LUISITO PADILLA AND PHOENIX-OMEGA DEVELOPMENT AND MANAGEMENT CORPORATION, PETITIONERS, VS. THE HONORABLE COURT OF APPEALS AND SUSANA REALTY, INC., RESPONDENTS.

G.R. No. 123893. November 22, 2001

Ponente: QUISUMBING, J.

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QUISUMBING, J.:

This petition for review seeks the reversal of the Court of Appeals decision[1] in CA-G.R. SP No. 36685, refusing to set aside (1) the order dated November 29, 1994 of the Regional Trial Court of Pasay City, Branch 113, which authorized the issuance of an alias writ of execution in connection with Civil Case No. 7302 filed before said court; and (2) the order dated February 10, 1995, which denied petitioners' motion for reconsideration of the order of November 29, 1994, regarding the annulment of the alias writ of execution and cancellation of the notice of levy and sale dated December 16, 1994, issued pursuant to the implementation of said alias writ.

The antecedent facts, as summarized by the Court of Appeals, are as follows:

> "On June 27, 1983, Susana Realty, Inc. (SRI), by a deed of absolute sale, sold to the Light Rail Transit Authority (LRTA) several parcels of land located in Taft Avenue Extension, San Rafael District, Pasay City. Under paragraph 7 of the deed of sale, SRI reserved to itself the right of first refusal to develop and/or improve the property sold should the LRTA decide to lease and/or assign to any person the right to develop and/or improve the property.
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> On November 28, 1986, the LRTA and Phoenix Omega Development and Management Corporation (Phoenix Omega) entered into a Commercial Stall Concession Contract authorizing the latter to construct and develop commercial stalls on a 90 sq. m. portion of the property bought from SRI. SRI opposed the agreement as having violated the deed of sale it entered with LRTA. A tripartite agreement was later concluded by the parties, however, whereby SRI agreed to honor the terms of the concession contract and to lease to Phoenix Omega its (SRI's) property (remaining property) adjacent to the 90 sq. m. portion subject of the concession contract.
>
> A contract was thus entered into on July 28, 1988 between Phoenix Omega and SRI with LRTA whereby Phoenix Omega undertook to construct commercial stalls on the 90-sq. m. property in accordance with plans and specifications prepared by the latter, the construction to begin, however, only upon SRI's approval of such plans and specifications. Also on July 28, 1988, Phoenix Omega, by a deed of assignment, assigned its right and interests over the remaining property unto its sister company, PKA Development and Management Corporation (PKA). Signatories to the deed of assignment were Eduardo Gatchalian in his capacity as President of Phoenix Omega, and Luisito B. Padilla (Padilla), one of the petitioners herein, in his capacity as President and General Manager of PKA. The development of the remaining property having been assigned to PKA, it entered into a contract of lease with SRI likewise on July 28, 1988.
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> In the meantime, SRI sold part of its remaining property to a third party. An amended contract of lease was thus forged in January 1989 among SRI, PKA and Phoenix Omega, whereby the parties agreed to substitute

> the already sold portion of SRI's remaining property with 2 parcels of land also belonging to SRI. In this amended contract of lease, PKA was again represented by Padilla in his capacity as its President and General Manager. And Phoenix Omega, which was not a party to the July 28, 1988 lease contract sought to be amended but which was a party, to the amended contract, was also represented by Padilla as Chairman of the Board of Directors of Phoenix Omega.
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> PKA's building permit was later revoked due to certain violations of the National Building Code (BP 344).
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> On August 24, 1989, PKA was allowed by the (Department) of Public Works and Highway(s) to resume construction on the leased premises subject to PKA's correction of the defects in the construction to conform to BP 344.
>
> As SRI's approval of PKA's amended plans in the construction was required, PKA transmitted the same to SRI which withheld approval thereof pending PKA's correction of the defects in the construction.
>
> Repeated requests for approval of its amended plans not having been heeded by SRI, PKA filed at the court a quo the action at bar for rescission of contract of lease against SRI, alleging that SRI's refusal to approve the plans without any justifiable reason deprived it of the use of the commercial stalls, thereby incurring losses.
>
> SRI, upon the other hand, claimed that it was PKA which violated the terms of their contract, alleging that PKA failed to complete within six months the construction of the commercial stalls during which period it was not paying any rentals and that PKA undertook the construction without first having its plans approved."[2] (Underscoring in the original.)

On January 7, 1991, the RTC rendered its decision, as follows:

> "WHEREFORE, judgment is hereby rendered:
>
> 1. Declaring the rescission and termination of the Contract of Lease, as amended, and the passing in ownership of all the improvements now existing on the premises, and ordering plaintiff to surrender possession of the leased premises to the defendant.
>
> 2. Ordering plaintiff to pay to the defendant the following sums of money:
>
> (a) P1,750,000.00 as of April 30, 1990, plus monthly rental of P200,000 per month starting in May, 1990, until plaintiff shall turn over possession of the premises to the defendant, with interest at 1% per month until fully paid;
>
> (b) Moral damages in the amount of P100,000.00;
>
> (c) Exemplary damages in the amount of P100,000.00; and
>
> (d) Attorney's fees in the amount of P150,000.00; and
>
> (e) The cost of suit."[3]

PKA appealed the RTC decision to the Court of Appeals. On October 2, 1992, the CA affirmed the RTC decision, decreeing as follows:

> "WHEREFORE, with MODIFICATIONS that the award of P100,000.00 for moral damages and P100,000.00 for exemplary damages is DELETED from the judgment appealed from, the rest thereof not inconsistent herewith is AFFIRMED. No costs."[4]

PKA's motion for reconsideration was denied by the CA in a resolution dated March 15, 1993. PKA then filed before this Court a petition for review on certiorari, which we denied in a resolution dated September 27, 1993. We likewise denied PKA's motion for reconsideration in a resolution dated January 17, 1994.

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A writ of execution was issued in due course by the RTC, which reads as follows:

> "NOW THEREFORE, you are hereby commanded to cause the execution of the aforesaid decision, ordering the plaintiff and all persons claiming under it to surrender possession of the premises to the defendant, and that of the goods and chattels of the plaintiff you cause to be made the sum of P1,750,000.00 plus monthly rental of P200,000.00 starting in May, 1990 until plaintiff shall turn over possession of the premises to defendant with interest of 1% per month until fully paid, and the further sum of P150,000.00 as attorney's fees, and the cost of suit, together with your lawful fees for service of this execution all in Philippine currency, and that you tender the same to defendant Susana Realty, Inc. aside from your own fees on this execution and to likewise return this writ to this Court within sixty (60) days from receipt hereof with your proceedings endorsed thereon.
>
> But if sufficient personal property of the plaintiff cannot be found whereof to satisfy the amount of said judgment, you are hereby directed to levy the real property of the said plaintiff and to sell the same or so much thereof in the manner provided for by law for the satisfaction of the said judgment."[5]

Possession of the subject properties was subsequently restored to SRI, but the monetary award was left unsatisfied. Thus, on November 14, 1994, SRI filed a motion for issuance of an alias writ against herein petitioners, based on the trial court's observation that PKA and Phoenix-Omega are one and the same entity. This was granted by the RTC in an order[6] dated November 29, 1994, which reads:

> "WHEREFORE, as prayed for by the defendant-judgment creditor Susana Realty, Inc., let an alias writ of execution issue against the properties, both real and personal, of PKA Development and Management Corporation, of Phoenix-Omega Development Corporation, and of Luisito B. Padilla, for the enforcement of the decision dated January 7, 1991, promulgated by this Court, the same be implemented by deputy sheriff Edilberto A. Santiago." (Underscoring by petitioners.)

The RTC issued an alias writ on the same day pursuant to the above order:

> "NOW THEREFORE, you are hereby commanded to cause the execution of the aforesaid decision and that of the goods and chattels of the plaintiff, PKA Development and Management Corporation, Phoenix-Omega, caused to be made the sum of P1,750,000.00 plus monthly rentals of P200,000.00 starting in May, 1990 with interest of 1% per month, until fully paid, and the further sum of P150,000.00 as attorney's fees; P100,000.00 moral damages and the cost of suit, together with your lawful fees for service of this execution all in Philippine currency, and that you tender the same to the defendant SUSANA REALTY, INC., aside from your own fees on this execution and to likewise return this writ to this Court within 60 days from receipt hereof with your proceeding indorsed thereon.
>
> But if sufficient personal properties of the plaintiff cannot be found whereof to satisfy the amount of said judgment, you are directed to levy the real property of the plaintiff, PKA Development and Management Corporation, Phoenix-Omega Development and Management Corporation and Luisito B. Padilla and to sell the same or so much thereof in the manner provided for by law for the satisfaction of the said judgment."[7]

Alleging that the writ of execution cannot be enforced against them, herein petitioners filed with the RTC on December 15, 1994, an omnibus motion for the reconsideration of the order of November 29, 1994, and for annulment of the alias writ of the same date and cancellation of the notice of levy and sale dated December 16, 1994. Petitioners assailed these orders as confiscatory, since they were never parties to the case filed by PKA against SRI, and they were unable to present evidence on their behalf. The motion was denied on February 10, 1995.

Subsequently, on March 8, 1995, petitioners filed with the Court of Appeals a petition for certiorari and prohibition under Rule 65 of the Rules of Court. This petition was also denied; so was petitioners' motion for reconsideration of said denial.

The Court of Appeals agreed with the RTC's finding that there is evidence on record to support the RTC's conclusion that PKA and Phoenix-Omega are one and the same, or that the former is a mere conduit of the latter. It pointed out that petitioner Padilla is both president and general manager of PKA and at the same time chairman of the board of directors and controlling stockholder of Phoenix-Omega. PKA and Phoenix-Omega also shared officers, laborers, and offices.

While aware that the dispositive portion of the RTC decision holds only PKA liable to SRI, the Court of Appeals pointed out that the intent of the RTC was clearly to hold PKA, Phoenix-Omega, and Padilla liable, as shown in the body of the RTC decision. The rule that the dispositive portion of a decision is the subject of execution only applies where the disposition is clear and unequivocal, according to the CA, unlike in this case where there is uncertainty and ambiguity. The body of the decision may be consulted to construe the judgment in this case.

On the claim that Phoenix-Omega and Padilla were not parties to the case, the CA ruled that

"a person not so impleaded to an action is deemed to be a party to a suit when he has the right to control the proceedings, to make defense, to adduce and cross examine witnesses, and to appeal from a decision (67 C.J.S. 887 cited in Albert v. University Publishing Co., 13 SCRA 84). That petitioner Padilla is in reality the one who had and duly exercised these rights is glaringly borne by the records."[8]

Hence, this petition for review, in which petitioners allege that the CA erred:

> - ...IN RENDERING THE DECISION AND RESOLUTION IN QUESTION... IN DEFIANCE OF LAW AND JURISPRUDENCE BY SUSTAINING THE TRIAL COURT'S ORDER AND WRIT BOTH DATED NOVEMBER 29, 1994... FINDING PETITIONERS JOINTLY AND SEVERALLY LIABLE WITH PKA, THEREBY AUTHORIZING THE EXECUTION OF THE DECISION... AGAINST THEIR PROPERTIES, DESPITE THE ADMITTED FACT THAT --
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> - PETITIONERS WERE NEVER IMPLEADED AS PARTIES IN THE CASE BEFORE THE TRIAL COURT (CIVIL CASE NO. 7302), THEREBY CONFIRMING THE OPPRESSIVE AND CONFISCATORY NATURE OF THE ORDER AND WRIT (ANNEXES N AND O);
>
> - PETITIONERS COULD NOT AND DID NOT HAVE ANY OPPORTUNITY TO ADDUCE EVIDENCE TO REFUTE THE CAUSES OF ACTIONS ALLEGED IN RESPONDENT SRI'S COMPLAINT BEFORE THE TRIAL COURT (CIVIL CASE NO. 7302) THUS VIOLATING THEIR RIGHT TO DUE PROCESS OF LAW.
>
> - ...IN CONCLUSIONS REACHED IN THE DECISION AND RESOLUTION IN QUESTION... BY AFFIRMING THE ORDER AND WRIT... AS ISSUED BY THE TRIAL COURT IN CIVIL CASE NO. 7302 WHICH EXPANDED THE SCOPE OF THE WRIT HOLDING PETITIONERS SOLIDARILY LIABLE WITH PKA NOTWITHSTANDING THAT THIS FINDING WAS NOT CONTAINED IN THE DISPOSITIVE PORTION OF THE DECISION..., IN DEFIANCE OF LAW AND JURISPRUDENCE ON THE MATTER.
>
> - ...IN APPLYING THE DOCTRINE OF PIERCING THE VEIL OF CORPORATE FICTION TO THE CASE AT BAR DESPITE THE FACT THAT THE GROUNDS FOR ITS APPLICATION UNDER CASE LAW HAVE NOT BEEN SHOWN, THEREBY ABROGATING PRONOUNCEMENTS OF THIS HONORABLE COURT IN NUMEROUS DECISIONS ON THE SUBJECT.
>
> - ...IN AFFIRMING THE ORDER AND WRIT... OF THE TRIAL COURT NOTWITHSTANDING THE ABSENCE OF ANY MISTAKE, OMISSION OR AMBIGUITY IN THE JANUARY 9, 1991 DECISION IN THE MAIN CASE... AS WOULD HAVE JUSTIFIED ITS MODIFICATION PURSUANT TO EXTANT JURISPRUDENCE ON THE MATTER.[9]

Petitioners stress that the RTC, the CA, and this Court, in the main case (Civil Case No. 7302), did not find them solidarily liable with PKA, and rightly so since PKA and Phoenix-Omega are two different entities. Phoenix-Omega's only participation in the properties subject of the main case was as the construction company that would develop the properties on behalf of PKA. Phoenix-Omega was involved in the amended lease agreement between SRI and PKA only to the extent that it had to apply the terms of the tripartite agreement (among LRTA, SRI, and Phoenix-Omega) to the development of the LRTA-owned property situated in front of the lots leased to PKA by SRI.[10] Petitioners argue that the amended lease contract was, in reality, only between SRI and PKA.

Petitioners protest the piercing of the veil of corporate fiction between themselves and PKA. They contend, citing Filmerco Commercial Co., Inc. v. IAC, No. L-70661, 149 SCRA 193 (1987), that the court must first acquire jurisdiction over the corporation attempting to misuse the corporate vehicle to shield the commission of a fraud.

Petitioners contend that the finding by the trial court as regards the single personality of PKA and Phoenix-Omega was made only to refute PKA's claim that it was not liable for constructions made by Phoenix-Omega outside the leased areas.

On the other hand, private respondent argues that there is no error in the issuance of the alias writ of execution against the properties of petitioners since the trial court, the CA, and this Court had all ruled that petitioners and PKA are in reality one and the same entity. This is the reason why, when the first writ of execution was returned unsatisfied, SRI moved for the issuance of an alias writ of execution not only against the properties of PKA but those of petitioners as well. There is no violation of petitioners' right to due process since petitioner Padilla actively participated in the proceedings before the RTC as the responsible officer of both PKA and Phoenix-Omega.

Private respondent also contends that the CA ruled on the necessity of construing the dispositive portion of the judgment along with its text, which petitioners allegedly accepted by not discussing the issue in their pleadings.

To our mind, the main issue for our consideration is whether or not the trial court had jurisdiction over petitioners, to justify the issuance of an alias writ of execution against their properties.

A court acquires jurisdiction over a person through either a valid service of summons or the person's voluntary appearance in court.[11] A court must necessarily have jurisdiction over a party for the latter to be bound by a court decision.

> "Generally accepted is the principle that no man shall be affected by any proceeding to which he is a stranger, and strangers to a case are not bound by judgment rendered by the court. xxx"[12]

In the present case, we note that the trial court never acquired jurisdiction over petitioners through any of the modes mentioned above. Neither of the petitioners was even impleaded as a party to the case.[13]

Without the trial court having acquired jurisdiction over petitioners, the latter could not be bound by the decision of the court. Execution can only be issued against a party and not against one who was not accorded his day in court.[14] To levy upon their properties to satisfy a judgment in a case in which they were not even parties is not only inappropriate; it most certainly is deprivation of property without due process of law.[15] This we cannot allow.

The courts a quo ruled that petitioner Padilla, in particular, had his day in court. As general manager of PKA, he actively participated in the case in the trial court. He "ha(d) the right to control the proceedings, to make defense, to adduce and cross examine witnesses, and to appeal from a decision."[16] Therefore, Padilla and Phoenix-Omega, of which Padilla is chairman of the board, could not now argue that they did not have the

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opportunity to present their case in court, according to private respondent.

To begin with, it is clear that Padilla participated in the proceedings below as general manager of PKA and not in any other capacity. The fact that at the same time he was the chairman of the board of Phoenix-Omega cannot, by any stretch of reasoning, equate to participation by Phoenix-Omega in the same proceedings. We again stress that Phoenix-Omega was not a party to the case and so could not have taken part therein.

Private respondent, however, insists that the trial court had pierced the veil of corporate fiction protecting petitioners, and this justifies execution against their properties.

The general rule is that a corporation is clothed with a personality separate and distinct from the persons composing it. It may not be held liable for the obligations of the persons composing it, and neither can its stockholders be held liable for its obligations.[17]

This veil of corporate fiction may only be disregarded in cases where the corporate vehicle is being used to defeat public convenience, justify wrong, protect fraud, or defend crime.[18] PKA and Phoenix-Omega are admittedly sister companies, and may be sharing personnel and resources, but we find in the present case no allegation, much less positive proof, that their separate corporate personalities are being used to defeat public convenience, justify wrong, protect fraud, or defend crime. "For the separate juridical personality of a corporation to be disregarded, the wrongdoing must be clearly and convincingly established. It cannot be presumed."[19] We find no reason to justify piercing the corporate veil in this instance.

We understand private respondent's frustration at not being able to have the monetary award in their favor satisfied. But given the circumstances of this case, public respondent cannot order the seizure of petitioners' properties without violating their constitutionally enshrined right to due process, merely to compensate private respondent.

WHEREFORE, the instant petition is GRANTED. The assailed decision and resolution of the Court of Appeals in CA-G.R. SP No. 36685 are SET ASIDE, and the order of the trial court dated November 29, 1994 and the alias writ of execution issued on the same date in connection with Civil Case No. 7302, are declared NULL and VOID.

Costs against private respondent.

SO ORDERED.

Bellosillo, (Chairman), Mendoza, Buena, and De Leon, Jr., JJ., concur.

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[1] Rollo, p. 104.

[2] Id. at 33-35.

[3] Id. at 102-103.

[4] Id. at 139-140.

[5] Id. at 144.

[6] Id. at 145-149.

[7] Id. at 151.

[8] Id. at 43.

[9] Id. at 18-19.

[10] Id. at 82.

[11] Hemedes v. Court of Appeals, G.R. Nos. 107132 & 108472, 316 SCRA 347, 374-375 (1999).

[12] Matuguina Integrated Wood Products, Inc. v. Court of Appeals, G.R. No. 98310, 263 SCRA 490, 505 (1996).

[13] Rollo, pp. 43, 85.

[14] Ibid.

[15]Legarda v. Court of Appeals, G.R. No. 94457, 280 SCRA 642, 656 (1997).

[16] Rollo, p. 43.

[17] Asionics Philippines, Inc. v. NLRC, G.R. No. 124950, 290 SCRA 164, 171 (1998), citing Santos v. NLRC, G.R. No. 101699, 254 SCRA 673 (1996).

[18] Koppel (Phil.), Inc. v. Yatco, G.R. No. 47673, 77 Phil 496, 505 (1946).

[19] Matuguina Integrated Wood Products, Inc. v. Court of Appeals, G.R. No. 98310, 263 SCRA 490, 509 (1996).

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