Title: WPM International Trading, Inc. and Warlito P. Manlapaz vs. Fe Corazon Labayen

Facts:
In 1990, WPM International Trading, Inc. (WPM), a corporation engaged in the restaurant business, entered into a management agreement with Fe Corazon Labayen, authorizing her to operate and rehabilitate its restaurant, Quickbite. Labayen contracted CLN Engineering Services (CLN) for renovations costing P432,876.02, of which only P320,000.00 was paid, leaving a balance of P112,876.02.

Upon non-payment of the balance, CLN filed a complaint for sum of money and damages against Labayen and Manlapaz, but later amended it to exclude Manlapaz. Labayen was declared in default and ordered to pay the balance with interests and attorney's fees.

Labayen filed a separate complaint for damages (Civil Case No. Q-92-13446) against WPM and Manlapaz, alleging she was entitled to reimbursement as she entered the contract on behalf of WPM, and Manlapaz and Neri from CLN agreed on the terms. She sought indemnification, damages, and attorney's fees. Manlapaz argued WPM's separate personality, and WPM was declared in default for not responding.

The RTC, finding that WPM was an instrumentality of Manlapaz, held him personally liable for reimbursement. The CA affirmed the decision, with modification on attorney's fees, concluding that Manlapaz's control over WPM allowed for piercing the corporate veil.

The petitioners filed a petition for review on certiorari.

Issues:
1. Whether WPM is a mere instrumentality, alter-ego, and business conduit of Manlapaz.
2. Whether Manlapaz is jointly and severally liable with WPM to the respondent for reimbursement, damages, and interest.

Court's Decision:
The Supreme Court found merit in the petition, holding that the application of piercing the corporate veil was unwarranted, as the respondent failed to prove that Manlapaz controlled WPM to commit a wrong or breach a duty causing unjust loss. The SC also emphasized that piercing the corporate veil is done with caution and only if a clear misuse justifying a wrong, fraud, or deception is established.

Consequently, the SC modified the CA's decision by absolving Manlapaz from liability.

However, WPM was held liable for failing to pay a just debt, amounting to a breach of contract in bad faith, warranting moral damages under Article 2220 of the New Civil Code.

Doctrine:
The doctrine of piercing the corporate veil applies when it's evident that a corporation is used as a shield to avoid liability, commit fraud, or perpetrate a deception, particularly when it's the alter ego or a business conduit of another person. There must be control, used to commit a wrong, and resulting in an unjust loss.

Class Notes:
1. The concept of "separate corporate personality" means that a corporation has a distinct identity from its shareholders, officers, and employees.
2. Piercing the corporate veil requires: substantial control over the corporation, use of control to commit a wrong or fraud, and causation of unjust loss or injury.
3. Article 2220, New Civil Code: Moral damages may be awarded for breach of contract with fraudulent or bad faith action.

Historical Background:
The case underscores the Philippine judiciary's cautious approach towards piercing the corporate veil, demonstrating respect for the separate legal entity principle while balancing the need to address conduct that misuses corporate structures to avoid liability and obligations. The decision reflects the evolving jurisprudence and doctrinal emphasis on the individual accountability of corporate officers, and the nuanced understanding of corporate conduct in the Philippines.