SPOUSES JORGE CHIONG AND TERESITA D. CHIONG, PETITIONERS, VS. INOPACAN INSTITUTE, INC., AND/OR NARCISA C. SOLIMAN, ANITA B. VILLARUBIN, ROSEFIELA S. CANON, EDUARDO CHIONG, ATTY....

Ponente: QUIJANO-PADILLA, J.

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QUIJANO-PADILLA, J.:

This is a Petition for Review[1] under Rule 42 of the Rules of Court assailing the Decision dated February 18, 2013[2] and Order dated July 19, 2013[3] of the Regional Trial Court (RTC), Branch 18, Hilongos, Leyte in Civil Case No. H-768. The assailed Decision dismissed the instant appeal and affirmed the August 22, 2012 Decision[4] of the Municipal Circuit Trial Court (MCTC), Hindang-Inopacan, Leyte. On the other hand, assailed Order denied the herein petitioners' Motion for Reconsideration[5] for lack of merit.

The Antecedents

The instant controversy stemmed from a Complaint[6] for Collection of Sum of Money filed by petitioners against respondent Inopacan Institute, Inc., represented by Narcisa Soliman, and defendant Joriz Chiong before the MCTC, Hindang-Inopacan, Leyte, docketed as Civil Case No. 332, alleging among others that during the school year 2002-2003, petitioners supplied building materials and costs of labor totaling to P301,712.00 to respondent Inopacan Institute, Inc. (Inopacan Institute), through its then School Director, Joriz Chiong, for the repair and renovation of the school building operated by respondent Inopacan Institute, and the latter only partially paid P149,750.00 leaving an unpaid balance of P151,962.00.[7]

In its Answer,[8] respondent Inopacan Institute denied any liability claiming that its former School Director/Chairman of the Board of Trustees, Joriz Chiong, acted without authority or in excess of his authority when he undertook major repairs of its school building without prior authority or consent of its Board of Trustees. Respondent Inopacan Institute further averred that the alleged partial payments made in favor of petitioners were done illegally and without prior authority from its Board of Trustees.[9]

For his part, defendant Joriz Chiong claimed, in his Answer,[10] that he acted within the scope of his authority as former School Director and Chairman of the Board of Trustees of respondent Inopacan Institute and that despite his requests to pay the petitioners, respondent Inopacan Institute refused to make payment. He likewise claimed that respondent Inopacan Institute knowingly permitted him to order materials, use and partially pay the petitioners for the construction materials and labor they supplied for the improvement of the school building used and operated by respondent Inopacan Institute, thus, the latter is estopped from denying its liability to petitioners.[11]

In the course of the trial, petitioners filed a Supplemental Complaint[12] on August 8, 2008 impleading co-respondent Inopacan (Leyte) Institute of Learning, Inc. (Inopacan Institute of Learning) considering the fact that respondent Inopacan Institute was already dissolved and all its funds and properties were transferred to the newly-formed corporation, co-respondent Inopacan Institute of Learning, who took over the operation of the

dissolved corporation.[13]

Co-respondent Inopacan Institute of Learning filed its Answer[14] alleging that it is a newly organized non-stock corporation, which has a separate and distinct personality from that of respondent Inopacan Institute, and is not in any way a party to the alleged transactions between the petitioners and respondent Inopacan Institute.[15]

During the pendency of this case, respondent Inopacan Institute, through its Board of Trustees, sold a parcel of land to co-respondents Spouses Menandro and Elisa Bisnar (Sps. Bisnar) for a consideration of P600,000.00. Hence, petitioners filed an Amended Complaint[16] impleading as additional party defendants, the members of the Board of Trustees, namely: respondents Anita Villarubin, Rosefiela Canon, Eduardo Chiong, Atty. Lope Montajes, Dr. Isidoro Evangelista, Atty. Isabelo de los Santos, and the Sps. Bisnar. In impleading the members of the Board of Trustees, petitioners alleged that they acted fraudulently and in bad faith in the execution of the said contract of sale involving a property of respondent Inopacan Institute in favor of Sps. Bisnar. Petitioners also prayed for the rescission of the said contract of sale as it was allegedly illegally made and undertaken in fraud of the petitioners. However, petitioners moved to exclude or drop Joriz Chiong as party defendant in this case.[17]

On January 26, 2010, defendants Sps. Bisnar filed a motion for leave of court to amend and admit their Second Amended Answer with Motion to Dismiss. On April 22, 2010, the lower court issued an Order admitting the Second Amended Answer of defendants Sps. Bisnar.[18]

The Decisions of the MCTC and RTC

After due proceedings, the MCTC rendered its Decision[19] on August 22, 2012 ordering respondent Inopacan Institute to pay petitioners of its remaining obligation of P136,812.50 with interest. The dispositive portion[20] of the Decision reads:

> WHEREFORE, premises considered, the Court hereby orders the defendant, Inopacan Institute, Inc. to pay the plaintiffs of its remaining obligation of P136,812.50 with interest thereon at the rate of 12% per annum from February 18, 2005 (date of filing of the Complaint) until fully paid. The case as against the Board of Trustees of Inopacan Institute, Inc. and as against co-defendant, Inopacan (Leyte) Institute of Learning, Inc., and the defendants' counter-claims are hereby dismissed. Costs against the defendant, Inopacan Institute, Inc.

In resolving the issue of respondent Inopacan Institute's liability to petitioners arising from the subject transactions entered into in its name by its then School Director Joriz Chiong, the MCTC ruled that while there may not be a formal board resolution specifically granting authority to its then School Director Joriz Chiong to undertake the said repairs and rehabilitation of the school building but by reason of the actions or inaction taken by the officers and members of the Board of Trustees of respondent Inopacan Institute they are deemed to have given implied ratification to the alleged unauthorized acts of Joriz Chiong, its then School Director. The MCTC took note of the fact that the subject repairs and rehabilitation of the school building were not concealed nor carried out clandestinely, hence, it is wide open to the probing eyes of the officers and members of the Board of Trustees of respondent Inopacan Institute. The MCTC likewise noted that respondent Inopacan Institute admitted in its Answer that through its School Director Joriz Chiong, it had ordered and received from petitioners construction materials, electrical supplies and costs of labor for its school building improvements and/or operation in the amount of P301,712.00 and in fact, it had made partial payments, first, on March 17, 2003 in the amount of P20,000.00 and next, on April 25, 2003, in the amount of P129,750.00, for a total partial payment of P149,750.00. However, there were delivery receipts having no signatures of the person or persons responsible, who could attest the correctness of the entries reflected therein, thus, they should be excluded from respondent Inopacan Institute's obligation. Thus, the total obligation amounting to P301,712.00 less P17,340.00 (total amount of delivery receipts excluded) = P286,562.50 less partial payment of P149,750.00 = P136,812.50 as the remaining balance of

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respondent Inopacan Institute due to petitioners.

Additionally, the MCTC ruled that petitioners failed to prove bad faith on the part of the members of the Board of Trustees of respondent Inopacan Institute in directing the affairs of respondent Inopacan Institute, hence, they cannot be made personally liable for the liability of respondent Inopacan Institute to petitioners.

Dissatisfied, petitioners appealed[21] the said Decision to the RTC, Branch 18, Hilongos, Leyte. On February 18, 2013, the RTC rendered its Decision[22] affirming the decision of the MCTC and dismissed the instant appeal for lack of jurisdiction. The RTC disposed in this wise:

> WHEREFORE, finding no COMPELLING reason to include the members of the Board of Trustees in the payment of the balance of P136,812.50, the Decision of the Court a quo is MAINTAINED in all respect.

Aggrieved, petitioners moved for reconsideration[23] but the RTC denied the same in its July 19, 2013 Order.[24]

Undeterred, petitioners filed the present petition based on this lone assignment of error:

> THE REGIONAL TRIAL COURT ERRED IN AFFIRMING THE DECISION OF THE LOWER COURT IN RULING THAT THE PETITIONERS FAILED TO ADDUCE CLEAR AND CONVINCING EVIDENCE THAT THE MEMBERS OF THE BOARD OF TRUSTEES OF THE INOPACAN INSTITUTE, INC., ARE GUILTY OF BAD FAITH IN DIRECTING THE AFFAIRS OF THE CORPORATION, HENCE, THEY CANNOT BE MADE PERSONALLY LIABLE FOR THE LIABILITY OF THE SCHOOL.[25]

This Court’s Ruling

The petition lacks merit.

At the outset, it should be stressed that We are called to resolve an issue which was already squarely addressed and extensively threshed out by the court a quo and the MCTC as well.

No Serious Error in the Findings of the Lower Courts

A perusal of the arguments advanced by petitioners in their Petition shows that they involve an inquiry into the factual matters or relate to the trial courts' appreciation of the evidence presented by the parties.

Time and again, it is a hornbook doctrine that the findings of fact of the trial court are entitled to great weight on appeal and should not be disturbed except for strong and valid reasons,[26] because the trial court is in a better position to examine the real evidence, and observe the demeanor of the witnesses, and can therefore discern if they are telling the truth or not.[27] Stated otherwise, findings of fact made by a trial court are accorded the highest degree of respect by an appellate tribunal and, absent a clear disregard of the evidence before it that can otherwise affect the results of the case, those findings should not be ignored.[28]

In their pleadings filed before the lower courts, petitioners have relentlessly imputed errors in the factual findings of the lower courts that they were unable to prove by clear and convincing evidence that the members of the Board of Trustees of respondent Inopacan Institute are guilty of bad faith in directing the affairs of the corporation so as to make them personally liable for the liability of respondent Inopacan Institute to petitioners. It is the petitioners' position that the members of the Board of Trustees of respondent Inopacan Institute had patently and blatantly used the corporation – the school – to evade a just and due obligation which they incurred from petitioners. According to petitioners, the members should be adjudged personally liable for the obligation of the school as provided under Section 31 of the Corporation Code.

We do not agree.

The ruling of the MCTC in its Decision dated August 22, 2012 resolved the aforesaid issue in this wise, thus:[29]

> "In the instant case, plaintiffs endeavored to prove bad faith on the part of the members of the Board of Trustees of Inopacan Institute when they sold the last remaining land of the defendant corporation in favor of Sps. Menandro Bisnar and Elisa Yee-Bisnar on February 20, 2005 involving an amount of P642,000.00 as evidenced by a Deed of Absolute Sale.
>
> However, bad faith or fraud cannot be presumed; it is basic principle that he who alleges bad faith or fraud must prove it. While it is true that the said sale was executed during the pendency of this case and without prior notice to the plaintiffs, and without even notice or prior permission from this Court, the same does not automatically tantamount to bad faith, or in fraud of creditors, or to be considered as unlawful acts, as during the time of sale, the liability of the defendant, Inopacan Institute was not yet determined, and it was not yet certain that the plaintiffs will prevail in the instant case, and no order of attachment was issued against the properties of the defendant corporation. Further, during the execution of said contract of sale, the corporate existence of the defendant was not yet expired as it expired only on October 20, 2005.
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> xxx
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> Indeed, if the plaintiffs believed that the defendant, Inopacan Institute through its Board of Trustees was about to dispose of its property to defraud its creditors, then they should have filed a motion for an order of attachment but they did not do so.
>
> Conversely, defendant, Narcisa Soliman clarified that Inopacan Instiute sold its land (in favor of Spouses Menandro Bisnar and Elisa Yee) because they used the proceeds in paying the unpaid salaries and wages of its employees; in paying the unpaid SSS premiums of its employees, and for the SEC renewal of the corporation. None of the members of the Board of Trustees received any amount from the proceeds because it was not even enough to pay its obligations.
>
> Indeed, in the absence of malice, bad faith, or a specific provision of law making a corporate officer liable, such corporate officer cannot be made personally liable for corporate liabilities." (citations omitted)

This factual finding was affirmed, and appropriately so, by the RTC. A pertinent portion of the RTC Decision dated February 18, 2013 is quoted hereunder:[30]

> "The Decision is fair enough. The Court a quo explained thoroughly where liability may be claimed. Repairs and rehabilitation redounded only to the school – never to the Board of Trustees.
>
> In the mind of this Court the evaluation made in arriving at a Decision was supposed with full consideration of the issues at hand.
>
> The Plaintiffs-Appellants are worried that they will not be paid if the members of the Board of Trustees are not ordered to pay jointly and severally with the defendant Inopacan Institute Inc. because the Institute had already been dissolved on October 2005. And the corporate land was already sold – to pay the salaries of the teaching and non-teaching personnel of the defunct Institute. Unfortunately, this appellate court does not find the inclusion of the members of the Board of Trustees answerable for the balance because the same appears without merit."

We adhere to the above-stated findings of the lower courts.

Basic is the rule in corporation law that a corporation is a juridical entity which is vested with a legal personality separate and distinct from those acting for and in its behalf and, in general, from the people comprising it. Following this principle, obligations incurred by the corporation, acting through its directors, officers and employees, are its sole liabilities. A director, officer or employee of a corporation is generally not held personally liable for obligations incurred by the corporation.[31] Nevertheless, this legal fiction may be disregarded if it is used as a means to perpetrate fraud or an illegal act, or as a vehicle for the evasion of an existing obligation, the

circumvention of statutes, or to confuse legitimate issues.[32] This is consistent with the provisions of the Corporation Code of the Philippines, which states:

> Sec. 31. Liability of directors, trustees or officers. – Directors or trustees who willfully and knowingly vote for or assent to patently unlawful acts of the corporation or who are guilty of gross negligence or bad faith in directing the affairs of the corporation or acquire any personal or pecuniary interest in conflict with their duty as such directors or trustees shall be liable jointly and severally for all damages resulting therefrom suffered by the corporation, its stockholders or members and other persons.

Solidary liability will then attach to the directors, officers or employees of the corporation in certain circumstances, such as:

> 1. When directors and trustees or, in appropriate cases, the officers of a corporation: (a) vote for or assent to patently unlawful acts of the corporation; (b) act in bad faith or with gross negligence in directing the corporate affairs; and (c) are guilty of conflict of interest to the prejudice of the corporation, its stockholders or members, and other persons;
>
> 2. When a director or officer has consented to the issuance of watered stocks or who, having knowledge thereof, did not forthwith file with the corporate secretary his written objection thereto;
>
> 3. When a director, trustee or officer has contractually agreed or stipulated to hold himself personally and solidarily liable with the corporation; or
>
> 4. When a director, trustee or officer is made, by specific provision of law, personally liable for his corporate action.[33]

Before a director or officer of a corporation can be held personally liable for corporate obligations, however, the following requisites must concur: (1) the complainant must allege in the complaint that the director or officer assented to patently unlawful acts of the corporation, or that the officer was guilty of gross negligence or bad faith; and (2) the complainant must clearly and convincingly prove such unlawful acts, negligence or bad faith.[34]

In this case, considering that the only basis for holding co-respondents, members of the Board of Trustees of Inopacan Instiute, personally liable for the payment of the obligation of respondent Inopacan Institute is founded upon the questioned sale of the last remaining property of respondent Inopacan Institute alleged to be fraudulently undertaken by the said members of the Board, there is evidently no sufficient justification for Us to hold that co-respondent members of the Board of Trustees of Inopacan Institute be held jointly and severally liable with respondent Inopacan Institute for the unpaid obligation of the latter.

Even if We consider petitioners' assertions that the questioned sale was done during the pendency of this case and without prior notice to the petitioners and without permission from the MCTC, nonetheless, these shortcomings are not sufficient to justify the piercing of the corporate veil which requires that the negligence of the officer must be so gross that it could amount to bad faith and must be established by clear and convincing evidence. Gross negligence is one that is characterized by the lack of the slightest care, acting or failing to act in a situation where there is a duty to act, willfully and intentionally with a conscious indifference to the consequences insofar as other persons may be affected.[35]

It behooves this Court to emphasize that the piercing of the veil of corporate fiction is frowned upon and can only be done if it has been clearly established that the separate and distinct personality of the corporation is used to justify a wrong, protect fraud, or perpetrate a deception.[36] As aptly explained in Philippine National Bank v. Andrada Electric & Engineering Company:[37]

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> Hence, any application of the doctrine of piercing the corporate veil should be done with caution. A court should be mindful of the milieu where it is to be applied. It must be certain that the corporate fiction was misused to such an extent that injustice, fraud, or crime was committed against another, in disregard of its rights. The wrongdoing must be clearly and convincingly established; it cannot be presumed. Otherwise, an injustice that was never unintended may result from an erroneous application.[38]

Indeed, there is no showing that co-respondents, members of the Board of Trustees of Inopacan Institute, acted in bad faith nor committed fraud or gross negligence. And in the absence of any of the aforementioned requisites for making a corporate officer, director or stockholder personally liable for the obligations of a corporation, the members of the Board of Trustees of Inopacan Institute cannot be made to answer personally for the unpaid debt of the respondent Inopacan Institute.

Considering all the foregoing disquisition, We have no other recourse but to affirm the RTC's decision in this case.

WHEREFORE, the instant Petition is hereby DISMISSED for lack of merit. The Decision of the RTC, Branch 18, Hilongos, Leyte, in Civil Case No. H-768 dated February 18, 2013 and its consequent Order dated July 19, 2013 are hereby AFFIRMED IN TOTO.

SO ORDERED.

Hernando, J., Chairperson and Azcarraga-Jacob, JJ., concur.

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[1] Rollo, pages 3-19.

[2] Penned by Judge Ephrem Suarez Abando, rollo, pages 59-60.

[3] Penned by Judge Ephrem Suarez Abando, rollo, pages 66-67.

[4] Penned by Judge Mario V. Alonzo, rollo, pages 20-58.

[5] Rollo, pages 61-65.

[6] Rollo, pages 79-82.

[7] See Complaint, supra, at note 6; See also page 2 of MCTC Decision, rollo, page 21.

[8] Rollo, pages 83-94.

[9] See pages 2-3 of MCTC Decision, rollo, pages 21-22.

[10] Rollo, pages 95-107.

[11] See page 3 of MCTC Decision, rollo, page 22.

[12] Rollo, pages 108-116.

[13] See page 4 of MCTC Decision, rollo, page 23.

[14] Rollo, pages 117-118.

[15] See page 5 of MCTC Decision, rollo, page 24.

[16] Rollo, pages 151-159.

[17] See pages 5-6 of MCTC Decision, rollo, pages 24-25.

[18] See page 6 of MCTC Decision, rollo, page 25.

[19] Supra, at note 4.

[20] See page 40 of MCTC Decision, rollo, page 58.

[21] See Notice of Appeal, rollo, pages 164-165.

[22] Supra, at note 2.

[23] Supra, at note 5.

[24] Supra, at note 3.

[25] Page 5 of Petition, rollo, page 8.

[26] Tayco v. Tayco-Flores, G.R. No. 168692, December 13, 2010.

[27] People v. Cabalhin, 231 SCRA 486, 496 (March 28, 1994).

[28] Navallo v. Sandiganbayan, 234 SCRA 175, 185-186 (July 18, 1994).

[29] Pages 34-36 of MCTC Decision, rollo, pages 52-54.

[30] Page 2 of RTC Decision, rollo, page 60.

[31] Garcia v. Social Security Commission Legal and Collection, G.R. No. 170735, December 17, 2007, 540 SCRA 456, 473-474.

[32] Aratea v. Suico, G.R. No. 170284, March 16, 2007, 518 SCRA 501, 507 citing Prudential Bank v. Alviar, 502 Phil. 595 (2005).

[33] Uichico v. National Labor Relations Commission, 339 Phil. 242, 252 (1997).

[34] Francisco v. Mallen, Jr., G.R. No. 173169, September 22, 2010, 631 SCRA 118, 123.

[35] Francisco v. Mallen, Jr., G.R. No. 173169, September 22, 2010, 631 SCRA 118, 123.

[36] Kukan International Corporation v. Reyes, G.R. No. 182729, September 29, 2010 .

[37] 430 Phil. 882 (2002).

[38] Philippine National Bank v. Andrada Electric & Engineering Company, 430 Phil. 882, 894 (2002).

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