

SECOND DIVISION

[G.R. No. 172885, October 09, 2009]

MANUEL LUIS S. SANCHEZ, PETITIONER, VS. REPUBLIC OF THE PHILIPPINES, REPRESENTED BY THE DEPARTMENT OF EDUCATION, CULTURE AND SPORTS, RESPONDENT.

DECISION

ABAD, J.:

This petition for review on *certiorari* assails the February 21, 2006 Decision^[1] of the Court of Appeals in CA-G.R. CV 83648 and its Resolution^[2] of May 29, 2006, which dismissed the petitioner's appeal from the decision of Branch 71 of the Regional Trial Court (RTC) of Pasig City in Civil Case 66852.

The Facts and the Case

In 1980, during the regime of President Ferdinand E. Marcos, the government-owned Human Settlements Development Corporation (HSDC) built with public funds and on government land the St. Martin Technical Institute Complex at Barangay Ugong, Pasig City. This later on became known as the University of Life Complex.

In July 1980, First Lady Imelda R. Marcos and others organized the University of Life Foundation, Inc. (ULFI), a private non-stock, non-profit corporation devoted to non-formal education. On August 26, 1980 the government gave the management and operation of the Complex to ULFI but HSDC was to continue to construct facilities and acquire equipment for it. Although ULFI was to get all the incomes of the Complex, ULFI had to pay HSDC an annual fee of 14 percent of HSDC's investments in it.

After the fall of the Marcos regime in 1986, the new government reorganized HSDC into the Strategic Investment Development Corporation (SIDCOR) under the supervision of the Office of the President. Realizing that ULFI never paid the 14 percent annual fee due to HSDC, now totaling about P316 million, on July 25, 1989 SIDCOR rescinded the HSDC-ULFI agreement. Ironically, in its place, SIDCOR entered into an Interim Management Agreement with ULFI, allowing it to continue managing and operating the Complex.

Meantime, in October 1989, the government transferred the ownership of ULFI's properties to the Department of Education, Culture and Sports (DECS). Later in January 1990, Republic Act 6847 transferred full control and management of the Complex to DECS with effect two years from the law's enactment. The DECS transferred its offices to the Complex in December 1990. On January 29, 1991, SIDCOR transferred all its rights in the Complex to the National Government which in turn transferred the same to the DECS.

On January 31, 1991 DECS and ULFI entered into a Management Agreement, granting ULFI the authority to manage and operate the Complex until the end of that year. During this period, ULFI was expressly mandated under the said Management Agreement to remit to the Bureau of the Treasury, through the DECS, all incomes from the Complex, net of allowable expenses.^[3] At the end of 1991, the DECS gave ULFI notice to immediately vacate the Complex. But ULFI declined, prompting the DECS to file an action for unlawful detainer against it in Civil Case 2959 of the Metropolitan Trial Court (MeTC) of Pasig City. After hearing, MeTC dismissed the action for lack of merit. On the DECS's appeal to the RTC, the latter affirmed the order of dismissal.

On appeal of the DECS to the Court of Appeals by petition for review,^[4] however, the latter rendered judgment on January 17, 1995, reversing the MeTC and RTC decisions. The appeals court ordered ULFI to vacate the Complex and pay such reasonable rentals as the MeTC might fix. This Court dismissed ULFI's recourse to it from the judgment of the Court of Appeals.^[5]

On April 15, 1996 the MeTC fixed, after hearing, the rents that ULFI had to pay the DECS at P22,559,215.14 (due from February 1992 to January 1996) plus P6,325.00 per month until it shall have vacated the premises.^[6] The DECS succeeded in ejecting ULFI but the latter did not pay the amounts due from it.

On June 15, 1998 the DECS filed a complaint^[7] before the RTC of Pasig City in Civil Case 66852 for collection of the P22,559,215.14 in unremitted rents and damages against Henri Kahn, ULFI's President, and petitioner Manuel Luis S. Sanchez, its Executive Vice-President, based on their personal liability under Section 31 of the Corporation Code. The latter two were Managing Director and Finance Director, respectively, of the corporation.^[8]

The complaint alleged that Kahn and petitioner Sanchez, as key ULFI officers, were remiss in safekeeping ULFI's corporate incomes and in accounting for them.^[9] They neither placed the incomes derived from the Complex in ULFI's deposit account nor submitted the required financial statements detailing their transactions. The underlying theory of the case is that Kahn and Sanchez "operated ULFI as if it were their own property, handled the collections and spent the money as if it were their personal belonging."^[10] The DECS asked the RTC to order Kahn and Sanchez personally to pay it the P22,559,215.14 in rents due from ULFI with legal interest, exemplary damages of P1,000,000.00, attorney's fees of P500,000.00, and costs.

In his answer, petitioner Sanchez alleged that, being a mere officer of ULFI, he cannot be made personally liable for its adjudged corporate liability. He took exception to the complaint, characterizing it as an attempt to pierce the corporate veil that cloaked ULFI.

Satisfied that the DECS fully established its case, on October 14, 2002, the RTC rendered judgment, ordering Kahn and petitioner Sanchez to pay the DECS, jointly and severally, P22,559,215.14 with legal interest from April 1, 1996 until they shall have fully paid the same, P500,000.00 in exemplary damages, and P200,000.00 in attorney's fees, plus costs.^[11]

Both Kahn and petitioner Sanchez appealed to the Court of Appeals. The latter court gave due course to Sanchez's appeal but denied that of Kahn since it was filed out of time. On February 21, 2006 the Court of Appeals rendered judgment, wholly affirming the trial court's decision,^[12] hence, this petition.

In a nutshell, Sanchez argues that he cannot be made personally liable for ULFI's corporate obligations absent specific allegations in the complaint and evidence adduced during trial that would warrant a piercing of the corporate veil. He further argues that the DECS is barred by *res judicata* and forum shopping from collecting from him what it could not get by execution from ULFI under the judgment in the ejectment case. Finally, he claims that because ULFI suffered losses in operations during the period 1992 up to 1996, there could have been nothing left of the rentals it collected from the lessees of the Complex.

The DECS points out, on the other hand, that since Kahn and petitioner Sanchez were guilty of fraud and bad faith in managing the funds of ULFI, they can be made to personally answer for those funds and to pay its corporate obligations pursuant to Section 31 of the Corporation Code. They collected money from rents but did not, as was their duty, remit this to the DECS pursuant to the DECS-ULFI agreement.

The Issues

The case before this Court presents the following issues:

1. Whether or not petitioner Sanchez, a director and chief executive officer of ULFI, can be held liable in damages under Section 31 of the Corporation Code for gross neglect or bad faith in directing the corporation's affairs; and
2. Whether or not the action in Civil Case 66852 is barred by *res judicata* and constitutes forum shopping by the DECS.

Rulings of the Court

Petitioner Sanchez points out that the Court of Appeals' decision arbitrarily changed the DECS's theory of the case from one based on his and Kahn's alleged failure to deposit for the account of ULFI whatever rentals they have collected to another based on their alleged failure to remit to the DECS the incomes of the facilities they managed. But Sanchez is drawing insignificant distinctions from what the DECS claims and what the court below finds. Both essentially rest on Kahn and Sanchez's failure to account for the rent incomes that they collected from lease of spaces in the facilities of the Complex beyond the one-year management authority that the DECS granted ULFI in 1991.

Petitioner Sanchez claims that there is no ground for the courts below to pierce the veil of corporate identity and hold him and Kahn, who were mere corporate officers, personally liable for ULFI's obligations to the DECS. But this is not a case of piercing the veil of corporate fiction. The DECS brought its action against Sanchez and Kahn under Section 31 of the Corporation Code, which should not be confused with actions intended to pierce the corporate fiction.