

Title:

Manuel R. Dulay Enterprises, Inc., et al. vs. The Honorable Court of Appeals, et al.

Facts:

Manuel R. Dulay Enterprises, Inc., a family-owned corporation run by Manuel Dulay with board members comprising predominantly family relations, engaged in several real estate transactions involving Dulay Apartment. On December 23, 1976, Dulay sold the property to spouses Maria Theresa and Castrense Veloso for P300,000, evidenced by a Deed of Absolute Sale. The property was later, without Dulay's knowledge, mortgaged and then sold at a sheriff's sale to Manuel A. Torres due to the Velosos' failure to pay the loan. Torres consolidated ownership when the property was not redeemed within the statutory period.

Subsequent litigations concerning possession and title ensued. During these proceedings, Virgilio Dulay, a member of the board of Manuel R. Dulay Enterprises, Inc., contended that the property's sale was unauthorized. He maintained he was unaware of any authorization for the sale or mortgage, casting doubt on the validity of Board Resolution No. 18 which facilitated the sale. However, evidence suggested he was privy to the transactions.

The Regional Trial Court found for the respondents, a decision which was affirmed by the Court of Appeals. The petitioners (Dulay Enterprises et al.) then brought the case before the Supreme Court via a petition for review on certiorari, questioning the application of the doctrine of piercing the veil of corporate entity among other issues.

Issues:

1. Was the sale of the Dulay Apartment to the Velosos, and ultimately to Torres, authorized and binding on Manuel R. Dulay Enterprises, Inc.?
2. Can the veil of corporate fiction be pierced in this case?
3. Did Torres acquire ownership of the property legally, given he had no actual possession of it?
4. Was denial of the petitioners' motion for reconsideration by the respondent appellate court proper despite lack of comment from the respondents?

Court's Decision:

1. ****Sale Authorization:**** The Supreme Court held that Manuel R. Dulay Enterprises, Inc., as a close corporation, did not require a board resolution to legalize the sale or mortgage of the property made by its president. Even if a meeting was not properly called or noticed, action taken by a director is ratified unless there's prompt written objection, which Virgilio

Dulay did not make.

2. **Piercing Corporate Veil:** The Court affirmed that piercing the corporate veil is warranted when used to protect fraud or defend crime. In this instance, the Court found no abuse of discretion when the doctrine was applied since the corporation was effectively an alter ego of the Dulay family, with its business transactions oftentimes amounting to personal dealings by Manuel Dulay.

3. **Ownership by Torres:** The Court stated that the execution of a deed in a public document equated to the delivery of the property. Prior physical delivery or possession was not a requirement for ownership; hence Torres became the lawful owner after non-redemption post-foreclosure.

4. **Motion for Reconsideration:** The Court ruled that the Court of Appeals did not err in denying the petitioners' motion for reconsideration without the respondents' comment as the comment was merely a procedural aid and not a prerequisite for the resolution of the motion.

Doctrine:

The doctrine of piercing the corporate veil applies when the corporate structure is used to cover up illegality, fraud, or inequitable considerations. Actions of a corporation in a close corporation setup may be deemed valid even without formal board resolutions if all directors have knowledge of the action and none objects.

Class Notes:

- **Piercing the Corporate Veil:** When the corporation is nothing but an alter ego or business conduit, its separate personality may be disregarded.
- **Ratification of Corporate Act:** In close corporations, actions taken informally may be ratified if no prompt written objections are made by members having knowledge.
- **Execution Equals Delivery:** Execution of a public instrument, unless contraindicated, equals delivery of property (Art. 1498, New Civil Code).
- **Absolute Ownership Post-Foreclosure:** A purchaser at a foreclosure sale becomes the absolute owner post-redemption period (Pirreras, SCRA 33).

Historical Background:

This case reflects the complexity of litigation involving family-owned corporations (close corporations) in the Philippines, highlighting issues of corporate governance, authority, and property law. The transactional dynamics within closely held corporations and the informal

business practices common among family members reveal the challenges of applying strict corporate law principles, which often anticipates a clearer separation between corporate and personal dealings.