

FIRST DIVISION

[G.R. No. 191525, December 13, 2017]

**INTERNATIONAL ACADEMY OF MANAGEMENT AND ECONOMICS
(I/AME), PETITIONER, V. LITTON AND COMPANY, INC.,
RESPONDENT.**

D E C I S I O N

SERENO, C.J.:

Before us is a Petition for Review on Certiorari under Rule 45 of the Rules of Court assailing the Court of Appeals (CA) Decision^[1] and Resolution^[2] in CA-G.R. SP No. 107727.

The CA affirmed the Judgment^[3] and Order^[4] of the Regional Trial Court (RTC) of Manila in Special Civil Action No. 06-115547 reinstating the Order^[5] of the Metropolitan Trial Court (MeTC) of Manila in favor of Litton and Company, Inc. (Litton).

THE FACTS

The facts, as culled from the records, are as follows:

Atty. Emmanuel T. Santos (Santos), a lessee to two (2) buildings owned by Litton, owed the latter rental arrears as well as his share of the payment of realty taxes.^[6]

Consequently, Litton filed a complaint for unlawful detainer against Santos before the MeTC of Manila. The MeTC ruled in Litton's favor and ordered Santos to vacate A.I.D. Building and Litton Apartments and to pay various sums of money representing unpaid arrears, realty taxes, penalty, and attorney's fees.^[7]

It appears however that the judgment was not executed. Litton subsequently filed an action for revival of judgment, which was granted by the RTC.^[8] Santos then appealed the RTC decision to the CA, which nevertheless affirmed the RTC.^[9] The said CA decision became final and executory on 22 March 1994.^[10]

On 11 November 1996, the sheriff of the MeTC of Manila levied on a piece of real property covered by Transfer Certificate of Title (TCT) No. 187565 and registered in the name of International Academy of Management and Economics Incorporated (I/AME), in order to execute the judgment against Santos.^[11] The annotations on TCT No. 187565 indicated that such was "*only up to the extent of the share of Emmanuel T. Santos.*"^[12]

I/AME filed with MeTC a "Motion to Lift or Remove Annotations Inscribed in TCT No. 187565 of the Register of Deeds of Makati City."^[13] I/AME claimed that it has a separate and distinct personality from Santos; hence, its properties should not be

made to answer for the latter's liabilities. The motion was denied in an Order dated 29 October 2004.

Upon motion for reconsideration of I/AME, the MeTC reversed its earlier ruling and ordered the cancellation of the annotations of levy as well as the writ of execution. Litton then elevated the case to the RTC, which in turn reversed the Order granting I/AME's motion for reconsideration and reinstated the original Order dated 29 October 2004.

I/AME then filed a petition with the CA to contest the judgment of the RTC, which was eventually denied by the appellate court.

THE CA RULING

The CA upheld the Judgment and Order of the RTC and held that no grave abuse of discretion was committed when the trial court pierced the corporate veil of I/AME.
[14]

It took note of how Santos had utilized I/AME to insulate the Makati real property covered by TCT No. 187565 from the execution of the judgment rendered against him, for the following reasons:

First, the Deed of Absolute Sale dated 31 August 1979 indicated that Santos, being the .President, was representing I/AME as the vendee.[15] However, records show that it was only in 1985 that I/AME was organized as a juridical entity.[16] Obviously, Santos could not have been President of a non-existent corporation at that time.[17]

Second, the CA noted that the subject real property was transferred to I/AME during the pendency of the appeal for the revival of the judgment in the ejectment case in the CA.[18]

Finally, the CA observed that the Register of Deeds of Makati City issued TCT No. 187565 only on 17 November 1993, fourteen (14) years after the execution of the Deed of Absolute Sale and more than eight (8) years after I/AME was incorporated.
[19]

Thus, the CA concluded that Santos merely used I/AME as a shield to protect his property from the coverage of the writ of execution; therefore, piercing the veil of corporate fiction is proper.[20]

THE ISSUES

The issues boil down to the alleged denial of due process when the court pierced the corporate veil of I/AME and its property was made to answer for the liability of Santos.

OUR RULING

We deny the petition.

There was no violation of due process against I/AME

Petitioner avers that its right to due process was violated when it was dragged into the case and its real property made an object of a writ of execution in a judgment

against Santos. It argues that since it was not impleaded in the main case, the court *a quo* never acquired jurisdiction over it. Indeed, compliance with the recognized modes of acquisition of jurisdiction cannot be dispensed with even in piercing the veil of corporation.^[21]

In a petition for review on certiorari under Rule 45, only questions of law shall be entertained. This Court considers the determination of the existence of any of the circumstances that would warrant the piercing of the veil of corporate fiction as a question of fact which ordinarily cannot be the subject of a petition for review on certiorari under Rule 45. We will only take cognizance of factual issues if the findings of the lower court are not supported by the evidence on record or are based on a misapprehension of facts.^[22] Once the CA affirms the factual findings of the trial court, such findings are deemed final and conclusive and thus, may not be reviewed on appeal, unless the judgment of the CA depends on a misapprehension of facts, which if properly considered, would justify a different conclusion.^[23] Such exception however, is not applicable in this case.

The 29 October 2004 MeTC judgment, the RTC judgment, and the CA decision are one in accord on the matters presented before this Court.

In general, corporations, whether stock or non-stock, are treated as separate and distinct legal entities from the natural persons composing them. The privilege of being considered a distinct and separate entity is confined to legitimate uses, and is subject to equitable limitations to prevent its being exercised for fraudulent, unfair or illegal purposes.^[24] However, once equitable limitations are breached using the coverture of the corporate veil, courts may step in to pierce the same.

As we held in *Lanuza, Jr. v. BF Corporation*:^[25]

Piercing the corporate veil is warranted when "[the separate personality of a corporation] is used as a means to perpetrate fraud or an illegal act, or as a vehicle for the evasion of an existing obligation, the circumvention of statutes, or to confuse legitimate issues." It is also warranted in 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."

When [the] corporate veil is pierced, the corporation and persons who are normally treated as distinct from the corporation are treated as one person, such that when the corporation is adjudged liable, these persons, too, become liable as if they were the corporation.

The piercing of the corporate veil is premised on the fact that the corporation concerned must have been properly served with summons or properly subjected to the jurisdiction of the court *a quo*. Corollary thereto, it cannot be subjected to a writ of execution meant for another in violation of its right to due process.^[26]

There exists, however, an exception to this rule: if it is shown "by clear and convincing proof that the separate and distinct personality of the corporation was purposefully employed to evade a legitimate and binding commitment and perpetuate a fraud or like wrongdoings."^[27]

The resistance of the Court to offend the right to due process of a corporation that is a nonparty in a main case, may disintegrate not only when its director, officer, shareholder, trustee or member is a party to the main case, but when it finds facts which show that piercing of the corporate veil is merited.^[28]

Thus, as the Court has already ruled, a party whose corporation is vulnerable to piercing of its corporate veil cannot argue violation of due process.^[29]

In this case, the Court confirms the lower courts' findings that Santos had an existing obligation based on a court judgment that he owed monthly rentals and unpaid realty taxes under a lease contract he entered into as lessee with the Littons as lessor. He was not able to comply with this particular obligation, and in fact, refused to comply therewith.

This Court agrees with the CA that Santos used I/AME as a means to defeat judicial processes and to evade his obligation to Litton.^[30] Thus, even while I/AME was not impleaded in the main case and yet was so named in a writ of execution to satisfy a court judgment against Santos, it is vulnerable to the piercing of its corporate veil. We will further expound on this matter.

Piercing the Corporate Veil may Apply to Non-stock Corporations

Petitioner I/AME argues that the doctrine of piercing the corporate veil applies only to stock corporations, and not to non-stock, nonprofit corporations such as I/AME since there are no stockholders to hold liable in such a situation but instead only members. Hence, they do not have investments or shares of stock or assets to answer for possible liabilities. Thus, no one in a non-stock corporation can be held liable in case the corporate veil is disregarded or pierced.^[31]

The CA disagreed. It ruled that since the law does not make a distinction between a stock and non-stock corporation, neither should there be a distinction in case the doctrine of piercing the veil of corporate fiction has to be applied. While I/AME is an educational institution, the CA further ruled, it still is a registered corporation conducting its affairs as such.^[32]

This Court agrees with the CA.

In determining the propriety of applicability of piercing the veil of corporate fiction, this Court, in a number of cases, did not put in issue whether a corporation is a stock or non-stock corporation. In *Sulo ng Bayan, Inc. v. Gregorio Araneta, Inc.*,^[33] we considered but ultimately refused to pierce the corporate veil of a non-stock nonprofit corporation which sought to institute an action for reconveyance of real property on behalf of its members. This Court held that the non-stock corporation had no personality to institute a class suit on behalf of its members, considering that the non-stock corporation was not an assignee or transferee of the real property in question, and did not have an identity that was one and the same as its members.

In another case, this Court did not put in issue whether the corporation is a non-stock, non-profit, non-governmental corporation in considering the application of the doctrine of piercing of corporate veil. In *Republic of the Philippines v. Institute for Social Concern*,^[34] while we did not allow the piercing of the corporate veil, this Court affirmed the finding of the CA that the Chairman of the Institute for Social

Concern cannot be held jointly and severally liable with the aforesaid non-governmental organization (NGO) at the time the Memorandum of Agreement was entered into with the Philippine Government. We found no fraud in that case committed by the Chairman that would have justified the piercing of the corporate veil of the NGO.^[35]

In the United States, from which we have adopted our law on corporations, non-profit corporations are not immune from the doctrine of piercing the corporate veil. Their courts view piercing of the corporation as an equitable remedy, which justifies said courts to scrutinize any organization however organized and in whatever manner it operates. Moreover, control of ownership does not hinge on stock ownership.

As held in *Barineau v. Barineau*:^[36]

[t]he mere fact that the corporation involved is a nonprofit corporation does not by itself preclude a court from applying the equitable remedy of piercing the corporate veil. The equitable character of the remedy permits a court to look to the substance of the organization, and its decision is not controlled by the statutory framework under which the corporation was formed and operated. While it may appear to be impossible for a person to exercise ownership control over a nonstock, not-for-profit corporation, a person can be held personally liable under the alter ego theory if the evidence shows that the person controlling the corporation did in fact exercise control, even though there was no stock ownership.

In another U.S. case, *Public Interest Bounty Hunters v. Board of Governors of Federal Reserve System*,^[37] the U.S. Court allowed the piercing of the corporate veil of the Foundation headed by the plaintiff, in order to avoid inequitable results. Plaintiff was found to be the sole trustee, the sole member of the board, and the sole financial contributor to the Foundation. In the end, the Court found that the plaintiff used the Foundation to avoid paying attorneys' fees.

The concept of equitable ownership, for stock or non-stock corporations, in piercing of the corporate veil scenarios, may also be considered. An equitable owner is an individual who is a non-shareholder defendant, who exercises sufficient control or considerable authority over the corporation to the point of completely disregarding the corporate form and acting as though its assets are his or her alone to manage and distribute.^[38]

Given the foregoing, this Court sees no reason why a non-stock corporation such as I/AME, may not be scrutinized for purposes of piercing the corporate veil or fiction.

Piercing the Corporate Veil may Apply to Natural Persons

The petitioner also insists that the piercing of the corporate veil cannot be applied to a natural person - in this case, Santos - simply because as a human being, he has no corporate veil shrouding or covering his person.^[39]

a) When the Corporation is the Alter Ego of a Natural Person