

Francisco Motors Corporation vs. Court of Appeals and Spouses Gregorio and Librada Manuel

G.R. No. L-368, Second Division

Facts

1. **Initial Complaint**: On January 23, 1985, Francisco Motors Corporation (FMC) filed a complaint against the spouses Gregorio and Librada Manuel to recover a total of P29,866.86, consisting of the balance of the purchase price of a jeep body and unpaid repair costs.
2. **Counterclaim**: The Manuels responded with a counterclaim for P50,000 representing unpaid legal services rendered by Gregorio Manuel, alleging these services were requested by the incorporators, directors, and officers of FMC in their personal capacities.
3. **Trial Court Proceedings**: The Regional Trial Court of Makati ruled in favor of FMC for its monetary claims but also upheld the Manuels' counterclaim for the unpaid legal services. FMC failed to respond to the counterclaim and was declared in default for this portion of the case.
4. **Appeals**: Both parties appealed the trial court's decision. The Court of Appeals affirmed the trial court's decision in full.
5. **Supreme Court Petition**: Dissatisfied, FMC brought the case to the Supreme Court, questioning the validity of the permissive counterclaim and its liability for the personal legal fees of its incorporators, directors, and officers.

Issues

1. **Jurisdiction over Petitioner**: Does the trial court have jurisdiction over FMC concerning the counterclaim, given that FMC was not served a separate summons for the counterclaim?
2. **Piercing the Corporate Veil**: Was it proper to hold FMC liable for the personal debts of its officers and directors, effectively piercing the corporate veil?

Court's Decision

1. **Jurisdiction over the Counterclaim**: The Supreme Court held that separate summons

for the counterclaim was unnecessary as FMC had already submitted to the court's jurisdiction by filing the initial complaint. The rules require an answer to a counterclaim within 10 days; failing this, FMC was correctly declared in default on the counterclaim.

2. **Piercing the Corporate Veil**: It was determined improper to pierce the corporate veil in this case. The legal services were solicited in the personal capacities of the corporation's officers and directors. Holding FMC liable would improperly merge the separate corporate entity with the individual liabilities of its members, contravening the principle of corporate separateness. The Supreme Court emphasized that the doctrine is intended to prevent fraud or inequity, not to impose corporate liability for individual obligations.

Hence, the Supreme Court reversed the Court of Appeals' decision regarding the award of attorney's fees to Gregorio Manuel from FMC, although affirmed parts related to procedural propriety and remanded potential recovery against individuals, not the corporation.

Doctrines

- **Piercing the Corporate Veil**: The distinct and separate personality of a corporation can be disregarded only to prevent fraud, protect public policy, or avert injustice. It is not to be utilized to convert individual liabilities into corporate liabilities improperly.

Class Notes

- **Elements Central to the Case**:
- **Corporate Personality**: Separate and distinct from its individual members.
- **Piercing the Corporate Veil**: Applied to prevent misuse of the corporate entity to commit fraud or injustice.
- **Jurisdiction over Counterclaim**: No need for a new summons when plaintiff in the main action is defendant in the counterclaim.
- **Relevant Legal Provisions**:
- **Section 4, Rule 11, Rules of Court**: A counterclaim must be answered within ten days.
- **Separate Corporate Personality Doctrine**: Corporations are treated as separate legal entities from stockholders, directors, and officers.

Historical Background

- **Corporate Law**: This case highlights the application and limitations of the doctrine of piercing the corporate veil, a concept developed to uphold justice and prevent misuse of

corporate entities. Historically, the corporate structure is used to protect investors and separate personal assets from business liabilities, fostering economic development and accountability.

This decision emphasizes the delicate balance courts maintain in corporate law, ensuring that corporate forms are not abused while upholding their conceptual independence to benefit commerce and society at large.