

### Title:

**Philippine National Bank & National Sugar Development Corporation vs. Andrada Electric & Engineering Company**

### Facts:

1. **Business Dealings and Debts**:

- **Andrada Electric & Engineering Company** (respondent) engaged in multiple contracts with **Pampanga Sugar Mills (PASUMIL)** for various electrical works totaling \*P543,500\*, along with extra works increasing the obligation to \*P777,263.80\*. By \*June 1973\*, PASUMIL had paid \*P250,000\*, leaving a balance of \*P527,263.80\*. Further payments reduced the balance to \*P513,263.80\*.

2. **Change in Management**:

- **Development Bank of the Philippines (DBP)** foreclosed on PASUMIL's assets and acquired them at an auction due to arrears. Under **LOI No. 311**, **Philippine National Bank (PNB)** acquired these assets from DBP on \*August 26, 1975\*, and transferred the same to **National Sugar Development Corporation (NASUDECO)**, a subsidiary it established for this purpose.

3. **Legal Actions Initiated**:

- Respondent sued PASUMIL, PNB, and NASUDECO to claim the remaining debts, asserting that the transferee corporations should be liable for PASUMIL's outstanding obligations due to their takeover of its assets.

4. **Motions to Dismiss**:

- PNB and NASUDECO moved to dismiss the complaint on grounds of lack of privity of contract and the separate corporate existence of each entity. They invoked **Article 1311** of the New Civil Code and past case rulings, which dictate that contracts bind only the parties who execute them and their assigns if expressly agreed upon — not merely by asset acquisition.

5. **Trial Court Decision**:

- The trial court denied the motion to dismiss and ruled in favor of the respondent, ordering PASUMIL, PNB, and NASUDECO to pay the outstanding amounts plus interest and attorney's fees.

6. **Court of Appeals Affirmation**:

- The Court of Appeals affirmed the trial court's ruling, holding that petitioners should be liable for PASUMIL's obligations since they took over its business and derived benefits from its contracts with the respondent.

7. **Petition for Review by Supreme Court**:

- PNB and NASUDECO elevated the case to the Supreme Court, arguing legal errors in the imposition of liability for PASUMIL's debts despite the absence of a merger or express assumption of liabilities.

**Issues:**

1. **Liability for PASUMIL's Debts**:

- Whether PNB's and NASUDECO's acquisition and management of PASUMIL's assets rendered them liable for PASUMIL's unpaid debts to Andrada Electric & Engineering Company.

2. **Application of Piercing the Corporate Veil**:

- Whether the corporate veil should be pierced, thereby treating PNB, NASUDECO, and PASUMIL as one entity liable for the debts of PASUMIL.

3. **Existence of a Merger or Consolidation**:

- Whether there was a merger or consolidation between PASUMIL and PNB/NASUDECO that would justify holding PNB and NASUDECO liable for PASUMIL's obligations.

**Court's Decision:**

**Supreme Court's Holding:**

1. **Regarding Liability for Corporate Debts**:

- As a general principle, the mere acquisition of assets does not make the purchaser liable for the seller's debts unless specific exceptions apply: express/implied assumption of debts, merger/consolidation, a continuation of the selling corporation, or fraudulent transactions to escape liability. In this case, none of these exceptions were demonstrably present.

2. **Piercing the Corporate Veil**:

- Insufficient evidence was provided to warrant piercing the corporate veil. The elements for such action (complete control, fraudulent or unjust action, and injury caused by this breach) were not met. The operations and legal separateness of PNB/NASUDECO from PASUMIL's

obligations were intact and observed legally without fraud or injustice shown.

3. **On Merger or Consolidation**:

- The procedure for a legal merger or consolidation, as specified in the **Corporation Code**, was not followed. PASUMIL maintained its corporate existence independently. PNB and NASUDECO acted under legal directives to manage PASUMIL's foreclosed assets but did not undergo formal merger or consolidation validated by the **Securities and Exchange Commission (SEC)**.

**Final Ruling**:

- The Petition was granted, setting aside the decision of the Court of Appeals. PNB and NASUDECO were absolved from liability for PASUMIL's debts as there was no lawful basis to conflate their corporate responsibilities with PASUMIL's.

**Doctrine**:

1. **Separate Corporate Personality**:

- Corporations retain distinct legal identities from their shareholders and associated entities unless substantial proof justifies piercing this veil due to fraud, bad faith, or other inequitable circumstances.

2. **Conditions for Corporate Veil Piercing**:

- Requires demonstrable misuse of the corporate entity to commit fraud, perpetuate injustice, or defend crime, evidenced clearly and convincingly.

**Class Notes**:

- **Elements central to this case**:

- **Separate Corporate Existence**: Basic corporate law emphasizing the distinction between corporate entities.

- **Piercing the Corporate Veil**: Exceptional remedy — control, fraud/injustice, causation of injury.

- **Concept of Merger/Consolidation**: Legal procedures involving SEC approval and shareholder consent mandated by Title IX of the **Corporation Code**.

**Historical Background**:

- **Contextual Note**:

- Economic challenges in the 1970s Philippines under martial law saw chronic lender issues

requiring state intervention. PASUMIL's asset foreclosure and the subsequent assignment to PNB/NASUDECO were attempts to safeguard the sugar industry — a critical economic sector — ensuring operational continuity amidst strained financial conditions.