

## 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.**

### DECISION

**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").

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,<sup>[1]</sup> docketed as Civil Case No. Q-30583, 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.<sup>[2]</sup> The complaint alleged that petitioner embezzled the funds of CCC-QC amounting to P1,300,593.11. Out of this amount, at least P630,000.00 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 P1,300,593.11 represented his money placements in CCC-QC, as shown by twenty-three (23) checks which he issued to the said company.<sup>[3]</sup>

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 P185,000.00 plus 14% interest per annum from October 2, 1980 until fully paid;
- b) to pay defendant P3,639,470.82 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 promissory note of October 24, 1977, in the sum of P9,738.00 plus penalty at the rate of 1% per month from December 24, 1977 until fully paid;
- c) to pay defendants P200,000.00 as moral damages;
- d) to pay defendants P100,000.00 as exemplary damages;
- e) to pay defendants P25,000.00 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.<sup>[4]</sup> However, the judgment remained unsatisfied,<sup>[5]</sup> 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,<sup>[6]</sup> 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.<sup>[7]</sup> General Credit Corporation filed a Special Appearance and Opposition on December 2, 1991,<sup>[8]</sup> alleging that it was not a party to the case, and therefore petitioner should direct his claim against CCC-QC and not General Credit Corporation. Petitioner filed his reply,<sup>[9]</sup> 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.<sup>[10]</sup> On December 20, 1991, General Credit Corporation filed an Omnibus Motion,<sup>[11]</sup> 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.<sup>[12]</sup> On March 5, 1992, it issued an Order directing the issuance of an alias writ of execution.<sup>[13]</sup>

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,<sup>[14]</sup> docketed as Civil 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<sup>[15]</sup> 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.<sup>[16]</sup>

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.

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.<sup>[17]</sup> 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.<sup>[18]</sup> 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.*,<sup>[19]</sup> 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.