

DONNINA C. HALLEY, PETITIONER, VS. PRINTWELL, INC., RESPONDENT.

G.R. No. 157549. May 30, 2011

Ponente: BERSAMIN, J.

Read online (full-text search, related cases, audio case brief): <https://batas.org/library/g-r-no-157549/>

BERSAMIN, J.:

Stockholders of a corporation are liable for the debts of the corporation up to the extent of their unpaid subscriptions. They cannot invoke the veil of corporate identity as a shield from liability, because the veil may be lifted to avoid defrauding corporate creditors.

We affirm with modification the decision promulgated on August 14, 2002,[1] whereby the Court of Appeals (CA) upheld the decision of the Regional Trial Court, Branch 71, in Pasig City (RTC),[2] ordering the defendants (including the petitioner) to pay to Printwell, Inc. (Printwell) the principal sum of P291,342.76 plus interest.

Antecedents

The petitioner was an incorporator and original director of Business Media Philippines, Inc. (BMPI), which, at its incorporation on November 12, 1987,[3] had an authorized capital stock of P3,000,000.00 divided into 300,000 shares each with a par value of P10.00, of which 75,000 were initially subscribed, to wit:

Subscriber

No. of shares

Total subscription

Amount paid

Donnina C. Halley

35,000 P 350,000.00 P87,500.00

Roberto V. Cabrera, Jr.

18,000 P 180,000.00 P45,000.00

Albert T. Yu

18,000 P 180,000.00 P45,000.00

Zenaida V. Yu

2,000 P 20,000.00 P5,000.00

Rizalino C. Vineza

2,000 P 20,000.00 P5,000.00

TOTAL

75,000 P750,000.00 P187,500.00

Printwell engaged in commercial and industrial printing. BMPI commissioned Printwell for the printing of the magazine Philippines, Inc. (together with wrappers and subscription cards) that BMPI published and sold. For that purpose, Printwell extended 30-day credit accommodations to BMPI.

In the period from October 11, 1988 until July 12, 1989, BMPI placed with Printwell several orders on credit, evidenced by invoices and delivery receipts totaling P316,342.76. Considering that BMPI paid only P25,000.00, Printwell sued BMPI on January 26, 1990 for the collection of the unpaid balance of P291,342.76 in the RTC.[4]

On February 8, 1990, Printwell amended the complaint in order to implead as defendants all the original stockholders and incorporators to recover on their unpaid subscriptions, as follows:[5]

Name

Unpaid Shares

Donnina C. Halley

P 262,500.00

Roberto V. Cabrera, Jr.

P135,000.00

Albert T. Yu

P135,000.00

Zenaida V. Yu

P15,000.00

Rizalino C. Viñeza

P15,000.00

TOTAL

P 562,500.00

The defendants filed a consolidated answer,[6] averring that they all had paid their subscriptions in full; that BMPI had a separate personality from those of its stockholders; that Rizalino C. Viñeza had assigned his fully-paid up shares to a certain Gerardo R. Jacinto in 1989; and that the directors and stockholders of BMPI had resolved to dissolve BMPI during the annual meeting held on February 5, 1990.

To prove payment of their subscriptions, the defendant stockholders submitted in evidence BMPI official receipt (OR) no. 217, OR no. 218, OR no. 220, OR no. 221, OR no. 222, OR no. 223, and OR no. 227, to wit:

Receipt No.

Date

Name

Amount

217

November 5, 1987

Albert T. Yu

P 45,000.00

218

May 13, 1988

Albert T. Yu

P 135,000.00

220

May 13, 1988

Roberto V. Cabrera, Jr.

P 135,000.00

221

November 5, 1987

Roberto V. Cabrera, Jr.

P 45,000.00

222

November 5, 1987

Zenaida V. Yu

P 5,000.00

223

May 13, 1988

Zenaida V. Yu

P 15,000.00

227

May 13, 1988

Donnina C. Halley

P 262,500.00

In addition, the stockholders submitted other documents in evidence, namely: (a) an audit report dated March 30, 1989 prepared by Ilagan, Cepillo & Associates (submitted to the SEC and the BIR);[7](b) BMPI balance sheet[8] and income statement[9]as of December 31, 1988; (c) BMPI income tax return for the year 1988 (stamped "received" by the BIR);[10] (d) journal vouchers;[11] (e) cash deposit slips;[12] and (f) Bank of the Philippine Islands (BPI) savings account passbook in the name of BMPI.[13]

Ruling of the RTC

On November 3, 1993, the RTC rendered a decision in favor of Printwell, rejecting the allegation of payment in full of the subscriptions in view of an irregularity in the issuance of the ORs and observing that the defendants had used BMPI's corporate personality to evade payment and create injustice, viz:

The claim of individual defendants that they have fully paid their subscriptions to defend[a]nt corporation, is not worthy of consideration, because: --

a)

in the case of defendants-spouses Albert and Zenaida Yu, it will be noted that the alleged payment made on May 13, 1988 amounting to P135,000.00, is covered by Official Receipt No. 218 (Exh. "2"), whereas the alleged payment made earlier on November 5, 1987, amounting to P5,000.00, is covered by Official Receipt No. 222 (Exh. "3"). This is cogent proof that said receipts were belatedly issued just to suit their theory since in the ordinary course of business, a receipt issued earlier must have serial numbers lower than those issued on a later date. But in the case at bar, the receipt issued on November 5, 1987 has serial numbers (222) higher than those issued on a later date (May 13, 1988).

b)

The claim that since there was no call by the Board of Directors of defendant corporation for the payment of unpaid subscriptions will not be a valid excuse to free individual defendants from liability. Since the individual defendants are members of the Board of Directors of defendant corporation, it was within their exclusive power to prevent the fulfillment of the condition, by simply not making a call for the payment of the unpaid subscriptions. Their inaction should not work to their benefit and unjust enrichment at the expense of plaintiff.

Assuming arguendo that the individual defendants have paid their unpaid subscriptions, still, it is very apparent that individual defendants merely used the corporate fiction as a cloak or cover to create an injustice; hence, the alleged separate personality of defendant corporation should be disregarded (Tan Boon Bee & Co., Inc. vs. Judge Jarencio, G.R. No. 41337, 30 June 1988).[14]

Applying the trust fund doctrine, the RTC declared the defendant stockholders liable to Printwell pro rata, thusly:

Defendant Business Media, Inc. is a registered corporation (Exhibits "A", "A-1" to "A-9"), and, as appearing from the Articles of Incorporation, individual defendants have the following unpaid subscriptions:

Names

Unpaid Subscription

Donnina C. Halley

P262,500.00

Roberto V. Cabrera, Jr.

135,000.00

Albert T. Yu

135,000.00

Zenaida V. Yu

15,000.00

Rizalino V. Vineza

15,000.00

Total

P562,500.00

and it is an established doctrine that subscriptions to the capital stock of a corporation constitute a fund to which creditors have a right to look for satisfaction of their claims (Philippine National Bank vs. Bitulok Sawmill, Inc., 23 SCRA 1366) and, in fact, a corporation has no legal capacity to release a subscriber to its capital stock from the obligation to pay for his shares, and any agreement to this effect is invalid (Velasco vs. Poizat, 37 Phil. 802).

The liability of the individual stockholders in the instant case shall be pro-rated as follows:

Names

Amount

Donnina C. Halley

P149,955.65

Roberto V. Cabrera, Jr.

77,144.55

Albert T. Yu

77,144.55

Zenaida V. Yu

8,579.00

Rizalino V. Vineza

8,579.00

Total P321,342.75[15]

The RTC disposed as follows:

WHEREFORE, judgment is hereby rendered in favor of plaintiff and against defendants, ordering defendants to pay to plaintiff the amount of P291,342.76, as principal, with interest thereon at 20% per annum, from date of default, until fully paid, plus P30,000.00 as attorney's fees, plus costs of suit.

Defendants' counterclaims are ordered dismissed for lack of merit.

SO ORDERED.[16]

Ruling of the CA

All the defendants, except BMPI, appealed.

Spouses Donnina and Simon Halley, and RizalinoViñeza defined the following errors committed by the RTC, as follows:

I.

THE TRIAL COURT ERRED IN HOLDING APPELLANTS-STOCKHOLDERS LIABLE FOR THE LIABILITIES OF THE DEFENDANT CORPORATION.

II.

ASSUMING ARGUENDO THAT APPELLANTS MAY BE LIABLE TO THE EXTENT OF THEIR UNPAID SUBSCRIPTION OF SHARES OF STOCK, IF ANY, THE TRIAL COURT NONETHELESS ERRED IN NOT FINDING THAT APPELLANTS-STOCKHOLDERS HAVE, AT THE TIME THE SUIT WAS FILED, NO SUCH UNPAID SUBSCRIPTIONS.

On their part, Spouses Albert and Zenaida Yu averred:

I.

THE RTC ERRED IN REFUSING TO GIVE CREDENCE AND WEIGHT TO DEFENDANTS-APPELLANTS SPOUSES ALBERT AND ZENAIDA YU'S EXHIBITS 2 AND 3 DESPITE THE UNREBUTTED TESTIMONY THEREON BY APPELLANT ALBERT YU AND THE ABSENCE OF PROOF CONTROVERTING THEM.

II.

THE RTC ERRED IN HOLDING DEFENDANTS-APPELLANTS SPOUSES ALBERT AND ZENAIDA YU PERSONALLY LIABLE FOR THE CONTRACTUAL OBLIGATION OF BUSINESS MEDIA PHILS., INC. DESPITE FULL PAYMENT BY SAID DEFENDANTS-APPELLANTS OF THEIR RESPECTIVE SUBSCRIPTIONS TO THE CAPITAL STOCK OF BUSINESS MEDIA PHILS., INC.

Roberto V. Cabrera, Jr. argued:

I.

IT IS GRAVE ERROR ON THE PART OF THE COURT A QUO TO APPLY THE DOCTRINE OF PIERCING THE VEIL OF CORPORATE PERSONALITY IN ABSENCE OF ANY SHOWING OF EXTRA-ORDINARY CIRCUMSTANCES THAT WOULD JUSTIFY RESORT THERETO.

II.

IT IS GRAVE ERROR ON THE PART OF THE COURT A QUO TO RULE THAT INDIVIDUAL DEFENDANTS ARE LIABLE TO PAY THE PLAINTIFF-APPELLEE'S CLAIM BASED ON THEIR RESPECTIVE SUBSCRIPTION. NOTWITHSTANDING OVERWHELMING EVIDENCE SHOWING FULL SETTLEMENT OF SUBSCRIBED CAPITAL BY THE INDIVIDUAL DEFENDANTS.

On August 14, 2002, the CA affirmed the RTC, holding that the defendants' resort to the corporate personality would create an injustice because Printwell would thereby be at a loss against whom it would assert the right to collect, viz:

Settled is the rule that when the veil of corporate fiction is used as a means of perpetrating fraud or an illegal act or as a vehicle for the evasion of an existing obligation, the circumvention of statutes, the achievements or perfection of monopoly or generally the perpetration of knavery or crime, the veil with which the law covers and isolates the corporation from the members or stockholders who compose it will be lifted to allow for its consideration merely as an aggregation of individuals (First Philippine International Bank vs. Court of Appeals, 252 SCRA 259). Moreover, under this doctrine, the corporate existence may be disregarded where the entity is formed or used for non-legitimate purposes, such as to evade a just and due obligations or to justify wrong (Claparols vs. CIR, 65 SCRA 613).

In the case at bench, it is undisputed that BMPI made several orders on credit from appellee PRINTWELL involving the printing of business magazines, wrappers and subscription cards, in the total amount of P291,342.76 (Record pp. 3-5, Annex "A") which facts were never denied by appellants' stockholders that they owe appellee the amount of P291,342.76. The said goods were delivered to and received by BMPI but it failed to pay its overdue account to appellee as well as the interest thereon, at the rate of 20% per annum until fully paid. It was also during this time that appellants stockholders were in charge of the operation of BMPI despite the fact that they were not able to pay their unpaid subscriptions to BMPI yet greatly benefited from said transactions. In view of the unpaid subscriptions, BMPI failed to pay appellee of its liability, hence appellee in order to protect its right can collect from the appellants' stockholders regarding their unpaid subscriptions. To deny appellee from recovering from appellants would place appellee in a limbo on where to assert their right to collect from BMPI since the stockholders who are appellants herein are availing the defense of corporate fiction to evade payment of its obligations.[17]

Further, the CA concurred with the RTC on the applicability of the trust fund doctrine, under which corporate debtors might look to the unpaid subscriptions for the satisfaction of unpaid corporate debts, stating thus:

It is an established doctrine that subscription to the capital stock of a corporation constitute a fund to which creditors have a right to look up to for satisfaction of their claims, and that the assignee in insolvency can maintain an action upon any unpaid stock subscription in order to realize assets for the payment of its debts (PNB vs. Bitulok Sawmill, 23 SCRA 1366).

Premised on the above-doctrine, an inference could be made that the funds, which consists of the payment of subscriptions of the stockholders, is where the creditors can claim monetary considerations for the satisfaction of their claims. If these funds which ought to be fully subscribed by the stockholders were not paid or remain an unpaid subscription of the corporation then the creditors have no other recourse to collect from the corporation of its liability. Such occurrence was evident in the case at bar wherein the appellants as stockholders failed to fully pay their unpaid subscriptions, which left the creditors helpless in collecting their claim due to insufficiency of funds of the corporation. Likewise, the claim of appellants that they already paid the unpaid subscriptions could not be given weight because said payment did not reflect in the Articles of Incorporations of BMPI that the unpaid subscriptions were fully paid by the appellants' stockholders. For it is a rule that a stockholder may be sued directly by creditors to the extent of their unpaid subscriptions to the corporation (Keller vs. COB Marketing, 141 SCRA 86).

Moreover, a corporation has no power to release a subscription or its capital stock, without valuable

consideration for such releases, and as against creditors, a reduction of the capital stock can take place only in the manner and under the conditions prescribed by the statute or the charter or the Articles of Incorporation. (PNB vs. Bitulok Sawmill, 23 SCRA 1366).[18]

The CA declared that the inconsistency in the issuance of the ORs rendered the claim of full payment of the subscriptions to the capital stock unworthy of consideration; and held that the veil of corporate fiction could be pierced when it was used as a shield to perpetrate a fraud or to confuse legitimate issues, to wit:

Finally, appellants SPS YU, argued that the fact of full payment for the unpaid subscriptions was incontrovertibly established by competent testimonial and documentary evidence, namely - Exhibits "1", "2", "3" & "4", which were never disputed by appellee, clearly shows that they should not be held liable for payment of the said unpaid subscriptions of BMPI.

The reliance is misplaced.

We are hereby reproducing the contents of the above-mentioned exhibits, to wit:

Exh: "1" - YU - Official Receipt No. 217 dated November 5, 1987 amounting to P45,000.00 allegedly representing the initial payment of subscriptions of stockholder Albert Yu.

Exh: "2" - YU - Official Receipt No. 218 dated May 13, 1988 amounting to P135,000.00 allegedly representing full payment of balance of subscriptions of stockholder Albert Yu. (Record p. 352).

Exh: "3" - YU - Official Receipt No. 222 dated November 5, 1987 amounting to P5,000.00 allegedly representing the initial payment of subscriptions of stockholder Zenaida Yu.

Exh: "4" - YU - Official Receipt No. 223 dated May 13, 1988 amounting to P15,000.00 allegedly representing the full payment of balance of subscriptions of stockholder Zenaida Yu. (Record p. 353).

Based on the above exhibits, we are in accord with the lower court's findings that the claim of the individual appellants that they fully paid their subscription to the defendant BMPI is not worthy of consideration, because, in the case of appellants SPS. YU, there is an inconsistency regarding the issuance of the official receipt since the alleged payment made on May 13, 1988 amounting to P135,000.00 was covered by Official Receipt No. 218 (Record, p. 352), whereas the alleged payment made earlier on November 5, 1987 amounting to P5,000.00 is covered by Official Receipt No. 222 (Record, p. 353). Such issuance is a clear indication that said receipts were belatedly issued just to suit their claim that they have fully paid the unpaid subscriptions since in the ordinary course of business, a receipt is issued earlier must have serial numbers lower than those issued on a later date. But in the case at bar, the receipt issued on November 5, 1987 had a serial number (222) higher than those issued on May 13, 1988 (218). And even assuming *arguendo* that the individual appellants have paid their unpaid subscriptions, still, it is very apparent that the veil of corporate fiction may be pierced when made as a shield to perpetuate fraud and/or confuse legitimate issues. (Jacinto vs. Court of Appeals, 198 SCRA 211).[19]

Spouses Halley and Viñeza moved for a reconsideration, but the CA denied their motion for reconsideration.

Issues

Only Donnina Halley has come to the Court to seek a further review, positing the following for our consideration and resolution, to wit:

I.

THE COURT OF APPEALS ERRED IN AFFIRMING IN TOTO THE DECISION THAT DID NOT STATE THE FACTS AND THE LAW UPON WHICH THE JUDGMENT WAS BASED BUT MERELY COPIED THE CONTENTS OF RESPONDENT'S MEMORANDUM ADOPTING THE SAME AS THE REASON

FOR THE DECISION

II.

THE COURT OF APPEALS ERRED IN AFFIRMING THE DECISION OF THE REGIONAL TRIAL COURT WHICH ESSENTIALLY ALLOWED THE PIERCING OF THE VEIL OF CORPORATE FICTION

III.

THE HONORABLE COURT OF APPEALS ERRED IN APPLYING THE TRUST FUND DOCTRINE WHEN THE GROUNDS THEREFOR HAVE NOT BEEN SATISFIED.

On the first error, the petitioner contends that the RTC lifted verbatim from the memorandum of Printwell; and submits that the RTC thereby violated the requirement imposed in Section 14, Article VIII of the Constitution[20] as well as in Section 1, Rule 36 of the Rules of Court,[21]to the effect that a judgment or final order of a court should state clearly and distinctly the facts and the law on which it is based. The petitioner claims that the RTC's violation indicated that the RTC did not analyze the case before rendering its decision, thus denying her the opportunity to analyze the decision; and that a suspicion of partiality arose from the fact that the RTC decision was but a replica of Printwell's memorandum. She cites *Francisco v. Permskul*,[22] in which the Court has stated that the reason underlying the constitutional requirement, that every decision should clearly and distinctly state the facts and the law on which it is based, is to inform the reader of how the court has reached its decision and thereby give the losing party an opportunity to study and analyze the decision and enable such party to appropriately assign the errors committed therein on appeal.

On the second and third errors, the petitioner maintains that the CA and the RTC erroneously pierced the veil of corporate fiction despite the absence of cogent proof showing that she, as stockholder of BMPI, had any hand in transacting with Printwell; that the CA and the RTC failed to appreciate the evidence that she had fully paid her subscriptions; and the CA and the RTC wrongly relied on the articles of incorporation in determining the current list of unpaid subscriptions despite the articles of incorporation being at best reflective only of the pre-incorporation status of BMPI.

As her submissions indicate, the petitioner assails the decisions of the CA on: (a) the propriety of disregarding the separate personalities of BMPI and its stockholders by piercing the thin veil that separated them; and (b) the application of the trust fund doctrine.

Ruling

The petition for review fails.

I

The RTC did not violate
the Constitution and the Rules of Court

The contention of the petitioner, that the RTC merely copied the memorandum of Printwell in writing its decision, and did not analyze the records on its own, thereby manifesting a bias in favor of Printwell, is unfounded.

It is noted that the petition for review merely generally alleges that starting from its page 5, the decision of the RTC "copied verbatim the allegations of herein Respondents in its Memorandum before the said court," as if "the Memorandum was the draft of the Decision of the Regional Trial Court of Pasig,"[23]but fails to specify either the portions allegedly lifted verbatim from the memorandum, or why she regards the decision as copied. The omission renders the petition for review insufficient to support her contention, considering that the mere similarity in language or thought between Print well's memorandum and the trial court's decision did not necessarily justify

the conclusion that the RTC simply lifted verbatim or copied from the memorandum.

It is to be observed in this connection that a trial or appellate judge may occasionally view a party's memorandum or brief as worthy of due consideration either entirely or partly. When he does so, the judge may adopt and incorporate in his adjudication the memorandum or the parts of it he deems suitable, and yet not be guilty of the accusation of lifting or copying from the memorandum.[24] This is because of the avowed objective of the memorandum to contribute in the proper illumination and correct determination of the controversy. Nor is there anything untoward in the congruence of ideas and views about the legal issues between himself and the party drafting the memorandum. The frequency of similarities in argumentation, phraseology, expression, and citation of authorities between the decisions of the courts and the memoranda of the parties, which may be great or small, can be fairly attributable to the adherence by our courts of law and the legal profession to widely known nor universally accepted precedents set in earlier judicial actions with identical factual milieus or posing related judicial dilemmas.

We also do not agree with the petitioner that the RTC's manner of writing the decision deprived her of the opportunity to analyze its decision as to be able to assign errors on appeal. The contrary appears, considering that she was able to impute and assign errors to the RTC that she extensively discussed in her appeal in the CA, indicating her thorough analysis of the decision of the RTC.

Our own reading of the trial court's decision persuasively shows that the RTC did comply with the requirements regarding the content and the manner of writing a decision prescribed in the Constitution and the Rules of Court. The decision of the RTC contained clear and distinct findings of facts, and stated the applicable law and jurisprudence, fully explaining why the defendants were being held liable to the plaintiff. In short, the reader was at once informed of the factual and legal reasons for the ultimate result.

II

Corporate personality not to be used to foster injustice

Printwell impleaded the petitioner and the other stockholders of BMPI for two reasons, namely: (a) to reach the unpaid subscriptions because it appeared that such subscriptions were the remaining visible assets of BMPI; and (b) to avoid multiplicity of suits.[25]

The petitioner submits that she had no participation in the transaction between BMPI and Printwell; that BMPI acted on its own; and that she had no hand in persuading BMPI to renege on its obligation to pay. Hence, she should not be personally liable.

We rule against the petitioner's submission.

Although a corporation has a personality separate and distinct from those of its stockholders, directors, or officers,[26] such separate and distinct personality is merely a fiction created by law for the sake of convenience and to promote the ends of justice.[27] The corporate personality may be disregarded, and the individuals composing the corporation will be treated as individuals, if the corporate entity is being used as a cloak or cover for fraud or illegality; as a justification for a wrong; as an alter ego, an adjunct, or a business conduit for the sole benefit of the stockholders.[28] As a general rule, a corporation is looked upon as a legal entity, unless and until sufficient reason to the contrary appears. Thus, the courts always presume good faith, and for that reason accord prime importance to the separate personality of the corporation, disregarding the corporate personality only after the wrong doing is first clearly and convincingly established.[29] It thus behooves the courts to be careful in assessing the milieu where the piercing of the corporate veil shall be done.[30]

Although nowhere in Printwell's amended complaint or in the testimonies Printwell offered can it be read or

inferred from that the petitioner was instrumental in persuading BMPI to renege on its obligation to pay; or that she induced Printwell to extend the credit accommodation by misrepresenting the solvency of BMPI to Printwell, her personal liability, together with that of her co-defendants, remained because the CA found her and the other defendant stockholders to be in charge of the operations of BMPI at the time the unpaid obligation was transacted and incurred, to wit:

In the case at bench, it is undisputed that BMPI made several orders on credit from appellee PRINTWELL involving the printing of business magazines, wrappers and subscription cards, in the total amount of P291,342.76 (Record pp. 3-5, Annex "A") which facts were never denied by appellants' stockholders that they owe(d) appellee the amount of P291,342.76. The said goods were delivered to and received by BMPI but it failed to pay its overdue account to appellee as well as the interest thereon, at the rate of 20% per annum until fully paid. It was also during this time that appellants stockholders were in charge of the operation of BMPI despite the fact that they were not able to pay their unpaid subscriptions to BMPI yet greatly benefited from said transactions. In view of the unpaid subscriptions, BMPI failed to pay appellee of its liability, hence appellee in order to protect its right can collect from the appellants stockholders regarding their unpaid subscriptions. To deny appellee from recovering from appellants would place appellee in a limbo on where to assert their right to collect from BMPI since the stockholders who are appellants herein are availing the defense of corporate fiction to evade payment of its obligations.[31]

It follows, therefore, that whether or not the petitioner persuaded BMPI to renege on its obligations to pay, and whether or not she induced Printwell to transact with BMPI were not good defenses in the suit.

III

Unpaid creditor may satisfy its claim from unpaid subscriptions; stockholders must prove full payment of their subscriptions

Both the RTC and the CA applied the trust fund doctrine against the defendant stockholders, including the petitioner.

The petitioner argues, however, that the trust fund doctrine was inapplicable because she had already fully paid her subscriptions to the capital stock of BMPI. She thus insists that both lower courts erred in disregarding the evidence on the complete payment of the subscription, like receipts, income tax returns, and relevant financial statements.

The petitioner's argument is devoid of substance.

The trust fund doctrine enunciates a -

xxx rule that the property of a corporation is a trust fund for the payment of creditors, but such property can be called a trust fund 'only by way of analogy or metaphor.' As between the corporation itself and its creditors it is a simple debtor, and as between its creditors and stockholders its assets are in equity a fund for the payment of its debts.[32]

The trust fund doctrine, first enunciated in the American case of *Wood v. Dummer*,^[33] was adopted in our jurisdiction in *Philippine Trust Co. v. Rivera*,^[34] where this Court declared that:

It is established doctrine that subscriptions to the capital of a corporation constitute a fund to which creditors have a right to look for satisfaction of their claims and that the assignee in insolvency can maintain an action upon any unpaid stock subscription in order to realize assets for the payment of its debts. (*Velasco vs. Poizat*, 37 Phil., 802) xxx^[35]

We clarify that the trust fund doctrine is not limited to reaching the stockholder's unpaid subscriptions. The scope

of the doctrine when the corporation is insolvent encompasses not only the capital stock, but also other property and assets generally regarded in equity as a trust fund for the payment of corporate debts.[36] All assets and property belonging to the corporation held in trust for the benefit of creditors that were distributed or in the possession of the stockholders, regardless of full payment of their subscriptions, may be reached by the creditor in satisfaction of its claim.

Also, under the trust fund doctrine, a corporation has no legal capacity to release an original subscriber to its capital stock from the obligation of paying for his shares, in whole or in part,[37] without a valuable consideration,[38] or fraudulently, to the prejudice of creditors.[39] The creditor is allowed to maintain an action upon any unpaid subscriptions and thereby steps into the shoes of the corporation for the satisfaction of its debt.[40] To make out a prima facie case in a suit against stockholders of an insolvent corporation to compel them to contribute to the payment of its debts by making good unpaid balances upon their subscriptions, it is only necessary to establish that the stockholders have not in good faith paid the par value of the stocks of the corporation.[41]

The petitioner posits that the finding of irregularity attending the issuance of the receipts (ORs) issued to the other stockholders/subscribers should not affect her because her receipt did not suffer similar irregularity.

Notwithstanding that the RTC and the CA did not find any irregularity in the OR issued in her favor, we still cannot sustain the petitioner's defense of full payment of her subscription.

In civil cases, the party who pleads payment has the burden of proving it, that even where the plaintiff must allege nonpayment, the general rule is that the burden rests on the defendant to prove payment, rather than on the plaintiff to prove nonpayment. In other words, the debtor bears the burden of showing with legal certainty that the obligation has been discharged by payment.[42]

Apparently, the petitioner failed to discharge her burden.

A receipt is the written acknowledgment of the fact of payment in money or other settlement between the seller and the buyer of goods, the debtor or the creditor, or the person rendering services, and the client or the customer.[43] Although a receipt is the best evidence of the fact of payment, it is not conclusive, but merely presumptive; nor is it exclusive evidence, considering that parole evidence may also establish the fact of payment.[44]

The petitioner's OR No. 227, presented to prove the payment of the balance of her subscription, indicated that her supposed payment had been made by means of a check. Thus, to discharge the burden to prove payment of her subscription, she had to adduce evidence satisfactorily proving that her payment by check was regarded as payment under the law.

Payment is defined as the delivery of money.[45] Yet, because a check is not money and only substitutes for money, the delivery of a check does not operate as payment and does not discharge the obligation under a judgment.[46] The delivery of a bill of exchange only produces the fact of payment when the bill has been encashed.[47] The following passage from *Bank of Philippine Islands v. Royeca*[48] is enlightening:

Settled is the rule that payment must be made in legal tender. A check is not legal tender and, therefore, cannot constitute a valid tender of payment. Since a negotiable instrument is only a substitute for money and not money, the delivery of such an instrument does not, by itself, operate as payment. Mere delivery of checks does not discharge the obligation under a judgment. The obligation is not extinguished and remains suspended until the payment by commercial document is actually realized.

To establish their defense, the respondents therefore had to present proof, not only that they delivered the

checks to the petitioner, but also that the checks were encashed. The respondents failed to do so. Had the checks been actually encashed, the respondents could have easily produced the cancelled checks as evidence to prove the same. Instead, they merely averred that they believed in good faith that the checks were encashed because they were not notified of the dishonor of the checks and three years had already lapsed since they issued the checks.

Because of this failure of the respondents to present sufficient proof of payment, it was no longer necessary for the petitioner to prove non-payment, particularly proof that the checks were dishonored. The burden of evidence is shifted only if the party upon whom it is lodged was able to adduce preponderant evidence to prove its claim.

Ostensibly, therefore, the petitioner's mere submission of the receipt issued in exchange of the check did not satisfactorily establish her allegation of full payment of her subscription. Indeed, she could not even inform the trial court about the identity of her drawee bank,[49] and about whether the check was cleared and its amount paid to BMPI.[50] In fact, she did not present the check itself.

The income tax return (ITR) and statement of assets and liabilities of BMPI, albeit presented, had no bearing on the issue of payment of the subscription because they did not by themselves prove payment. ITRs establish a taxpayer's liability for taxes or a taxpayer's claim for refund. In the same manner, the deposit slips and entries in the passbook issued in the name of BMPI were hardly relevant due to their not reflecting the alleged payments.

It is notable, too, that the petitioner and her co-stockholders did not support their allegation of complete payment of their respective subscriptions with the stock and transfer book of BMPI. Indeed, books and records of a corporation (including the stock and transfer book) are admissible in evidence in favor of or against the corporation and its members to prove the corporate acts, its financial status and other matters (like the status of the stockholders), and are ordinarily the best evidence of corporate acts and proceedings.[51] Specifically, a stock and transfer book is necessary as a measure of precaution, expediency, and convenience because it provides the only certain and accurate method of establishing the various corporate acts and transactions and of showing the ownership of stock and like matters.[52] That she tendered no explanation why the stock and transfer book was not presented warrants the inference that the book did not reflect the actual payment of her subscription.

Nor did the petitioner present any certificate of stock issued by BMPI to her. Such a certificate covering her subscription might have been a reliable evidence of full payment of the subscriptions, considering that under Section 65 of the Corporation Code a certificate of stock issues only to a subscriber who has fully paid his subscription. The lack of any explanation for the absence of a stock certificate in her favor likewise warrants an unfavorable inference on the issue of payment.

Lastly, the petitioner maintains that both lower courts erred in relying on the articles of incorporation as proof of the liabilities of the stockholders subscribing to BMPI's stocks, averring that the articles of incorporation did not reflect the latest subscription status of BMPI.

Although the articles of incorporation may possibly reflect only the pre-incorporation status of a corporation, the lower courts' reliance on that document to determine whether the original subscribers already fully paid their subscriptions or not was neither unwarranted nor erroneous. As earlier explained, the burden of establishing the fact of full payment belonged not to Printwell even if it was the plaintiff, but to the stockholders like the petitioner who, as the defendants, averred full payment of their subscriptions as a defense. Their failure to substantiate their averment of full payment, as well as their failure to counter the reliance on the recitals found in the articles of incorporation simply meant their failure or inability to satisfactorily prove their defense of full payment of the subscriptions.

To reiterate, the petitioner was liable pursuant to the trust fund doctrine for the corporate obligation of BMPI by virtue of her subscription being still unpaid. Printwell, as BMPI's creditor, had a right to reach her unpaid subscription in satisfaction of its claim.

IV

Liability of stockholders for corporate debts is up to the extent of their unpaid subscription

The RTC declared the stockholders pro rata liable for the debt (based on the proportion to their shares in the capital stock of BMPI); and held the petitioner personally liable only in the amount of P149,955.65.

We do not agree. The RTC lacked the legal and factual support for its prorating the liability. Hence, we need to modify the extent of the petitioner's personal liability to Printwell. The prevailing rule is that a stockholder is personally liable for the financial obligations of the corporation to the extent of his unpaid subscription.[53] In view of the petitioner's unpaid subscription being worth P262,500.00, she was liable up to that amount.

Interest is also imposable on the unpaid obligation. Absent any stipulation, interest is fixed at 12% per annum from the date the amended complaint was filed on February 8, 1990 until the obligation (i.e., to the extent of the petitioner's personal liability of P262,500.00) is fully paid.[54]

Lastly, we find no basis to grant attorney's fees, the award for which must be supported by findings of fact and of law as provided under Article 2208 of the Civil Code[55] incorporated in the body of decision of the trial court. The absence of the requisite findings from the RTC decision warrants the deletion of the attorney's fees.

ACCORDINGLY, we deny the petition for review on certiorari; and affirm with modification the decision promulgated on August 14, 2002 by ordering the petitioner to pay to Printwell, Inc. the sum of P262,500.00, plus interest of 12% per annum to be computed from February 8, 1990 until full payment.

The petitioner shall pay cost of suit in this appeal.

SO ORDERED.

Carpio Morales, (Chairperson), Brion, Villarama, Jr., and Sereno, JJ., concur.

[1] Penned by Associate Justice Mercedes Gozo-Dadole, with Associate Justices Salvador J. Valdez, Jr. and Amelita G. Tolentino concurring, rollo, pp. 36-49.

[2] Entitled *Printwell, Inc. v. Business Media Phils., Inc., Donnina C. Halley and Simon Halley, Roberto V. Cabrera, Jr., Albert T. Yu, Zenaida V. Yu, and Rizalino C. Vineza*, rollo, pp. 222-230.

[3] *Id.*, p. 109.

[4] *Records*, pp. 6-7.

[5] *Id.*, pp. 12-16.

[6] *Id.*, pp. 25-28.

[7] *Id.*, p. 253.

[8] *Id.*, p. 254.

[9] *Id.*, p. 255.

[10] Id., pp. 256-259.

[11] Id., pp. 260-265.

[12] Id., pp. 266-272.

[13] Id., pp. 273-276.

[14] Id., pp. 369-370.

[15] Id., pp. 368-369.

[16] Records, p. 371.

[17] Rollo, p. 45.

[18] Id., pp. 46-47.

[19] Rollo, pp. 47-49.

[20] Section 14. No decision shall be rendered by any court without expressing therein clearly and distinctly the facts and the law on which it is based.

xxx

[21] Section 1. Rendition of judgments and final orders.--A judgment or final order determining the merits of the case shall be in writing personally and directly prepared by the judge, stating clearly and distinctly the facts and the law on which it is based, signed by him, and filed with the clerk of the court.

[22] G.R. No. 81006, May 12, 1989, 173 SCRA 324.

[23] Rollo, p. 23.

[24] See, for instance, *Bank of the Philippine Islands v. Leobrera*, G.R. No. 137147, January 29, 2002, 375 SCRA 81, 86 (where the Court declared that although it was not good practice, there was nothing illegal in the act of the trial court completely copying the memorandum submitted by a party provided that the decision clearly and distinctly stated sufficient findings of fact and the law on which it was based).

[25] Rollo, p. 55.

[26] Section 2, Corporation Code; Article 44 (3), Civil Code; *Francisco Motors Corporation v. Court of Appeals*, G.R. No. 100812, June 25, 1999, 309 SCRA 72, 82.

[27] *Prudential Bank v. Alviar*, G.R. No. 150197, July 28, 2005, 464 SCRA 353, 362; *Martinez v. Court of Appeals*, G.R. No. 131673, September 10, 2004, 438 SCRA 130, 149-150.

[28] *Light Rail Transit Authority v. Venus, Jr.*, G.R. No. 163782, March 24, 2006, 485 SCRA 361, 372; *R&E Transport, Inc. v. Latag*, G.R. No. 155214, February 13, 2004, 422 SCRA 698; *Secosa v. Heirs of Erwin Suarez Francisco*, G.R. No. 160039, June 29, 2004, 433 SCRA 273; *Gochan v. Young*, G.R. No. 131889, March 12, 2001, 354 SCRA 207, 222; *Development Bank of the Philippines v. Court of Appeals*, G.R. No. 110203, May 9, 2001, 357 SCRA 626; *Del Rosario v. National Labor Relations Commission*, G.R. No. 85416, July 24, 1990, 187 SCRA 777, 780.

[29] *Solidbank Corporation v. Mindanao Ferroalloy Corporation*, G.R. No. 153535, July 28, 2005, 464 SCRA 409, 424-425; *Construction & Development Corporation of the Philippines v. Cuenca*, G.R. No. 163981, August 12, 2005, 466 SCRA 714, 727; *Matuguina Integrated Wood Products, Inc. v. Court of Appeals*, G.R. No. 98310,

October 24, 1996, 263 SCRA 490, 509.

[30] Francisco Motors Corporation v. Court of Appeals, *supra*, note 26.

[31] Rollo, p. 45.

[32] 42A, Words and Phrases, Trust Fund Doctrine, p. 445, citing *McIver v. Young Hardware Co.*, 57 S.E. 169, 171, 144 N.C. 478, 119 Am. St. Rep. 970; *Gallagher v. Asphalt Co. of America*, 55 A. 259, 262, 65 N.J. Eq. 258.

[33] 3 Mason 308, Fed Cas. No. 17, 944.

[34] 44 Phil 469 (1923).

[35] *Id.*, p. 470.

[36] Villanueva, *Philippine Corporate Law* (2001), pp. 558, citing *Chicago Rock Island & Pac. R.R. Co. v. Howard*, 7 Wall., 392, 19 L. Ed. 117; *Sawyer v. Hoag*, 17 Wall 610, 21 L. Ed. 731; and *Pullman v. Upton*, 96 U.S. 328, 24 L. Ed. 818.

[37] *Velasco v. Poizat*, 37 Phil 802, 808 (1918).

[38] *Philippine Trust v. Rivera*, *supra*, note 34, pp. 470-471.

[39] *Fogg v. Blair*, 139 US 118 (1891).

[40] See *Velasco v. Poizat*, 37 Phil 802, 806 (1918).

[41] *Tierney v. Ledden*, 121 NW 1050.

[42] *Alonzo v. San Juan*, G.R. No. 137549, February 11, 2005, 451 SCRA 45, 55-56; *Union Refinery Corporation v. Tolentino, Sr.*, G.R. No. 155653, September 30, 2005, 471 SCRA 613, 621.

[43] *Commissioner of Internal Revenue v. Manila Mining Corporation*, G.R. No. 153204, August 31, 2005, 468 SCRA 571, 590.

[44] *Philippine National Bank v. Court of Appeals*, G.R. No. 116181, April 17, 1996, 256 SCRA 491, 335-336; *Towne & City Development Corporation v. Court of Appeals*, G.R. No. 135043, July 14, 2004, 434 SCRA 356, 361-362.

[45] Art. 1232, Civil Code.

[46] *Philippine Airlines, Inc. v. Court of Appeals*, G.R. No. 49188, January 30, 1990, 181 SCRA 557, 568.

[47] Art. 1249, Civil Code.

[48] G.R. No. 176664, July 21, 2008, 559 SCRA 207, 217-219 (underscoring supplied for emphasis).

[49] See TSN dated November 6, 1991, p. 4.

[50] TSN dated November 6, 1991, p. 4.

[51] *Bitong v. Court of Appeals (Fifth Division)*, G.R. No. 123553, July 13, 1998, 292 SCRA 503, 523.

[52] *Lanuza v. Court of Appeals*, G.R. No. 131394, March 28, 2005, 454 SCRA 54, 67.

[53] *Edward A. Keller & Co., Ltd., v. COB Group Marketing, Inc.*, G.R. No. L-68907, January 16, 1986, 141 SCRA 86, 93 citing *Vda. De Salvatierra v. Hon. Garlitos etc, and Refuerzo*, 103 Phil, 757, 763 (1958).

[54] See *Eastern Shipping Lines, Inc. v. Court of Appeals*, G.R. No. 97412, July 12, 1994, 234 SCRA 78.

[55] *Bunyi v. Factor*, G.R. No. 172547, June 30, 2009, 591 SCRA 350, 363; *Lapanday Agricultural and Development Corporation (LADECO) v. Angala*, G.R. No. 153076, June 21, 2007, 525 SCRA 229; *Pajuyo v. Court of Appeals*, G.R. No. 146364, June 3, 2004, 430 SCRA 492, 524.

ABOUT BATAS.ORG

Study smarter at BATAS.org

The Philippine bar review and law-school companion built around how your brain actually remembers.

The complete Philippine law library - free for everyone.

More than 100,000 Supreme Court decisions, Republic Acts, and executive issuances - full-text searchable, browsable by category and year, and always free. No paywall, no login. This PDF came from it.

Audio case-brief lectures.

Any decision becomes a podcast-style lecture - facts, issues, ruling, and doctrine - with read-along highlighting and a hands-free presentation mode. Study while commuting, working out, or resting your eyes.

Bar review built on the science of memory.

Complete, sequenced courses for all eight bar subjects, narrated like podcasts and reinforced with retrieval practice and spaced review - the study techniques with the strongest evidence behind them.

The full law-school curriculum.

One subscription unlocks the entire J.D. curriculum - every subject, every lesson, with your progress tracked down to the paragraph so you can pick up exactly where you left off, on any device.

Mock exams that tell you where you stand.

Timed multiple-choice exams graded instantly, with per-subject score breakdowns and focus suggestions that point you at your weakest topics first.

A study planner that keeps you on pace.

Set your schedule and BATAS tells you every day whether you are on track for bar day - and exactly which lesson to take next.

Start free at <https://batas.org>

The law library is free forever - and your first lesson is one click away.

The text of this document is an official public record and remains in the public domain. Formatting, presentation, and compilation © 2026 batas.org.

Downloaded free from the batas.org Law Library. Share it freely - the library is free for every law student, bar reviewee, and practitioner.