Title: Bibiano O. Reynoso, IV vs. Honorable Court of Appeals and General Credit Corporation

Facts:
In the early 1960s, Commercial Credit Corporation (CCC), a financing and investment firm, organized franchise companies across the Philippines. CCC held a 30% equity stake in these franchise companies, with its employees designated as resident managers. Petitioner Bibiano O. Reynoso, IV was appointed as the resident manager of CCC's Quezon City franchise, CCC-QC.

CCC-QC entered into a management contract granting CCC full control over its business activities. Under this setup, CCC-QC sold, discounted, and assigned its receivables to CCC, a practice discontinued due to the DOSRI Rule of the Central Bank, which prohibited corporations from lending funds to insiders. Consequently, CCC formed CCC Equity Corporation (CCC-Equity) to manage its equity in CCC-QC and maintain compliance with the DOSRI Rule.

Under the new corporate structure, Reynoso and other CCC-QC officials became employees of CCC-Equity but continued their managerial roles at CCC-QC. They received salaries and benefits from CCC-Equity and remained part of the CCC Employees Pension Plan. Reynoso deposited personal funds into CCC-QC to support its operations, receiving interest-bearing promissory notes in return.

On August 15, 1980, after Reynoso's dismissal from CCC-Equity, CCC-QC filed a complaint for a sum of money with preliminary attachment against Reynoso in the then Court of First Instance of Rizal, alleging embezzlement of P1,300,593.11. Reynoso countered that this sum represented his deposits, evidenced by 23 checks he issued to CCC-QC.

The case transferred to the Regional Trial Court of Quezon City under the Judiciary Reorganization Act of 1980. On January 14, 1985, the trial court dismissed CCC-QC's complaint and awarded Reynoso's counterclaims, totaling over P3.8 million plus interest, moral, and exemplary damages, and attorney's fees.

Both parties appealed to the Intermediate Appellate Court. CCC-QC's appeal was dismissed for failure to pay docket fees, and Reynoso withdrew his appeal, rendering the trial court's decision final and executory. A Writ of Execution was issued on July 24, 1989, but remained unsatisfied, leading Reynoso to file for an Alias Writ of Execution.

In 1983, CCC became General Credit Corporation (GCC). GCC opposed Reynoso's efforts to execute the judgment against it, arguing it was a separate entity from CCC-QC. Reynoso countered that GCC, CCC, CCC-Equity, and other franchise companies were essentially one entity, as upheld by the SEC in Case No. 2581.

On November 22, 1991, the RTC of Quezon City directed GCC to comment on Reynoso's motions. GCC filed objections, asserting it was not party to the case. The RTC proceeded to issue an alias writ of execution. GCC consequently filed an Omnibus Motion, which was denied, and initiated a new case in RTC Pasig to nullify the levy on its properties, resulting in joined petitions for certiorari before the Court of Appeals.

The Court of Appeals ruled in GCC's favor on July 7, 1994, nullifying the RTC orders against GCC and enjoining further execution actions against its properties. This led Reynoso to file the present Petition for Review with the Supreme Court.

Issues:
1. Whether the Court of Appeals erred in nullifying the RTC orders that held GCC liable under the judgment in Civil Case No. Q-30583.
2. Whether the Court of Appeals erred in enjoining the auction sale and execution acts against GCC's properties.
3. Whether GCC is a separate legal entity from CCC-QC or an alter ego, instrumental adjunct, or conduit of CCC, making it liable for CCC-QC's obligations.

Court's Decision:
The Supreme Court reversed the Court of Appeals' decision, lifting the injunction against executing the RTC judgment using GCC's properties. The Court pierced the corporate veil, affirming GCC as the legal successor of CCC, and thus liable for CCC-QC's obligations.

1. **Liability of GCC:** The Court found substantial control by CCC over CCC-QC's operations, establishing that CCC-QC functioned as a mere instrumentality of CCC. Thus, General Credit Corporation could not hide behind the corporate veil to evade its financial obligations arising from the judgment in favor of Reynoso.

2. **Injunction on Execution:** The Court held the injunction against auction sales and execution of GCC's properties was erroneous. Enforcing the final judgment against GCC's assets was warranted by the substantial identity and operational integration between CCC and CCC-QC.

3. **Corporate Alter Ego:** The Court underscored that the pervasive control and shared interests between CCC and CCC-QC justified treating them as a single entity for liability purposes. GCC was merely a continuation of CCC and therefore liable for CCC-QC's obligations incurred under its direct management and operations.

Doctrine:
The doctrine of piercing the corporate veil was applied. This doctrine allows courts to ignore the separate legal personality of corporations when used to perpetrate fraud, evade obligations, or work an injustice. The case reaffirmed that when subsidiaries act merely as instrumentalities or agents of parent companies, without true independence, the corporate fiction can be disregarded to achieve equitable outcomes.

Class Notes:
– **Piercing the Corporate Veil:** Applied when corporations use separate legal personality to commit fraud, evade obligations, or promote injustice.
– **DOSRI Rule:** Prohibits corporations from making loans to directors, officers, stockholders, and their related interests.
– **Judiciary Reorganization Act of 1980:** Causes cases to be transferred to appropriate courts based on jurisdictional restructuring.
– **Alter Ego Doctrine:** Used to hold parent corporations liable for the obligations of their subsidiaries when subsidiaries are not genuinely independent.

Historical Background:
This case occurred in the context of evolving Philippine corporate regulation, particularly following the Central Bank's stringent policies (DOSRI Rule) to promote transparent corporate governance and prevent financial abuses involving insider transactions. The case exemplifies the judiciary's role in enforcing such regulations and protecting legitimate claimants against subterfuge using corporate structures.