA MANUFACTURING COMPANY, INC., PETITIONER,
VS. ADVANCED TECHNOLOGY SYSTEM, INC., RESPONDENT.**

DECISION

SERENO, C.J.:

Before us is a Petition for Review on Certiorari assailing the Decision^[1] 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 Decision^[2] of Regional Trial Court (RTC) of Pasig City, Branch 268, in the Complaint for Sum of Money^[3] filed by Advanced Technology Systems, Inc. (ATSI) against the former.

The RTC ordered CMCI to pay ATSI the amount of P443,729.39 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.

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 P98,000 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 Money^[6] 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 Celones, CMCI advanced P4 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 P10,766,272.24.

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 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]

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:

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 PPPC. But that is all that CMCI has proven. There is no proof that PPPC controlled the financial policies and business practices of ATSI either in July 2001 when Felicisima proposed to set off the unpaid P3.2 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