Republic of the Philippines
Supreme Court
Baguio City

FIRST DIVISION

DUTCH MOVERS, INC. CESAR LEE and YOLANDA LEE,
Petitioners,

- versus -

EDILBERTO[1] LEQUIN, CHRISTOPHER R. SALVADOR, REYNALDO[2] L. SINGSING, and RAFFY B. MASCARDO,
Respondents.

G.R. No. 210032

Present:

SERENO, *C.J., Chairperson,*
LEONARDO-DE CASTRO,
DEL CASTILLO,
PERLAS-BERNABE, *and*
CAGUIOA, *JJ.*

Promulgated:
APR 2 5 2017

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DECISION

DEL CASTILLO, *J.*:

Before the Court is a Petition for Review on *Certiorari* assailing the July 1, 2013 Decision[3] of the Court of Appeals in CA-G.R. SP No. 113774. The CA reversed and set aside the October 29, 2009[4] and January 29, 2010[5] Resolutions of the National Labor Relations Commission (NLRC), which in turn reversed and set aside the Order[6] dated September 4, 2009 of Labor Arbiter Lilia S. Savari (LA Savari).

Also challenged is the November 13, 2013 CA Resolution,[7] which denied the Motion for Reconsideration on the assailed Decision.

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1 Spelled in some parts of the records as Ediblerto.
2 Spelled in some parts of the records as Reynalddo.
3 CA *rollo*, pp. 406-422; penned by Associate Justice Leoncia Real-Dimagiba and concurred in by Associate Justices Rosmari D. Carandang and Ricardo R. Rosario.
4 Id at 51-59; penned by Commissioner Angelita A. Gacutan and concurred in by Presiding Commissioner Raul T. Aquino and Commissioner Teresita D. Castillon-Lora.
5 Id. at 33-35; penned by Presiding Commissioner Raul T. Aquino and concurred in by Commissioner Teresita D. Castillon-Lora. Commissioner Napoleon M. Menese took no part.
6 Id. at 75-76.
7 Id. at 452-453.

Factual Antecedents

This case is an offshoot of the illegal dismissal Complaint[8] filed by Edilberto Lequin (Lequin), Christopher Salvador, Reynaldo Singsing, and Raffy Mascardo (respondents) against Dutch Movers, Inc. (DMI), and/or spouses Cesar Lee and Yolanda Lee (petitioners), its alleged President/Owner, and Manager respectively.

In their Amended Complaint and Position Paper,[9] respondents stated that DMI, a domestic corporation engaged in hauling liquefied petroleum gas, employed Lequin as truck driver, and the rest of respondents as helpers; on December 28, 2004, Cesar Lee, through the Supervisor Nazario Furio, informed them that DMI would cease its hauling operation for no reason; as such, they requested DMI to issue a formal notice regarding the matter but to no avail. Later, upon respondents' request, the DOLE NCR[10] issued a certification[11] revealing that DMI did not file any notice of business closure. Thus, respondents argued that they were illegally dismissed as their termination was without cause and only on the pretext of closure.

On October 28, 2005, LA Aliman D. Mangandog dismissed[12] the case for lack of cause of action.

On November 23, 2007, the NLRC reversed and set aside the LA Decision. It ruled that respondents were illegally dismissed because DMI simply placed them on standby, and no longer provide them with work. The dispositive portion of the NLRC Decision[13] reads:

> WHEREFORE, the Decision dated October 28, 2005 is hereby REVERSED and SET ASIDE and a new judgment is hereby rendered ordering respondent Dutch Movers, Inc. to reinstate complainants to their former positions without loss of seniority rights and other privileges. Respondent corporation is also hereby ordered to pay complainants their full backwages from the time they were illegally dismissed up to the date of their actual reinstatement and ten (10%) percent of the monetary award as for attorney's fees.
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> SO ORDERED.[14]

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8 Id. at 223-224.
9 Id. at 214-221.
10 Department of Labor and Employment – National Capital Region.
11 CA *rollo*, p. 226.
12 Id. at 157-165.
13 Id. at 130-136; penned by Commissioner Angelita A. Gacutan and concurred in by Presiding Commissioner Raul T. Aquino and Commissioner Victoriano R. Calaycay.
14 Id. at 135-136.

The NLRC Decision became final and executory on December 30, 2007.[15] And, on February 14, 2008, the NLRC issued an Entry of Judgment[16] on the case.

Consequently, respondents filed a Motion for Writ of Execution.[17] Later, they submitted a Reiterating Motion for Writ of Execution with Updated Computation of Full Backwages.[18] Pending resolution of these motions, respondents filed a Manifestation and Motion to Implead[19] stating that upon investigation, they discovered that DMI no longer operates. They, nonetheless, insisted that petitioners – who managed and operated DMI, and consistently represented to respondents that they were the owners of DMI – continue to work at Toyota Alabang, which they (petitioners) also own and operate. They further averred that the Articles of Incorporation (AOI) of DMI ironically did not include petitioners as its directors or officers; and those named directors and officers were persons unknown to them. They likewise claimed that per inquiry with the SEC[20] and the DOLE, they learned that DMI did not file any notice of business closure; and the creation and operation of DMI was attended with fraud making it convenient for petitioners to evade their legal obligations to them.

Given these developments, respondents prayed that petitioners, and the officers named in DMI's AOI, which included Edgar N. Smith and Millicent C. Smith (spouses Smith), be impleaded, and be held solidarily liable with DMI in paying the judgment awards.

In their Opposition to Motion to Implead,[21] spouses Smith alleged that as part of their services as lawyers, they lent their names to petitioners to assist them in incorporating DMI. Allegedly, after such undertaking, spouses Smith promptly transferred their supposed rights in DMI in favor of petitioners.

Spouses Smith stressed that they never participated in the management and operations of DMI, and they were not its stockholders, directors, officers, or managers at the time respondents were terminated. They further insisted that they were not afforded due process as they were not impleaded from the inception of the illegal dismissal case; and hence, they cannot be held liable for the liabilities of DMI.

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15 As culled from the Writ of Execution dated July 31, 2009; id. at 84.
16 Id. at 91.
17 Id. at 127-128.
18 Id. at 124-126.
19 Id. at 105-111.
20 Securities and Exchange Commission.
21 CA *rollo*, pp. 98-104.

On April 1, 2009, LA Savari issued an Order[22] holding petitioners liable for the judgment awards. LA Savari decreed that petitioners represented themselves to respondents as the owners of DMI; and were the ones who managed the same. She further noted that petitioners were afforded due process as they were impleaded from the beginning of this case.

Later, respondents filed anew a Reiterating Motion for Writ of Execution and Approve[d] Updated Computation of Full Backwages.[23]

On July 31, 2009, LA Savari issued a Writ of Execution, the pertinent portion of which reads:

> NOW THEREFORE, you [Deputy Sheriff] are commanded to proceed to respondents DUTCH MOVERS and/or CESAR LEE and YOLANDA LEE with address at c/o Toyota Alabang, Alabang Zapote Road, Las Pinas City or wherever they may be found within the jurisdiction of the Republic of the Philippines and collect from said respondents the amount of THREE MILLION EIGHT HUNDRED EIGHTEEN THOUSAND ONE HUNDRED EIGHTY SIX PESOS & 66/100 (Php3,818,186.66) representing Complainants' awards plus 10% Attorney's fees in the amount of THREE HUNDRED EIGHTY ONE THOUSAND EIGHT HUNDRED EIGHTEEN PESOS & 66/100 (Php381,818.66) and execution fee in the amount of FORTY THOUSAND FIVE HUNDRED PESOS (Php40,500.00) or a total of FOUR MILLION TWO HUNDRED FORTY THOUSAND FIVE HUNDRED FIVE PESOS & 32/100 (Php4,240,505.32) x x x[24]

Petitioners moved[25] to quash the Writ of Execution contending that the April 1, 2009 LA Order was void because the LA has no jurisdiction to modify the final and executory NLRC Decision, and the same cannot anymore be altered or modified since there was no finding of bad faith against them.

Ruling of the Labor Arbiter

On September 4, 2009, LA Savari denied petitioners' Motion to Quash because it did not contain any ground that must be set forth in such motion.

Thus, petitioners appealed to the NLRC.

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22 Id. at 95-97.
23 Id. at 87-90.
24 Id. at 85.
25 Id. at 77-82.

Ruling of the National Labor Relations Commission

On October 29, 2009, the NLRC quashed the Writ of Execution insofar as it held petitioners liable to pay the judgment awards. The decretal portion of the NLRC Resolution reads:

> WHEREFORE, in view of the foregoing, the assailed Order dated September 4, 2009 denying respondents' Motion to Quash Writ is hereby REVERSED and SET ASIDE. The Writ of Execution dated July 13,[26] 2009 is hereby QUASHED insofar as it holds individual respondents Cesar Lee and Yolanda Lee liable for the judgment award against the complainants.
>
> Let the entire record of the case be forwarded to the Labor Arbiter of origin for appropriate proceedings.
>
> SO ORDERED.[27]

The NLRC ruled that the Writ of Execution should only pertain to DMI since petitioners were not held liable to pay the awards under the final and executory NLRC Decision. It added that petitioners could not be sued personally for the acts of DMI because the latter had a separate and distinct personality from the persons comprising it; and, there was no showing that petitioners were stockholders or officers of DMI; or even granting that they were, they were not shown to have acted in bad faith against respondents.

On January 29, 2010, the NLRC denied respondents' Motion for Reconsideration.

Undaunted, respondents filed a Petition for *Certiorari* with the CA ascribing grave abuse of discretion against the NLRC in quashing the Writ of Execution insofar as it held petitioners liable to pay the judgment awards.

Ruling of the Court of Appeals

On July 1, 2013, the CA reversed and set aside the NLRC Resolutions, and accordingly affirmed the Writ of Execution impleading petitioners as party-respondents liable to answer for the judgment awards.

The CA ratiocinated that as a rule, once a judgment becomes final and executory, it cannot anymore be altered or modified; however, an exception

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[26] The Writ of Execution is dated July 31, 2009, not July 13, 2009; id. at 86.

[27] Id. at 58-59.

to this rule is when there is a supervening event, which renders the execution of judgment unjust or impossible. It added that petitioners were afforded due process as they were impleaded from the beginning of the case; and, respondents identified petitioners as the persons who hired them, and were the ones behind DMI. It also noted that such participation of petitioners was confirmed by DMI's two incorporators who attested that they lent their names to petitioners to assist the latter in incorporating DMI; and, after their undertaking, these individuals relinquished their purported interests in DMI in favor of petitioners.

On November 13, 2013, the CA denied the Motion for Reconsideration on the assailed Decision.

Thus, petitioners filed this Petition raising the following grounds:

> THE HONORABLE COURT OF APPEALS COMMITTED A REVERSIBLE ERROR IN RULING THAT RESPONDENTS SHOULD BE LIABLE FOR THE JUDGMENT AWARD TO RESPONDENTS BASED ON THE FOLLOWING:
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> I
>
> THE VALDERAMA VS. NLRC AND DAVID VS. CA ARE NOT APPLICABLE IN THE INSTANT CASE.
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> II
>
> THERE IS NO LEGAL BASIS TO PIERCE THE VEIL OF CORPORATE FICTION OF DUTCH MOVERS, INC.[28]

Petitioners argue that the circumstances in *Valderrama v. National Labor Relations Commission*[29] differ with those of the instant case. They explain that in *Valderrama*, the LA therein granted a motion for clarification. In this case, however, the LA made petitioners liable through a mere manifestation and motion to implead filed by respondents. They further stated that in *Valderrama*, the body of the decision pointed out the liability of the individual respondents therein while here, there was no mention in the November 23, 2007 NLRC Decision regarding petitioners' liability. As such, they posit that they cannot be held liable under said NLRC Decision.

In addition, petitioners claim that there is no basis to pierce the veil of corporate fiction because DMI had a separate and distinct personality from the officers comprising it. They also insist that there was no showing that the termination of respondents was attended by bad faith.

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[28] *Rollo*, p. 40.

[29] 326 Phil. 477 (1996).

In fine, petitioners argue that despite the allegation that they operated and managed the affairs of DMI, they cannot be held accountable for its liability in the absence of any showing of bad faith on their part.

Respondents, on their end, counter that petitioners were identified as the ones who owned and managed DMI and therefore, they should be held liable to pay the judgment awards. They also stress that petitioners were consistently impleaded since the filing of the complaint and thus, they were given the opportunity to be heard.

Issue

Whether petitioners are personally liable to pay the judgment awards in favor of respondents

Our Ruling

The Court denies the Petition.

To begin with, the Court is not a trier of facts and only questions of law may be raised in a petition under Rule 45 of the Rules of Court. This rule, nevertheless, allows certain exceptions, which include such instance where the factual findings of the CA are contrary to those of the lower court or tribunal. Considering the divergent factual findings of the CA and the NLRC in this case, the Court deems it necessary to examine, review and evaluate anew the evidence on record.[30]

Moreover, after a thorough review of the records, the Court finds that contrary to petitioners' claim, *Valderrama v. National Labor Relations Commission*,[31] and *David v. Court of Appeals*[32] are applicable here. In said cases, the Court held that the principle of immutability of judgment, or the rule that once a judgment has become final and executory, the same can no longer be altered or modified and the court's duty is only to order its execution, is not absolute. One of its exceptions is when there is a supervening event occurring after the judgment becomes final and executory, which renders the decision unenforceable.[33]

To note, a supervening event refers to facts that transpired after a

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30 *Co v. Vargas*, 676 Phil. 463, 470-471 (2011).

31 Supra note 29.

32 375 Phil. 177 (1999).

33 *Valderrama v. National Labor Relations Commission*, supra note 29 at 483-484; *David v. Court of Appeals*, supra at 186-187.

judgment has become final and executory, or to new situation that developed after the same attained finality. Supervening events include matters that the parties were unaware of before or during trial as they were not yet existing during that time.[34]

In *Valderrama*, the supervening event was the closure of Commodex, the company therein, after the decision became final and executory, and without any showing that it filed any proceeding for bankruptcy. The Court held that therein petitioner, the owner of Commodex, was personally liable for the judgment awards because she controlled the company.

Similarly, supervening events transpired in this case after the NLRC Decision became final and executory, which rendered its execution impossible and unjust. Like in *Valderrama*, during the execution stage, DMI ceased its operation, and the same did not file any formal notice regarding it. Added to this, in their Opposition to the Motion to Implead, spouses Smith revealed that they only lent their names to petitioners, and they were included as incorporators just to assist the latter in forming DMI; after such undertaking, spouses Smith immediately transferred their rights in DMI to petitioners, which proved that petitioners were the ones in control of DMI, and used the same in furthering their business interests.

In considering the foregoing events, the Court is not unmindful of the basic tenet that a corporation has a separate and distinct personality from its stockholders, and from other corporations it may be connected with. However, such personality may be disregarded, or the veil of corporate fiction may be pierced attaching personal liability against responsible person if the corporation's personality "is used to defeat public convenience, justify wrong, protect fraud or defend crime, or is used as a device to defeat the labor laws x x x."[35] By responsible person, we refer to an individual or entity responsible for, and who acted in bad faith in committing illegal dismissal or in violation of the Labor Code; or one who actively participated in the management of the corporation. Also, piercing the veil of corporate fiction is allowed where a corporation is a mere alter ego or a conduit of a person, or another corporation.[36]

Here, the veil of corporate fiction must be pierced and accordingly, petitioners should be held personally liable for judgment awards because the peculiarity of the situation shows that they controlled DMI; they actively participated in its operation such that DMI existed not as a separate entity but only as business conduit of petitioners. As will be shown below,

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[34] *Bani Rural Bank, Inc. v. De Guzman*, 721 Phil. 84, 97 (2013).
[35] *Concept Builders, Inc. v. National Labor Relations Commission*, 326 Phil. 955, 965 (1996).
[36] *Guillermo v. Uson*, G.R. No. 198967, March 7, 2016.

petitioners controlled DMI by making it appear to have no mind of its own,[37] and used DMI as shield in evading legal liabilities, including payment of the judgment awards in favor of respondents.[38]

First, petitioners and DMI jointly filed their Position Paper,[39] Reply,[40] and Rejoinder[41] in contesting respondents' illegal dismissal. Perplexingly, petitioners argued that they were not part of DMI and were not privy to its dealings;[42] yet, petitioners, along with DMI, collectively raised arguments on the illegal dismissal case against them.

Stated differently, petitioners denied having any participation in the management and operation of DMI; however, they were aware of and disclosed the circumstances surrounding respondents' employment, and propounded arguments refuting that respondents were illegally dismissed.

To note, petitioners revealed the annual compensation of respondents and their length of service; they also set up the defense that respondents were merely project employees, and were not terminated but that DMI's contract with its client was discontinued resulting in the absence of hauling projects for respondents.

If only to prove that they were not part of DMI, petitioners could have revealed who operated it, and from whom they derived the information embodied in their pleadings. Such failure to reveal thus gives the Court reasons to give credence to respondents' firm stand that petitioners are no strangers to DMI, and that they were the ones who managed and operated it.

Second, the declarations made by spouses Smith further bolster that petitioners and no other controlled DMI, to wit:

> Complainants [herein respondents] in their own motion admit that they never saw [spouses Smith] at the office of [DMI], and do not know them at all. This is because [spouses Smith's] services as lawyers had long been dispensed by the Spouses Lee and had no hand whatsoever in the management of the company. The Smiths, as counsel of the spouses at [that] time, [lent] their names as incorporators to facilitate the [incorporation of DMI.] Respondent Edgard Smith was then counsel of Toyota Alabang and acts as its corporate secretary and as favor to his former client and employer, Respondent Cesar Lee, agreed to help

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37 *Concept Builders, Inc. v. National Labor Relations Commission,* supra at 965-966.
38 *Guillermo v. Uson*, supra.
39 CA *rollo*, pp. 199-205.
40 Id. at 188-193.
41 Id. at 174-178.
42 Id. at 192, 204.

> incorporate [DMI] and even asked his wife Respondent, Millicent Smith, to act as incorporator also [to] complete the required 5 man incorporators. After the incorporation they assigned and transferred all their purported participation in the company to the Respondents Spouses Cesar and Yolanda Lee, who acted as managers and are the real owners of the corporation. Even at the time complainant[s were] fired from [their] employment respondents Spouses Smith had already given up their shares. The failure to amend the Articles of Incorporation of [DMI], and to apply for closure is the fault of the new board, if any was constituted subsequently, and not of Respondents Smiths. Whatever fraud committed was not committed by the Respondents Smiths, hence they could not be made solidarily liable with Respondent Corporation or with the spouses Lee. If bad faith or fraud did attend the termination of complainant[s], respondents Smiths would know nothing of it because they had ceased any connection with [DMI] even prior to such time. And they had at the inception of the corporation never exercised management prerogatives in the selection, hiring, and firing of employees of [DMI].[43]

Spouses Smith categorically identified petitioners as the owners and managers of DMI. In their Motion to Quash, however, petitioners neither denied the allegation of spouses Smith nor adduced evidence to establish that they were not the owners and managers of DMI. They simply insisted that they could not be held personally liable because of the immutability of the final and executory NLRC Decision, and of the separate and distinct personality of DMI.

Furthermore, the assailed CA Decision heavily relied on the declarations of spouses Smith but still petitioners did not address the matters raised by spouses Smith in the instant Petition with the Court.

Indeed, despite sufficient opportunity to clarify matters and/or to refute them, petitioners simply brushed aside the allegations of spouses Smith that petitioners owned and managed DMI. Petitioners just maintain that they did not act in bad faith; that the NLRC Decision is final and executory; and that DMI has a distinct and separate personality. Hence, for failure to address, clarify, or deny the declarations of spouses Smith, the Court finds respondents' position that petitioners owned, and operated DMI with merit.

Third, piercing the veil of corporate fiction is allowed, and responsible persons may be impleaded, and be held solidarily liable even after final judgment and on execution, provided that such persons deliberately used the corporate vehicle to unjustly evade the judgment obligation, or resorted to fraud, bad faith, or malice in evading their obligation.[44]

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[43] Id. at 99-100.

[44] *Guillermo v. Uson*, supra note 36.

In this case, petitioners were impleaded from the inception of this case. They had ample opportunity to debunk the claim that they illegally dismissed respondents, and that they should be held personally liable for having controlled DMI and actively participated in its management, and for having used it to evade legal obligations to respondents.

While it is true that one's control does not by itself result in the disregard of corporate fiction; however, considering the irregularity in the incorporation of DMI, then there is sufficient basis to hold that such corporation was used for an illegal purpose, including evasion of legal duties to its employees, and as such, the piercing of the corporate veil is warranted. The act of hiding behind the cloak of corporate fiction will not be allowed in such situation where it is used to evade one's obligations, which "equitable piercing doctrine was formulated to address and prevent."[45]

Clearly, petitioners should be held liable for the judgment awards as they resorted to such scheme to countermand labor laws by causing the incorporation of DMI but without any indication that they were part thereof. While such device to defeat labor laws may be deemed ingenious and imaginative, the Court will not hesitate to draw the line, and protect the right of workers to security of tenure, including ensuring that they will receive the benefits they deserve when they fall victims of illegal dismissal.[46]

Finally, it appearing that respondents' reinstatement is no longer feasible by reason of the closure of DMI, then separation pay should be awarded to respondents instead.[47]

WHEREFORE, the Petition is **DENIED**. The July 1, 2013 Decision and November 13, 2013 Resolution of the Court of Appeals in CA-G.R. SP 113774 are **AFFIRMED with MODIFICATION** that instead of reinstatement, Dutch Movers, Inc. and spouses Cesar Lee and Yolanda Lee are solidarily liable to pay respondents' separation pay for every year of service.

SO ORDERED.

MARIANO C. DEL CASTILLO
Associate Justice

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45 See *Sarona v. National Labor Relations Commission*, 679 Phil. 394, 418-419 (2012).
46 See *San Miguel Corporation v. National Labor Relations Commission*, 539 Phil. 236, 249-250 (2006).
47 *Caliguia v. National Labor Relations Commission*, 332 Phil. 128, 142-143 (1996).

WE CONCUR:

MARIA LOURDES P. A. SERENO
Chief Justice
Chairperson

TERESITA J. LEONARDO-DE CASTRO
Associate Justice

ESTELA M. PERLAS-BERNABE
Associate Justice

ALFREDO BENJAMIN S. CAGUIOA
Associate Justice

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution, I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

MARIA LOURDES P. A. SERENO
Chief Justice