

## SECOND DIVISION

[ G.R. No. 182770, September 17, 2014 ]

**WPM INTERNATIONAL TRADING, INC. AND WARLITO P. MANLAPAZ, PETITIONERS, VS. FE CORAZON LABAYEN, RESPONDENT.**

### DECISION

**BRION, J.:**

We review in this petition for review on *certiorari*<sup>[1]</sup> the decision<sup>[2]</sup> dated September 28, 2007 and the resolution<sup>[3]</sup> dated April 28, 2008 of the Court of Appeals (CA) in CA-G.R. CV No. 68289 that affirmed with modification the decision<sup>[4]</sup> of the Regional Trial Court (RTC), Branch 77, Quezon City.

#### **The Factual Background**

The respondent, Fe Corazon Labayen, is the owner of H.B.O. Systems Consultants, a management and consultant firm. The petitioner, WPM International Trading, Inc. (WPM), is a domestic corporation engaged in the restaurant business, while Warlito P. Manlapaz (*Manlapaz*) is its president.

Sometime in 1990, WPM entered into a management agreement with the respondent, by virtue of which the respondent was authorized to operate, manage and rehabilitate Quickbite, a restaurant owned and operated by WPM. As part of her tasks, the respondent looked for a contractor who would renovate the two existing Quickbite outlets in Divisoria, Manila and Lepanto St., University Belt, Manila. Pursuant to the agreement, the respondent engaged the services of CLN Engineering Services (CLN) to renovate Quickbite-Divisoria at the cost of P432,876.02.

On June 13, 1990, Quickbite-Divisoria's renovation was finally completed, and its possession was delivered to the respondent. However, out of the P432,876.02 renovation cost, only the amount of P320,000.00 was paid to CLN, leaving a balance of P112,876.02.

#### **Complaint for Sum of Money (Civil Case No. Q-90-7013)**

On October 19, 1990, CLN filed a complaint for sum of money and damages before the RTC against the respondent and Manlapaz, which was docketed as Civil Case No. Q-90-7013. CLN later amended the complaint to exclude Manlapaz as defendant. The respondent was declared in default for her failure to file a responsive pleading.

The RTC, in its January 28, 1991 decision, found the respondent liable to pay CLN actual damages in the amount of P112,876.02 with 12% interest per annum from June 18, 1990 (the date of first demand) and 20% of the amount recoverable as

attorney's fees.

Complaint for Damages (Civil Case No. Q-92-13446)

Thereafter, the respondent instituted a complaint for damages against the petitioners, WPM and Manlapaz. The respondent alleged that in Civil Case No. Q-90-7013, she was adjudged liable for a contract that she entered into for and in behalf of the petitioners, to which she should be entitled to reimbursement; that her participation in the management agreement was limited only to introducing Manlapaz to Engineer Carmelo Neri (*Neri*), CLN's general manager; that it was actually Manlapaz and Neri who agreed on the terms and conditions of the agreement; that when the complaint for damages was filed against her, she was abroad; and that she did not know of the case until she returned to the Philippines and received a copy of the decision of the RTC.

In her prayer, the respondent sought indemnification in the amount of P112,876.60 plus interest at 12% per annum from June 18, 1990 until fully paid; and 20% of the award as attorney's fees. She likewise prayed that an award of P100,000.00 as moral damages and P20,000.00 as attorney's fees be paid to her.

In his defense, Manlapaz claims that it was his fellow incorporator/director Edgar Alcansaje who was in-charge with the daily operations of the Quickbite outlets; that when Alcansaje left WPM, the remaining directors were compelled to hire the respondent as manager; that the respondent had entered into the renovation agreement with CLN in her own personal capacity; that when he found the amount quoted by CLN too high, he instructed the respondent to either renegotiate for a lower price or to look for another contractor; that since the respondent had exceeded her authority as agent of WPM, the renovation agreement should only bind her; and that since WPM has a separate and distinct personality, Manlapaz cannot be made liable for the respondent's claim.

Manlapaz prayed for the dismissal of the complaint for lack of cause of action, and by way of counterclaim, for the award of P350,000.00 as moral and exemplary damages and P50,000.00 attorney's fees.

The RTC, through an order dated March 2, 1993 declared WPM in default for its failure to file a responsive pleading.

**The Decision of the RTC**

In its decision, the RTC held that the respondent is entitled to indemnity from Manlapaz. The RTC found that based on the records, there is a clear indication that WPM is a mere instrumentality or business conduit of Manlapaz and as such, WPM and Manlapaz are considered one and the same. The RTC also found that Manlapaz had complete control over WPM considering that he is its chairman, president and treasurer at the same time. The RTC thus concluded that Manlapaz is liable in his personal capacity to reimburse the respondent the amount she paid to CLN in connection with the renovation agreement.

The petitioners appealed the RTC decision with the CA. There, they argued that in view of the respondent's act of entering into a renovation agreement with CLN in excess of her authority as WPM's agent, she is not entitled to indemnity for the

amount she paid. Manlapaz also contended that by virtue of WPM's separate and distinct personality, he cannot be made solidarily liable with WPM.

### **The Ruling of the Court of Appeals**

On September 28, 2007, the CA affirmed, with modification on the award of attorney's fees, the decision of the RTC. The CA held that the petitioners are barred from raising as a defense the respondent's alleged lack of authority to enter into the renovation agreement in view of their tacit ratification of the contract.

The CA likewise affirmed the RTC ruling that WPM and Manlapaz are one and the same based on the following: (1) Manlapaz is the principal stockholder of WPM; (2) Manlapaz had complete control over WPM because he concurrently held the positions of president, chairman of the board and treasurer, in violation of the Corporation Code; (3) two of the four other stockholders of WPM are employed by Manlapaz either directly or indirectly; (4) Manlapaz's residence is the registered principal office of WPM; and (5) the acronym "WPM" was derived from Manlapaz's initials. The CA applied the principle of piercing the veil of corporate fiction and agreed with the RTC that Manlapaz cannot evade his liability by simply invoking WPM's separate and distinct personality.

After the CA's denial of their motion for reconsideration, the petitioners filed the present petition for review on *certiorari* under Rule 45 of the Rules of Court.

### **The Petition**

The petitioners submit that the CA gravely erred in sustaining the RTC's application of the principle of piercing the veil of corporate fiction. They argue that the legal fiction of corporate personality could only be discarded upon clear and convincing proof that the corporation is being used as a shield to avoid liability or to commit a fraud. Since the respondent failed to establish that any of the circumstances that would warrant the piercing is present, Manlapaz claims that he cannot be made solidarily liable with WPM to answer for damages allegedly incurred by the respondent.

The petitioners further argue that, assuming they may be held liable to reimburse to the respondent the amount she paid in Civil Case No. Q-90-7013, such liability is only limited to the amount of P112,876.02, representing the balance of the obligation to CLN, and should not include the twelve 12% percent interest, damages and attorney's fees.

### **The Issues**

The core issues are: (1) whether WPM is a mere instrumentality, alter-ego, and business conduit of Manlapaz; and (2) whether Manlapaz is jointly and severally liable with WPM to the respondent for reimbursement, damages and interest.

### **Our Ruling**

We find merit in the petition.

We note, at the outset, that the question of whether a corporation is a mere

instrumentality or alter-ego of another is purely one of fact.<sup>[5]</sup> This is also true with respect to the question of whether the totality of the evidence adduced by the respondent warrants the application of the piercing the veil of corporate fiction doctrine.<sup>[6]</sup>

Generally, factual findings of the lower courts are accorded the highest degree of respect, if not finality. When adopted and confirmed by the CA, these findings are final and conclusive and may not be reviewed on appeal,<sup>[7]</sup> save in some recognized exceptions<sup>[8]</sup> among others, when the judgment is based on misapprehension of facts.

We have reviewed the records and found that the application of the principle of piercing the veil of corporate fiction is unwarranted in the present case.

### ***On the Application of the Principle of Piercing the Veil of Corporate Fiction***

The rule is settled that a corporation has a personality separate and distinct from the persons acting for and in its behalf and, in general, from the people comprising it.<sup>[9]</sup> Following this principle, the obligations incurred by the corporate officers, or other persons acting as corporate agents, are the direct accountabilities of the corporation they represent, and not theirs. Thus, a director, officer or employee of a corporation is generally not held personally liable for obligations incurred by the corporation;<sup>[10]</sup> it is only in exceptional circumstances that solidary liability will attach to them.

Incidentally, the doctrine of piercing the corporate veil applies only in three (3) basic instances, namely: a) when the separate and distinct corporate personality defeats public convenience, as when the corporate fiction is used as a vehicle for the evasion of an existing obligation; b) in fraud cases, or when the corporate entity is used to justify a wrong, protect a fraud, or defend a crime; or c) **is used in alter ego cases, i.e., where a corporation is essentially 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 so conducted as to make it merely an instrumentality, agency, conduit or adjunct of another corporation.**<sup>[11]</sup>

Piercing the corporate veil based on the alter ego theory requires the concurrence of three elements, namely:

(1) Control, not mere majority or complete stock control, but complete domination, not only of finances but of policy and business practice in respect to the transaction attacked so that the corporate entity as to this transaction had at the time no separate mind, will or existence of its own;

(2) Such control must have been used by the defendant to commit fraud or wrong, to perpetuate the violation of a statutory or other positive legal duty, or dishonest and unjust act in contravention of plaintiff's legal right; and

(3) The aforesaid control and breach of duty must have proximately caused the injury or unjust loss complained of.