

**M. MCCONNEL, W.P. COCHRANE, RICARDO RODRIGUEZ, ET AL.,
PETITIONERS, VS. THE COURT OF APPEALS AND DOMINGA DE LOS
REYES, ASSISTED BY HER HUSBAND, SABINO PADILLA
RESPONDENTS.**

G.R. No. 10510. March 17, 1961

Ponente: REYES, J.B.L., J.

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REYES, J.B.L., J.:

The issue before us is the correctness of the decision of the Court of Appeals that, under the circumstances of record, there was justification for disregarding the corporate entity of the Park Rite Co., Inc., and holding its controlling stockholders personally responsible for a judgment against the corporation.

The Court of Appeals found that the Park Rite Co., Inc., a Philippine corporation, was originally organized on or about April 15, 1947, with a capital stock of 1,500 shares at P1.00 a share. The corporation leased from Rafael Perez Rosales y Samanillo a vacant lot on Juan Luna street (Manila) which it used for parking motor vehicles for a consideration.

It turned out that in operating its parking business, the corporation occupied and used not only the Samanillo lot it had leased but also an adjacent lot belonging to the respondents-appellees Padilla, without the owners' knowledge and consent. When the latter discovered the truth around October of 1947, they demanded payment for the use and occupation of the lot.

The corporation (then controlled by petitioners Cirilo Paredes and Ursula Tolentino, who had purchased and held 1,496 of its 1,500 shares) disclaimed liability, blaming the original incorporators, McConnel, Rodriguez and Cochrane. Whereupon, the lot owners filed against it a complaint for forcible entry in the Municipal Court of Manila on 7 October 1947 (Civ. Case No. 4031).

Judgment was rendered in due course in 13 November 1947, ordering the Park Rite Co., Inc., to pay P7,410.00 plus legal interest as damages from April 15 to October 15, 1947, and P1,235.00 a month from October 15, 1947 until return of the lot. Restitution not having been made until 31 January 1948, the entire judgment amounted to P11,732.50. Upon execution, the corporation was found without any assets other than P550.00 deposited in Court. After their application to the judgment credit, there remained a balance of P11,182.50 outstanding and unsatisfied.

The judgment creditors then filed suit in the Court of First Instance of Manila against the corporation and its past and present stockholders, to recover from them, jointly and severally, the unsatisfied balance of the judgment, plus legal interest and costs. The Court of First Instance denied recovery; but on appeal, the Court of Appeals (CA-G. R. No. 8434-R) reversed, finding that the corporation was a mere alter ego or business conduit of the principal stockholders that controlled it for their own benefit, and adjudged them responsible for the amounts demanded by the lot owners, as follows:

Wherefore premises considered the decision appealed from is reversed. Defendants-appellees Cirilo Paredes

and Ursula Tolentino are hereby declared liable to the plaintiffs-appellants for the rentals due on the lot in question from August 22, 1947 to January 11, 1948 at the rate of P1,235.00 a month with legal interest thereon from the time of the filing of the complaint. Deducting the P550.00 which was paid at the time when the corporation was already acquired by said defendants-appellees Cirilo Paredes and Ursula Tolentino, they are hereby ordered to pay to plaintiffs-appellants Dominga de los Reyes and Sabino Padilla the sum of P6,036.66 with legal interest thereon from the time of the filing of the complaint until fully paid.

Defendant-appellee Ricardo Rodriguez is hereby ordered to pay to the plaintiffs-appellants Dominga de los Reyes and Sabino Padilla the sum of P1,742.64 with legal interest thereon from the time of the filing of the complaint and until it is fully paid. In addition thereto the defendants-appellees Cirilo Paredes, Ursula Tolentino and Ricardo Rodriguez shall pay the costs proportionately in both instances.

It is so ordered."

Cirilo Paredes and Ursula Tolentino then resorted to this Court. We granted certiorari.

On the main issue whether the individual stockholders may be held liable for obligations contracted by the corporation, this Court has already answered the question in the affirmative wherever circumstances have shown that the corporate entity is being used as an alter ego or business conduit for the sole benefit of the stockholders, or else defeat public convenience, justify wrong, protect fraud, or defend crime (*Koppel [Phil. Inc.] vs. Yatco*, 77 Phil., 496; *Arnold vs. Willits and Patterson*, 44 Phil., 364).

The Court of Appeals has made express findings to the following effect:

"There is no question that a wrong has been committed by the so-called Park Rite Co, Inc., upon the plaintiffs when it occupied the lot of the latter without its prior knowledge and consent and without paying the reasonable rentals for the occupation of said lot. There is also no doubt in our mind that the corporation was a mere alter ego or business conduit of the defendants Cirilo Paredes and Ursula Tolentino, and before them—the defendants M. McConnel, W. P. Cochrane, and Ricardo Rodriguez. The evidence clearly shows that these persons completely dominated and controlled the corporation and that the functions of the corporation were solely for their benefits.

When it was originally organized on or about April 15, 1947, the original incorporators were M. McConnel, W. P. Cochrane, Ricardo Rodriguez, Benedicto M. Dario and Aurea Orfrecio with a capital stock of P1,500.00 divided into 1,500 shares at P1.00 a share. McConnel and Cochrane each owned 500 shares, Ricardo Rodriguez 498 shares, and Dario and Orfrecio 1 share each. It is obvious that the shares of the last two named persons were merely qualifying shares. Then on or about August 22, 1947 the defendants Cirilo Paredes and Ursula Tolentino purchased 1,496 shares of the said corporation and the remaining four shares were acquired by Bienvenido J. Claudio, Quintin C. Paredes, Segundo Tarictican, and Paulino Marquez at one share each. It is obvious that the last four shares bought by these four persons were merely qualifying shares and that to all intents and purposes the spouses Cirilo Paredes and Ursula Tolentino composed the so-called Park Rite Co. Inc. That the corporation was a mere extension of their personality is shown by the fact that the offices of Cirilo Paredes and that of Park Rite Co., Inc., were located in the same building, in the same floor and in the same room at 507 Wilson Building. This is further shown by the fact that the funds of the corporation were kept by Cirilo Paredes in his own name (p. 14, November 8, 1950, t.s.n.). The corporation itself had no visible assets, as correctly found by the trial court, except perhaps the toll house, the wire fence around the lot and the signs thereon. It was for this reason that the judgment against it could not be fully satisfied." (Italics supplied.)

The facts thus found can not be varied by us, and conclusively show that the corporation is a mere instrumentality of the individual stockholders, hence the latter must individually answer for the corporate obligations. While the mere ownership of all or nearly all of the capital stock of a corporation is a mere business conduit of the stock holders, that conclusion is amply justified where it is shown, as in the case before us, that the operations of the

corporation were so merged with those of the stockholders as to be practically indistinguishable from them. To hold the latter liable for the corporation's obligations is not to ignore the corporation's separate entity, but merely to apply the established principle that such entity can not be invoked or used for purposes that could not have been intended by the law that created that separate personality.

The petitioners-appellants insist that the Court could have no jurisdiction over an action to enforce a judgment within five (5) years from its rendition, since the Rules of Court provide for enforcement by mere motion during those five years. The error of this stand is apparent, because the second action, originally begun in the Court of First Instance, was not an action to enforce the judgment of the Municipal Court, but an action to have non-parties to the judgment held responsible for its payment.

Finding no error in the judgment appealed from, the same is hereby affirmed, with costs against petitioners-appellants Cirilo Paredes and Ursula Tolentino.

Bengzon, Acting C. J., Bautista Angelo, Labrador, Barrera, and Dizon, JJ., concur.

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