

MICHAEL YU, PETITIONER, VS. TREASURE ISLAND INDUSTRIAL CORPORATION, RESPONDENT.

Ponente: LOPEZ, J.

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LOPEZ, J.:

Before the Court is a Petition for Review[1] under Rule 42 of the 1997 Rules of Civil Procedure filed by Michael Yu (hereafter, “petitioner”) against Treasure Island Industrial Corporation (hereafter, “respondent”), assailing the Decision[2] dated March 25, 2013 and the Order[3] dated July 15, 2013 of Branch 23, Regional Trial Court of Cebu City (hereafter, “court a quo”) in Civil Case No. CEB-39391, which denied respondent's Motion for Reconsideration.

The antecedents are as follows:

The instant case originated from a Complaint[4] for Sum of Money with Prayer for Preliminary Attachment and Damages filed by respondent against M.Y. Lines, Inc. (hereafter, “M.Y. Lines”) and petitioner before the Municipal Trial Court in Cities (MTCC) of Cebu City.

Respondent in its complaint claimed that it is a domestic corporation engaged in selling assorted construction materials. M.Y. Lines purchased various construction materials from respondent, and postdated checks were issued by petitioner as payment. When the checks were presented for payment, petitioner ordered the drawee bank to stop payment. Another set of checks were then issued in lieu of the previously issued checks. These checks totaled P69,980.00. When this second set of checks were deposited to the drawee bank, the checks were returned for the reason of “Account Closed”. Respondent then learned that M.Y. Lines stopped its operation. Respondent asserted that petitioner did not advise respondent of the impending closure and the subsequent actual closure of M.Y. Lines. It is the contention of respondent that petitioner was guilty of fraud in contracting the obligation considering that he, as the Vice-President for Finance and Administration of M.Y. Lines, had full knowledge of the financial trouble of M.Y. Lines and yet petitioner still issued the subject checks. Repeated demands on petitioner proved futile, hence, respondent maintained that petitioner should be held solidarily liable with M.Y. Lines.

On the other hand, petitioner in his Answer[5] contended that respondent has no cause of action against him considering that there was no personal transaction between the parties. The issued checks were corporate checks of M.Y. Lines and he should not be held personally liable for these checks.

On September 24, 2012, Branch 4 of MTCC Cebu City rendered a Decision[6] in favor of respondent. The dispositive portion reads:

WHEREFORE, evidence being considered and plaintiff having substantiated its claim with sufficient evidence, judgment is hereby rendered in favor of the plaintiff and against the defendant, ordering the latter to pay plaintiff the sum of P69,890.00 plus 12% interest thereon per annum from the filing of the complaint until fully paid, attorney's fees of Php10,000.00 and litigation expenses of Php5,000.00.

SO ORDERED.

Petitioner elevated the case to the court a quo.

On March 25, 2013, the court a quo issued the assailed Decision.[7] The dispositive portion of the Decision reads:

WHEREFORE, premises considered, the appealed Decision is hereby affirmed in toto.

SO ORDERED.

Unfazed, petitioner filed a Motion for Reconsideration but the same was denied by the court a quo in an Order[8] dated July 15, 2013.

Hence, this Petition for Review[9] with the following assignment of errors:

I

THE COURT A QUO ERRED IN HOLDING THAT THERE WAS BAD FAITH ON THE PART OF PETITIONER HOLDING HIM RESPONSIBLE FOR THE CORPORATE OBLIGATIONS OF M.Y. LINES, INC. AND TOTALLY DISREGARDING THE SEPARATE AND DISTINCT PERSONALITY OF THE M.Y. LINES, INC.;

II

THE COURT A QUO ERRED IN AWARDING THE MONETARY CLAIMS OF RESPONDENT AGAINST PETITIONER;

III

THE COURT A QUO ERRED IN DENYING THE MOTION FOR RECONSIDERATION OF PETITION FOR LACK OF NOTICE OF HEARING DESPITE THE FACT THAT RESPONDENT WAS DULY FURNISHED COPY OF THE SAME.

The pivotal issue is whether or not petitioner should be held personally liable for the corporate checks where he was the signatory.

Petitioner, in his Memorandum, claims that the veil of corporate fiction should not be pierced as he is not guilty of bad faith thus, he cannot be held responsible for the corporate obligations of M.Y. Lines. Petitioner maintains that there is no evidence proving that there was bad faith on his part. He contends that there was nothing in the complaint alleging that he assented to the unlawful act and that there was no evidence proving such unlawful acts. It is posited that he did not personally transacted with M.Y. Lines and was merely the signatory of the checks together with the other two authorized signatories of M.Y. Lines. Petitioner contends that respondent knew all along that M.Y. Lines was undergoing rehabilitation and that it was the reason for the issuance of the replacement checks. Furthermore, petitioner argues that solidary liability of officers of corporations is not applicable in this case. Lastly, petitioner contends that he is not liable for attorney's fees and litigation expenses.

Respondent's Memorandum counters that petitioner is guilty of bad faith, gross negligence and fraud in issuing the subject checks. It contends that the provision of B.P. Blg. 22 is clear that that if the bounced check was issued by the corporation, the person who actually signed the same shall be held liable. Respondent maintains that petitioner cannot evade liability arising from his issuance of the bounced checks being the Vice-President for Finance and Administration of the company. Moreover, M.Y. Lines was a family corporation where the Corporation Code of the Philippines states that stockholders shall be personally liable for corporate torts. It is posited that the corporate fiction may be set aside where it would work injustice to the creditor. Lastly, respondent asserts that petitioner is liable for attorney's fees and litigation expenses.

The Ruling of the Court

The petition is denied.

Generally, the officer of the corporation is not personally liable for the debts of the corporation, which has a separate legal personality of its own. However, Section 31 of the Corporation Code lays down the exceptions to the rule, as follows:

Section 31. Liability of directors, trustees or officers. - Directors or trustees who wilfully 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.

Section 31 makes an officer personally liable for corporate debts if he wilfully and knowingly votes for or assents to patently unlawful acts of the corporation. Section 31 also makes him personally liable if he is guilty of gross negligence or bad faith in directing the affairs of the corporation.[10]

Moreover, the case of *Shrimp Specialist, Inc. v. Fuji-Triumph Agri-Industrial Corp.*[11] citing *Uy v. Villanueva*[12] enumerates the instances where the general rule does not apply:

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; (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.

To hold a director or an officer personally liable for corporate obligations, two 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. "To hold a director, a trustee or an officer personally liable for the debts of the corporation and, thus, pierce the veil of corporate fiction, bad faith or gross negligence by the director, trustee or officer in directing the corporate affairs must be established clearly and convincingly." [13]

All the requisites are present in this case.

First. The Complaint clearly alleged that petitioner assented to the unlawful act of issuing rubber checks. In fact, it was clear from the Complaint that petitioner did not only assent to the unlawful act but he, himself who made the same. The Complaint states:

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7. Soon thereafter, the plaintiff learned that the defendant corporation stopped its business operation. Defendant MICHAEL YU never advised the plaintiff of the impending (sic) closure of defendant corporation. Neither did he advise the plaintiff of the actual closure of defendant corporation's business. If the plaintiff had known that the defendant corporation's business was already in danger of termination, it wouldn't have sold on credit its merchandise to defendant corporation and it wouldn't have accepted the latter's worthless checks.

8. It is clear that MICHAEL YU was guilty of fraud in contracting the obligation of the defendant corporation

because as Vice-President for Finance and Administration, he had full knowledge of the financial trouble of defendant corporation and yet, despite this knowledge, he still issued postdated checks to the plaintiff, which checks later proved to be worthless.

9. Defendant MICHAEL YU should be held solidarily liable for the defendant corporation's obligation because, aside from the fact that the corporation is no longer operating, it was MICHAEL YU who transacted with the plaintiff in behalf of the corporation without informing the plaintiff corporation's financial condition was already in jeopardy.

10. Defendant MICHAEL YU had known all along, upon his issuance of the worthless checks that the corporation's funds could no longer support the checks. He ordered the bank to stop payment of the checks and thereafter, he issued replacement checks which also subsequently bounced for the reason of "ACCOUNT CLOSED".

11. Moreover, defendant MICHAEL YU never informed the plaintiff of the impending and actual closure of the business operation of the corporation. The plaintiff had to look for the personal residence of defendant MICHAEL YU in order to recover its valid and just claim. However, despite repeated demands made on him, the last of which was on 26 July 2010, defendant MICHAEL YU failed and refused to pay the amounts of the checks in the aggregate amount of P69,980.00 Pesos.

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Second. We are in agreement with the MTCC and the court a quo in finding credibility on the evidence presented by respondent. Petitioner's issuance of the corporate checks which later were returned for the reason of "account closed" tantamounts to unlawful acts.

In the first place, factual findings of the lower courts are entitled to great weight and respect on appeal, and in fact accorded finality when supported by substantial evidence on the record,[14] more so in this case where the factual findings of both lower courts are the same.

Besides, a perusal of the records readily reveals that, indeed, petitioner should be held personally liable for the checks even when these were corporate checks because he was in bad faith when he issued the same.

Notably, petitioner was the Vice-President for Finance and Administration of M.Y. Lines which was a family corporation. As such, it is fair to conclude that he was the person in charge of the finances of the corporation, and indubitably knew of its financial state. Also, it appears that there were two set of checks that were issued -- the first set of checks were ordered "stop payment" by petitioner and then another set as replacement checks were issued, which were then subsequently dishonored. From the foregoing, it is clear that petitioner already knew of the financial problems of the corporation from the start as evidenced by the stop payment order he issued to the bank. Yet, armed with the knowledge of the poor financial status of the corporation, he still continued to issue the subject checks as payment for the construction materials.

Furthermore, there was no notice from petitioner informing respondent of the financial status of the company.

In the case of *Aratea v. Suico*,[15] the Supreme Court held the officers, despite having separate and distinct personalities from the corporation, are personally liable for the loans and advances made by the creditor to the corporation which they represent on account of their bad faith in carrying out the business of the corporation. The Supreme Court held:

Petitioners Aratea and Canonigo acted in bad faith when they, as officers of SAMDECO, unreasonably prevented Suico from selling his part of the coal-produce of the mining site, in gross violation of their MOA. This resulted in Suico not being able to realize profits from his 50% share of the coal-produce, from which Suico could obtain part of the payment for the loans and advances he made in favor of SAMDECO. Moreover,

petitioners also acted in bad faith when they sold, transferred and assigned their proprietary rights over the mining area in favor of SPMI and Dy, thereby causing SAMDECO to grossly violate its MOA with Suico. Suico suffered grave injustice because he was prevented from acquiring the opportunity to obtain payment of his loans and cash advances, while petitioners Aratea and Canonigo profited from the sale of their shareholdings in SAMDECO in favor of SPMI and Dy. These facts duly established Aratea and Canonigo's personal liability as officers/stockholders of SAMDECO and their solidary liability with SAMDECO for its obligations in favor of Suico for the loans and cash advances received by the corporation.

Apparently, applying the foregoing to the instant case, petitioner should be held guilty of bad faith or at the very least, in gross negligence in issuing these checks.

Petitioner insists that respondent already knew of the status of the company- that it was subject to corporate rehabilitation that is why there was the issuance of the replacement checks. Unfortunately for the petitioner, other than his self-serving allegation, no evidence was adduced showing that the respondent continued to transact despite knowledge of such rehabilitation.

With the denial of respondent of any knowledge or even hint of the corporate rehabilitation, coupled with bounced checks twice issued, it behooves upon petitioner to contravene respondent's claim. Recall that the plaintiff (respondent in this case) in a civil case has the burden of proof as it alleges the affirmative of the issue. However, in the course of trial in a civil case, once plaintiff makes out a prima facie case in its favor, the duty or the burden of evidence shifts to defendant (petitioner) to controvert plaintiff's prima facie case; otherwise, a verdict must be returned in favor of plaintiff.[16]

WHEREFORE, the Petition for Review is DENIED. The Decision dated March 25, 2013 of Branch 23, Regional Trial Court of Cebu City , in Civil Case No. CEB-39391 is AFFIRMED.

SO ORDERED.

Ingles, Chairperson, and Lagura-Yap, JJ., concur.

[1] Rollo, p. 5.

[2] Ibid., p. 21.

[3] Ibid., p. 26.

[4] Ibid., p. 27.

[5] Ibid., p. 40.

[6] Ibid., p. 46.

[7] Ibid., p. 21.

[8] Ibid., p. 26.

[9] Ibid., p. 5.

[10] See Carag v. NLRC, G.R. No. 147590, April 2, 2007.

[11] G.R. No. 168756, G.R. No. 171476, December 7, 2009.

[12] G.R. No. 157851, June 29, 2007.

[13] *Urban Bank v. Peña*, G.R. No. 145817, G.R. No. 145822, G. R. No. 162562, October 19, 2011, citing *Lambert Pawnbrokers and Jewelry Corp., v. Binamira*, G. R. No. 170464, July 12, 2010; *Francisco v. Mallen, Jr.*, G. R. No. 173169, September 22, 2010; *Magaling v. Ong*, G. R. No. 173333, August 13, 2008.

[14] *Bernales v. Heirs of Julian Sambaan*, G.R. No. 163271, January 15, 2010, citing *Xentrex Motors, Inc. v. Court of Appeals*, 353 Phil. 258, 262 (1998) .

[15] G.R. No. 170284, March 16, 2007.

[16] See *Lucas v. Tuaño*, G. R. No. 178763, April 21, 2009, citing *Prudential Guarantee and Assurance Inc. v. Trans-Asia Shipping Lines, Inc.*, G.R. No. 151890, June 20, 2006.

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