

Title: Villa Rey Transit, Inc. v. Eusebio E. Ferrer and Pangasinan Transportation Co., Inc.

Facts:

Jose M. Villarama, originally the operator of Villa Rey Transit, sold two certificates of public convenience to Pangasinan Transportation Company, Inc. (Pantranco) in 1959. Shortly after, a corporation named Villa Rey Transit, Inc. (Corporation) was established, with some of Villarama's relatives subscribing to shares, and his wife acting as treasurer. The Corporation then purchased five certificates of public convenience and corresponding assets from Valentin Fernando, and applied for Public Service Commission (PSC) approval with provisional authority granted pending the application.

Before this application was finalized, the Sheriff of Manila, acting on a judgment in favor of Eusebio E. Ferrer against Fernando, levied two of these certificates. Ferrer, after being the highest bidder at auction, sold them to Pantranco, who filed their own application with PSC for provisional operation. The Corporation raised objections, leading to a Supreme Court ruling for the Corporation to operate the lines provisionally.

The Corporation then initiated a legal action seeking to annul the sheriff's sale to Ferrer and subsequent transfer to Pantranco. Ferrer and Pantranco both claimed the Corporation had no valid title since the approval by the PSC was still pending. Pantranco filed a third-party complaint against Villarama, alleging breach of a 10-year non-competition clause he agreed to upon selling his certificates to Pantranco. The lower court favored the Corporation, voided the sheriff's sale, and declared the Corporation as the lawful owner of the certificates. All parties appealed.

Issues:

1. Whether the non-competition clause applies to new lines only or also includes existing lines.
2. Validity and enforceability of the 10-year non-competition clause.
3. Binding effect of the stipulation on the Corporation, considered as Villarama's alter ego.
4. Classification of the consummation of sale between Fernando and the Corporation as conditional based on PSC approval.
5. Entitlement of parties to damages resulting from the dispute.

Court's Decision:

1. The stipulation in the non-competition clause was interpreted to have intended to eliminate Villarama as a competitor along the lines covered by the certificates he sold to

Pantranco, hence it applied to the operation of existing lines.

2. The non-competition clause was deemed valid and reasonable given it was ancillary to the main transaction and had limitations concerning scope, duration, and territory, ensuring it was not harmful to public service.

3. The Corporation was considered Villarama's alter ego, and therefore the restriction in the sale agreement between Villarama and Pantranco also bound the Corporation.

4. The lack of PSC approval did not condition the validity of the sale between Fernando and the Corporation, as such approval was not deemed a condition precedent under the Public Service Act.

5. Regarding damages, there was insufficient evidence for quantifying damages suffered by Pantranco. The claim by Villa Rey Transit, Inc. for attorney's fees was without basis and set aside. Ferrer's claim for damages was dismissed in light of the valid sale between Fernando and the Corporation. Further proceedings would be necessary to ascertain Pantranco's damages.

Doctrine:

1. Ancillary restraints, which are reasonable and limited in scope, duration, and territory, entered into as part of the sale of a business, can be valid and enforceable.

2. A corporation may be considered the alter ego of an individual when there is such unity of interest and ownership that the individuality, or separateness, of the individual and the corporation no longer exists.

3. Approval by the Public Service Commission is not a condition precedent to the validity or consummation of a sale of certificates of public convenience but is only required to legally operate the service.

Class Notes:

Key elements in the case include the interpretation and enforceability of non-competition clauses, the legal concept of alter ego for corporations, and the procedural role of regulatory approval in sale transactions involving certificates of public convenience.

Historical Background:

This case illustrates the regulatory and commercial practices in the Philippine transportation industry during the late 1950s and demonstrates the judicial approach to disputes involving sale agreements, competition restrictions, and corporate identity doctrines, which are still relevant in contemporary contract and corporate law. It also reveals the Supreme Court's role in restraining unfair competition while balancing commercial freedoms with regulatory oversight.