

FRANCISCO MOTORS CORPORATION, PETITIONER, VS. COURT OF APPEALS AND SPOUSES GREGORIO AND LIBRADA MANUEL, RESPONDENTS.

G.R. No. 100812. June 25, 1999

Ponente: QUISUMBING, J.

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QUISUMBING, J.:

This petition for review on certiorari, under Rule 45 of the Rules of Court, seeks to annul the decision[1] of the Court of Appeals in C.A. G.R. CV No. 10014 affirming the decision rendered by Branch 135, Regional Trial Court of Makati, Metro Manila. The procedural antecedents of this petition are as follows:

On January 23, 1985, petitioner filed a complaint[2] against private respondents to recover three thousand four hundred twelve and six centavos (P3,412.06), representing the balance of the jeep body purchased by the Manuels from petitioner; an additional sum of twenty thousand four hundred fifty-four and eighty centavos (P20,454.80) representing the unpaid balance on the cost of repair of the vehicle; and six thousand pesos (P6,000.00) for cost of suit and attorney's fees.[3] To the original balance on the price of jeep body were added the costs of repair.[4] In their answer, private respondents interposed a counterclaim for unpaid legal services by Gregorio Manuel in the amount of fifty thousand pesos (P50,000) which was not paid by the incorporators, directors and officers of the petitioner. The trial court decided the case on June 26, 1985, in favor of petitioner in regard to the petitioner's claim for money, but also allowed the counter-claim of private respondents. Both parties appealed. On April 15, 1991, the Court of Appeals sustained the trial court's decision.[5] Hence, the present petition.

For our review in particular is the propriety of the permissive counterclaim which private respondents filed together with their answer to petitioner's complaint for a sum of money. Private respondent Gregorio Manuel alleged as an affirmative defense that, while he was petitioner's Assistant Legal Officer, he represented members of the Francisco family in the intestate estate proceedings of the late Benita Trinidad. However, even after the termination of the proceedings, his services were not paid. Said family members, he said, were also incorporators, directors and officers of petitioner. Hence to counter petitioner's collection suit, he filed a permissive counterclaim for the unpaid attorney's fees.[6]

For failure of petitioner to answer the counterclaim, the trial court declared petitioner in default on this score, and evidence ex-parte was presented on the counterclaim. The trial court ruled in favor of private respondents and found that Gregorio Manuel indeed rendered legal services to the Francisco family in Special Proceedings Number 7803- "In the Matter of Intestate Estate of Benita Trinidad". Said court also found that his legal services were not compensated despite repeated demands, and thus ordered petitioner to pay him the amount of fifty thousand (P50,000.00) pesos.[7]

Dissatisfied with the trial court's order, petitioner elevated the matter to the Court of Appeals, posing the following issues:

"I.

WHETHER OR NOT THE DECISION RENDERED BY THE LOWER COURT IS NULL AND VOID AS IT NEVER ACQUIRED JURISDICTION OVER THE PERSON OF THE DEFENDANT.

II.

WHETHER OR NOT PLAINTIFF-APPELLANT NOT BEING A REAL PARTY IN THE ALLEGED PERMISSIVE COUNTERCLAIM SHOULD BE HELD LIABLE TO THE CLAIM OF DEFENDANT-APPELLEES.

III.

WHETHER OR NOT THERE IS FAILURE ON THE PART OF PLAINTIFF-APPELLANT TO ANSWER THE ALLEGED PERMISSIVE COUNTERCLAIM."[8]

Petitioner contended that the trial court did not acquire jurisdiction over it because no summons was validly served on it together with the copy of the answer containing the permissive counterclaim. Further, petitioner questions the propriety of its being made party to the case because it was not the real party in interest but the individual members of the Francisco family concerned with the intestate case.

In its assailed decision now before us for review, respondent Court of Appeals held that a counterclaim must be answered in ten (10) days, pursuant to Section 4, Rule 11, of the Rules of Court; and nowhere does it state in the Rules that a party still needed to be summoned anew if a counterclaim was set up against him. Failure to serve summons, said respondent court, did not effectively negate trial court's jurisdiction over petitioner in the matter of the counterclaim. It likewise pointed out that there was no reason for petitioner to be excused from answering the counterclaim. Court records showed that its former counsel, Nicanor G. Alvarez, received the copy of the answer with counterclaim two (2) days prior to his withdrawal as counsel for petitioner. Moreover when petitioner's new counsel, Jose N. Aquino, entered his appearance, three (3) days still remained within the period to file an answer to the counterclaim. Having failed to answer, petitioner was correctly considered in default by the trial court.[9] Even assuming that the trial court acquired no jurisdiction over petitioner, respondent court also said, but having filed a motion for reconsideration seeking relief from the said order of default, petitioner was estopped from further questioning the trial court's jurisdiction.[10]

On the question of its liability for attorney's fees owing to private respondent Gregorio Manuel, petitioner argued that being a corporation, it should not be held liable therefor because these fees were owed by the incorporators, directors and officers of the corporation in their personal capacity as heirs of Benita Trinidad. Petitioner stressed that the personality of the corporation, vis-à-vis the individual persons who hired the services of private respondent, is separate and distinct,[11] hence, the liability of said individuals did not become an obligation chargeable against petitioner.

Nevertheless, on the foregoing issue, the Court of Appeals ruled as follows:

"However, this distinct and separate personality is merely a fiction created by law for convenience and to promote justice. Accordingly, this separate personality of the corporation may be disregarded, or the veil of corporate fiction pierced, in cases where it is used as a cloak or cover for found (sic) illegality, or to work an injustice, or where necessary to achieve equity or when necessary for the protection of creditors. (Sulo ng Bayan, Inc. vs. Araneta, Inc., 72 SCRA 347) Corporations are composed of natural persons and the legal fiction of a separate corporate personality is not a shield for the commission of injustice and inequity. (Chemplex Philippines, Inc. vs. Pamatian, 57 SCRA 408)

"In the instant case, evidence shows that the plaintiff-appellant Francisco Motors Corporation is composed of the heirs of the late Benita Trinidad as directors and incorporators for whom defendant Gregorio Manuel

rendered legal services in the intestate estate case of their deceased mother. Considering the aforesaid principles and circumstances established in this case, equity and justice demands plaintiff-appellant's veil of corporate identity should be pierced and the defendant be compensated for legal services rendered to the heirs, who are directors of the plaintiff-appellant corporation." [12]

Now before us, petitioner assigns the following errors:

"I.

THE COURT OF APPEALS ERRED IN APPLYING THE DOCTRINE OF PIERCING THE VEIL OF CORPORATE ENTITY.

II.

THE COURT OF APPEALS ERRED IN AFFIRMING THAT THERE WAS JURISDICTION OVER PETITIONER WITH RESPECT TO THE COUNTERCLAIM." [13]

Petitioner submits that respondent court should not have resorted to piercing the veil of corporate fiction because the transaction concerned only respondent Gregorio Manuel and the heirs of the late Benita Trinidad. According to petitioner, there was no cause of action by said respondent against petitioner; personal concerns of the heirs should be distinguished from those involving corporate affairs. Petitioner further contends that the present case does not fall among the instances wherein the courts may look beyond the distinct personality of a corporation. According to petitioner, the services for which respondent Gregorio Manuel seeks to collect fees from petitioner are personal in nature. Hence, it avers the heirs should have been sued in their personal capacity, and not involve the corporation. [14]

With regard to the permissive counterclaim, petitioner also insists that there was no proper service of the answer containing the permissive counterclaim. It claims that the counterclaim is a separate case which can only be properly served upon the opposing party through summons. Further petitioner states that by nature, a permissive counterclaim is one which does not arise out of nor is necessarily connected with the subject of the opposing party's claim. Petitioner avers that since there was no service of summons upon it with regard to the counterclaim, then the court did not acquire jurisdiction over petitioner. Since a counterclaim is considered an action independent from the answer, according to petitioner, then in effect there should be two simultaneous actions between the same parties: each party is at the same time both plaintiff and defendant with respect to the other, [15] requiring in each case separate summonses.

In their Comment, private respondents focus on the two questions raised by petitioner. They defend the propriety of piercing the veil of corporate fiction, but deny the necessity of serving separate summonses on petitioner in regard to their permissive counterclaim contained in the answer.

Private respondents maintain both trial and appellate courts found that respondent Gregorio Manuel was employed as assistant legal officer of petitioner corporation, and that his services were solicited by the incorporators, directors and members to handle and represent them in Special Proceedings No. 7803, concerning the Intestate Estate of the late Benita Trinidad. They assert that the members of petitioner corporation took advantage of their positions by not compensating respondent Gregorio Manuel after the termination of the estate proceedings despite his repeated demands for payment of his services. They cite findings of the appellate court that support piercing the veil of corporate identity in this particular case. They assert that the corporate veil may be disregarded when it is used to defeat public convenience, justify wrong, protect fraud, and defend crime. It may also be pierced, according to them, where the corporate entity is being used as an alter ego, adjunct, or business conduit for the sole benefit of the stockholders or of another corporate entity. In these instances, they aver, the corporation should be treated merely as an association of individual persons. [16]

Private respondents dispute petitioner's claim that its right to due process was violated when respondents' counterclaim was granted due course, although no summons was served upon it. They claim that no provision in the Rules of Court requires service of summons upon a defendant in a counterclaim. Private respondents argue that when the petitioner filed its complaint before the trial court it voluntarily submitted itself to the jurisdiction of the court. As a consequence, the issuance of summons on it was no longer necessary. Private respondents say they served a copy of their answer with affirmative defenses and counterclaim on petitioner's former counsel, Nicanor G. Alvarez. While petitioner would have the Court believe that respondents served said copy upon Alvarez after he had withdrawn his appearance as counsel for the petitioner, private respondents assert that this contention is utterly baseless. Records disclose that the answer was received two (2) days before the former counsel for petitioner withdrew his appearance, according to private respondents. They maintain that the present petition is but a form of dilatory appeal, to set off petitioner's obligations to the respondents by running up more interest it could recover from them. Private respondents therefore claim damages against petitioner.[17]

To resolve the issues in this case, we must first determine the propriety of piercing the veil of corporate fiction.

Basic in corporation law is the principle that a corporation has a separate personality distinct from its stockholders and from other corporations to which it may be connected.[18] However, under the doctrine of piercing the veil of corporate entity, the corporation's separate juridical personality may be disregarded, for example, when the corporate identity is used to defeat public convenience, justify wrong, protect fraud, or defend crime. Also, where the corporation is a mere alter ego or business conduit of a person, or where the corporation is so organized and controlled and its affairs are so conducted as to make it merely an instrumentality, agency, conduit or adjunct of another corporation, then its distinct personality may be ignored.[19] In these circumstances, the courts will treat the corporation as a mere aggrupation of persons and the liability will directly attach to them. The legal fiction of a separate corporate personality in those cited instances, for reasons of public policy and in the interest of justice, will be justifiably set aside.

In our view, however, given the facts and circumstances of this case, the doctrine of piercing the corporate veil has no relevant application here. Respondent court erred in permitting the trial court's resort to this doctrine. The rationale behind piercing a corporation's identity in a given case is to remove the barrier between the corporation from the persons comprising it to thwart the fraudulent and illegal schemes of those who use the corporate personality as a shield for undertaking certain proscribed activities. However, in the case at bar, instead of holding certain individuals or persons responsible for an alleged corporate act, the situation has been reversed. It is the petitioner as a corporation which is being ordered to answer for the personal liability of certain individual directors, officers and incorporators concerned. Hence, it appears to us that the doctrine has been turned upside down because of its erroneous invocation. Note that according to private respondent Gregorio Manuel his services were solicited as counsel for members of the Francisco family to represent them in the intestate proceedings over Benita Trinidad's estate. These estate proceedings did not involve any business of petitioner.

Note also that he sought to collect legal fees not just from certain Francisco family members but also from petitioner corporation on the claims that its management had requested his services and he acceded thereto as an employee of petitioner from whom it could be deduced he was also receiving a salary. His move to recover unpaid legal fees through a counterclaim against Francisco Motors Corporation, to offset the unpaid balance of the purchase and repair of a jeep body could only result from an obvious misapprehension that petitioner's corporate assets could be used to answer for the liabilities of its individual directors, officers, and incorporators. Such result if permitted could easily prejudice the corporation, its own creditors, and even other stockholders; hence, clearly inequitable to petitioner.

Furthermore, considering the nature of the legal services involved, whatever obligation said incorporators,

directors and officers of the corporation had incurred, it was incurred in their personal capacity. When directors and officers of a corporation are unable to compensate a party for a personal obligation, it is far-fetched to allege that the corporation is perpetuating fraud or promoting injustice, and be thereby held liable therefor by piercing its corporate veil. While there are no hard and fast rules on disregarding separate corporate identity, we must always be mindful of its function and purpose. A court should be careful in assessing the milieu where the doctrine of piercing the corporate veil may be applied. Otherwise an injustice, although unintended, may result from its erroneous application.

The personality of the corporation and those of its incorporators, directors and officers in their personal capacities ought to be kept separate in this case. The claim for legal fees against the concerned individual incorporators, officers and directors could not be properly directed against the corporation without violating basic principles governing corporations. Moreover, every action --including a counterclaim -- must be prosecuted or defended in the name of the real party in interest.[20] It is plainly an error to lay the claim for legal fees of private respondent Gregorio Manuel at the door of petitioner (FMC) rather than individual members of the Francisco family.

However, with regard to the procedural issue raised by petitioner's allegation, that it needed to be summoned anew in order for the court to acquire jurisdiction over it, we agree with respondent court's view to the contrary. Section 4, Rule 11 of the Rules of Court provides that a counterclaim or cross-claim must be answered within ten (10) days from service. Nothing in the Rules of Court says that summons should first be served on the defendant before an answer to counterclaim must be made. The purpose of a summons is to enable the court to acquire jurisdiction over the person of the defendant. Although a counterclaim is treated as an entirely distinct and independent action, the defendant in the counterclaim, being the plaintiff in the original complaint, has already submitted to the jurisdiction of the court. Following Rule 9, Section 3 of the 1997 Rules of Civil Procedure,[21] if a defendant (herein petitioner) fails to answer the counterclaim, then upon motion of plaintiff, the defendant may be declared in default. This is what happened to petitioner in this case, and this Court finds no procedural error in the disposition of the appellate court on this particular issue. Moreover, as noted by the respondent court, when petitioner filed its motion seeking to set aside the order of default, in effect it submitted itself to the jurisdiction of the court. As well said by respondent court:

"Further on the lack of jurisdiction as raised by plaintiff-appellant[,] [t]he records show that upon its request, plaintiff-appellant was granted time to file a motion for reconsideration of the disputed decision. Plaintiff-appellant did file its motion for reconsideration to set aside the order of default and the judgment rendered on the counterclaim.

"Thus, even if the court acquired no jurisdiction over plaintiff-appellant on the counterclaim, as it vigorously insists, plaintiff-appellant is considered to have submitted to the court's jurisdiction when it filed the motion for reconsideration seeking relief from the court. (Soriano vs. Palacio, 12 SCRA 447). A party is estopped from assailing the jurisdiction of a court after voluntarily submitting himself to its jurisdiction. (Tejones vs. Gironella, 159 SCRA 100). Estoppel is a bar against any claims of lack of jurisdiction. (Balais vs. Balais, 159 SCRA 37)."[22]

WHEREFORE, the petition is hereby GRANTED and the assailed decision is hereby REVERSED insofar only as it held Francisco Motors Corporation liable for the legal obligation owing to private respondent Gregorio Manuel; but this decision is without prejudice to his filing the proper suit against the concerned members of the Francisco family in their personal capacity. No pronouncement as to costs.

SO ORDERED.

Bellosillo, (Chairman), Puno, Mendoza, and Buena, JJ., concur.

[1] Dated April 15, 1991. Rollo, pp. 31 - 35. Reconsideration thereof was denied on July 1, 1991. Rollo, pp. 28-29.

[2] Civil Case No. 9542. Records, RTC, pp. 1-3.

[3] Rollo, p. 31.

[4] Id. at 9.

[5] Id. at 11.

[6] Supra, note 4.

[7] Supra note 5.

[8] Rollo, pp. 32-33.

[9] Id. at 32.

[10] Id. at 34.

[11] Ibid.

[12] Rollo, pp. 34-35.

[13] Id. at 12.

[14] Id. at 12 - 16.

[15] Id. at 18 - 21; See also *Golden Ribbon Lumber Co., Inc. vs. Salvador S. Santos and Rafaela M. Santos, C.A.* - G. R. No. 12935 November 15, 1955.

[16] Id. at 47 - 51.

[17] Id. at 52- 60.

[18] *Concept Builders's Inc. vs. NLRC* 257 SCRA 149, 157 (1996); See also *Emilio Cano Enterprises, Inc. vs. CIR*, 13 SCRA 290 (1965) and *Yutivo Sons Hardware Co. vs. CTA*, 1 SCRA 160 (1961).

[19] *Indophil Textile Mill Workers Union vs. Calica*, 205 SCRA 697, 704 (1992); See also *Umali et al vs. C C.A.*, 189 SCRA 529,542 (1990).

[20] Section 2, Rule 3 of the RULES OF COURT; See also, *De Leon vs. Court of Appeals*, 277 SCRA 478, 486 (1997).

[21] In the Court of Appeals Decision, Section 3 of Rule 9 was still under Section 1 of Rule 18 of the Rules of Court.

[22] Rollo, p. 34.

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