

Title: Manuel R. Dulay Enterprises, Inc. et al. v. The Honorable Court of Appeals et al.

Facts:

Manuel R. Dulay Enterprises, Inc., a family corporation with Manuel R. Dulay as president, sold a property where Dulay Apartments stood to spouses Maria Theresa and Castrense Veloso for PHP 300,000 evidenced by a Deed of Absolute Sale. A Memorandum was executed to possibly repurchase it, but it was neither annotated on the title nor was the property repurchased. Maria Veloso then mortgaged the property to Manuel A. Torres, which led to its sale in a foreclosure auction to Torres upon Maria Veloso's payment failure.

Maria Veloso later assigned her repurchase rights to Manuel Dulay. However, the property was not redeemed and Torres consolidated ownership and obtained a new title. Torres filed for a writ of possession, but the petition was dismissed when Virgilio Dulay, vice-president and Manuel's son, objected as the corporation had not authorized the sale.

Later, Torres filed suit against the corporation and both Virgilios for possession and back rentals in Civil Case No. 8198-P. The corporation separately contested the Certificate of Sheriff's Sale and new title in Civil Case No. 8278-P. Additionally, eviction proceedings against a Dulay Apartment tenant evolved into Civil Case No. 38-81. Pursuant to an adverse decision in that last case, the corporation and Virgilio Dulay sought annulment in Civil Case No. 2880-P.

All three cases were tried jointly, resulting in rulings against Manuel R. Dulay Enterprises and Virgilios. The decision was appealed to the Court of Appeals, which affirmed the trial court's decisions.

Issues:

1. Did the Court of Appeals err in applying the doctrine of piercing the corporate veil amid claims that the sale of the property was unauthorized?
2. Was the sale of the subject property by Manuel Dulay to the Velosos valid and binding on the corporation?
3. Do prior physical possession and delivery of the property matter upon foreclosure sale?
4. Was there a procedural error in the appellate court's denial of petitioner's motion for reconsideration without private respondents' comment?

Court's Decision:

The Supreme Court denied the petition, affirming the decision of the Court of Appeals. It was held that:

1. Piercing the corporate veil was applicable as the sale was a corporate act, with the closed family corporation effectively controlled by Manuel Dulay, its president, treasurer, and general manager.
2. The sale by Manuel Dulay to the Velosos was valid and binding because Virgilio Dulay, as a director, was aware of the sale and Manuel Dulay effectively held decision-making power in the corporation.
3. Under the Civil Code, the execution of the Deed of Sale in a public document is equivalent to the delivery of property, making prior physical delivery unnecessary when ownership has been consolidated after the foreclosure sale.
4. The appellate court correctly denied the motion for reconsideration without private respondents' comment, as their input was not required by the Revised Rules of Court for the motion to be resolved.

Doctrine(s):

1. The doctrine of piercing the corporate veil allows a corporation's legal personality to be disregarded when it is used to defend fraud, justify wrong, protect fraud, or defend crime, thus treating the corporation's acts as the acts of the individuals controlling it.
2. In a close corporation, corporate action can be ratified by all the directors' consent or by tacit approval if there is no prompt written objection to an action within the corporation's powers.

Class Notes:

- A corporate entity's distinct personality may be disregarded in cases of fraud or illegality, commonly referred to as "piercing the veil of corporate fiction."
- In close corporations, formal board resolutions may be unnecessary if all directors consent to an action or if no director objects promptly in writing upon being aware of such action.
- Execution of a Deed of Sale in a public instrument is tantamount to actual delivery of property (Civil Code, Art. 1498).
- An appellant court's decision does not necessarily require the appellee's comment on a motion for reconsideration.

Historical Background:

This case reflects the challenge faced in distinguishing the actions of a corporation from the personal dealings of its close-knit shareholders, particularly in family-run corporations. The Supreme Court emphasized the necessity of adherence to corporate formalities and the potential consequence of ignoring such formalities, which can lead to the piercing of the corporate veil to prevent abuse of the corporate structure. Additionally, the case serves as a

lesson in corporate governance, especially in managing family corporations where boundaries between personal and corporate affairs can become blurred.