

Title: Kukan International Corporation vs. Hon. Amor Reyes and Romeo M. Morales, G.R. No. 182729, July 10, 2010

Facts:

In March 1998, Kukan, Inc. held a bid for the supply and installation of signages and awarded the PhP 5 million contract to Romeo M. Morales. Due to exclusions, the contract price reduced to PhP 3,388,502. Morales completed his obligations but was only paid PhP 1,976,371.07, leaving a balance of PhP 1,412,130.93. Morales sued Kukan, Inc. for the unpaid balance in the Regional Trial Court (RTC) of Manila, Branch 17 (Civil Case No. 99-93173). Kukan, Inc. initially participated but later stopped, leading to an ex-parte decision in favor of Morales on November 28, 2002, awarding him PhP 1,201,724 and other damages. Morales executed judgment, levying Kukan International Corporation's (KIC) properties, which KIC claimed as its own through an Affidavit of Third-Party Claim.

Morales filed several motions, including an Omnibus Motion to pierce the corporate veil of Kukan, Inc. to hold KIC liable. The RTC denied previous motions but, upon re-raffle to Branch 21, Judge Amor Reyes granted the motion, consolidating both entities. KIC's subsequent motions for reconsideration and certiorari were denied by the CA, which affirmed RTC's orders.

Issues:

1. Can the trial court execute a final judgment against a non-party?
2. Did the trial court acquire jurisdiction over KIC?
3. Was piercing the corporate veil between Kukan, Inc. and KIC lawfully justified by the trial and appellate courts?

Court's Decision:

****On Executing Final Judgment Against a Non-Party:****

The Supreme Court held that the trial court cannot execute a judgment against someone not party to the original case. The execution must conform to the decision's dispositive part, and adding KIC as liable constitutes null and prohibited alteration of judgment. Thus, execution against KIC violated the principle of finality and immutability of judgments.

****On Jurisdiction Over KIC:****

The Court ruled that jurisdiction over a defendant in a civil case is acquired either through service of summons or voluntary submission. KIC was neither impleaded nor served with summons and thus did not submit itself voluntarily but only filed special appearances

challenging jurisdiction. This does not constitute waiver or estoppel.

****On Piercing the Corporate Veil:****

Piercing the corporate veil must be done with caution, requiring clear and convincing evidence that corporate personality was misused to perpetuate fraud. The Court found no factors warranting the piercing of the veil in this case. Absence of fraud, property handling, and distinct operations between Kukan, Inc. and KIC negated applying the principle here.

Doctrine:

1. ****Immutability and Finality of Judgment****: Once a decision is final and executory, it cannot be altered or amended to include non-parties.
2. ****Jurisdiction****: Jurisdiction over a person can be acquired only through proper service of summons or voluntary appearance and submission.
3. ****Piercing the Corporate Veil****: Requires clear, convincing evidence that the corporate entity is used to perpetrate fraud or wrongs. Corporate separateness cannot be disregarded casually.

Class Notes:

- ****Immutability of Judgment****: Understand the finality of court judgments and exceptions (e.g., clerical errors).
- ****Jurisdiction Over Parties****: Emphasize service of summons and special appearance rules.
- ****Piercing Corporate Veil****: Must establish misuse of corporation to commit fraud. Key elements include:
 - Dissolution and asset transfer to another entity to avoid liabilities.
 - Ownership/control by the same persons causing these conditions.
 - Fraudulent intent behind corporate manipulation.

Historical Background:

This case revolves around corporate law principles amidst the Philippines' evolving business frameworks in the late 1990s. It highlights how businesses navigated corporate liabilities and the courts' cautious approach in protecting contractual integrity and public policy against fraud.

Relevant Legal Provisions:

- ****Sec. 20, Rule 14, Rules of Court****: Voluntary appearance as equivalent to service of summons.

- **Sec. 13, Corporation Code of the Philippines**: Minimum paid-up capital requirements.
- **Principles of Corporate Entity Doctrine**: Corporate separateness vs. piercing the corporate veil (Doctrine of Alter Ego).