Republic of the Philippines
Supreme Court
Manila

SECOND DIVISION

ROMMEL M. ZAMBRANO, ROMEO O. CALIPAY, JESUS L. CHIN, LYNDON B. APOSAGA, BONIFACIO A. CASTAÑEDA, ROSEMARIE P. FALCUNIT, ROMEO A. FINALLA, LUISITO G. GELLIDO, JOSE ALLI L. MABUHAY, VICENTE A. MORALES, RAUL L. REANZARES, DIODITO I. TACUD, ERNAN D. TERCERO, LARRY V. MUTIA, ROMEO A. GURON, DIOSDADO S. AZUSANO, BENEDICTO D. GIDAYAWAN, LOWIS M. LANDRITO, NARCISO R. ASI, TEODULO BORAC, SANTOS J. CRUZADO, JR., ROLANDO DELA CRUZ, RAYMUNDO, MILA Y. ABLAY, ERMITY F. GABUCAY, PABLITO M. LACANARIA, MELCHOR PEÑAFLOR, ARSENIO B. PICART III, ROMEO M. SISON, JOSE VELASCO JR., ERWIN M. VICTORIA, PRISCO J. ABILO, WILFREDO D. ARANDIA, ALEXANDER Y. HILADO, JAIME M. CORALES, GERALDINE C. MAUHAY, MAURO P. MARQUEZ, JONATHAN T. BARQUIN, RICARDO M. CALDERON JR., RENATO R. RAMIREZ, VIVIAN P. VIRTUDES, DOMINGO P.

G.R. No. 224099

Present:

CARPIO,* *J.*,
PERALTA,** *Acting Chairperson*,
MENDOZA,
LEONEN,*** and
MARTIRES, *JJ.*

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* On Official Leave.
** Per Special Order No. 2445 dated June 16, 2017.
*** On Leave.

COSTANTINO JR., RENATO A. MANAIG, RAFAEL D. CARILLO,
Petitioners,

- versus -

PHILIPPINE CARPET MANUFACTURING CORPORATION/ PACIFIC CARPET MANUFACTURING CORPORATION, DAVID E. T. LIM, and EVELYN LIM FORBES,
Respondents.

Promulgated:
21 JUN 2017

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DECISION

MENDOZA, *J.*:

This is a petition for review on *certiorari* under Rule 45 of the Rules of Court seeking to reverse and set aside the January 8, 2016 Decision[1] and April 11, 2016 Resolution[2] of the Court of Appeals *(CA)* in CA-G.R. SP No. 140663, which affirmed the February 27, 2015 Decision[3] and March 31, 2015 Resolution[4] of the National Labor Relations Commission *(NLRC)* in NLRC NCR Case No. 01-00109-14; 01-00230-14; 01-00900-14; 01-01025-14; and 01-01133-14, for five (5) consolidated complaints for illegal dismissal and unfair labor practice.

The Antecedents

The petitioners averred that they were employees of private respondent Philippine Carpet Manufacturing Corporation *(Phil Carpet)*. On January 3, 2011, they were notified of the termination of their employment effective February 3, 2011 on the ground of cessation of operation due to serious business losses. They were of the belief that their dismissal was without just cause and in violation of due process because the closure of Phil Carpet was a mere pretense to transfer its operations to its wholly owned and

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[1] Penned by Associate Justice Ramon R. Garcia with Associate Justice Leoncia R. Dimagiba and Associate Justice Jhosep Y. Lopez, concurring; *rollo* (Vol. I), pp. 38-50.
[2] Id. at 52-54.
[3] The NLRC Decision was not attached to the petition.
[4] The NLRC Resolution was not attached to the petition.

controlled corporation, Pacific Carpet Manufacturing Corporation *(Pacific Carpet)*. They claimed that the job orders of some regular clients of Phil Carpet were transferred to Pacific Carpet; and that from October to November 2011, several machines were moved from the premises of Phil Carpet to Pacific Carpet. They asserted that their dismissal constituted unfair labor practice as it involved the mass dismissal of all union officers and members of the Philippine Carpet Manufacturing Employees Association *(PHILCEA)*.

In its defense, Phil Carpet countered that it permanently closed and totally ceased its operations because there had been a steady decline in the demand for its products due to global recession, stiffer competition, and the effects of a changing market. Based on the Audited Financial Statements[5] conducted by SGV & Co., it incurred losses of ₱4.1M in 2006; ₱12.8M in 2007; ₱53.28M in 2008; and ₱47.79M in 2009. As of the end of October 2010, unaudited losses already amounted to ₱26.59M. Thus, in order to stem the bleeding, the company implemented several cost-cutting measures, including voluntary redundancy and early retirement programs. In 2007, the car carpet division was closed. Moreover, from a high production capacity of about 6,000 square meters of carpet a month in 2002, its final production capacity steadily went down to an average of 350 square meters per month for 2009 and 2010. Subsequently, the Board of Directors decided to approve the recommendation of its management to cease manufacturing operations. The termination of the petitioners' employment was effective as of the close of office hours on February 3, 2011. Phil Carpet likewise faithfully complied with the requisites for closure or cessation of business under the Labor Code. The petitioners and the Department of Labor and Employment *(DOLE)* were served written notices one (1) month before the intended closure of the company. The petitioners were also paid their separation pay and they voluntarily executed their respective Release and Quitclaim[6] before the DOLE officials.

The LA Ruling

In the September 29, 2014 Decision,[7] the Labor Arbiter *(LA)* dismissed the complaints for illegal dismissal and unfair labor practice. It ruled that the termination of the petitioners' employment was due to total cessation of manufacturing operations of Phil Carpet because it suffered continuous serious business losses from 2007 to 2010. The LA added that the closure was truly dictated by economic necessity as evidenced by its audited financial statements. It observed that written notices of termination were served on the DOLE and on the petitioners at least one (1) month before the intended date of closure. The LA further found that the petitioners

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[5] *Rollo* (Vol. I), pp. 124-208.
[6] *Rollo* (Vol. II), pp. 647-691.
[7] Penned by Labor Arbiter Marita V. Padolina; *rollo* (Vol. I), pp. 56-83.

voluntarily accepted their separation pay and other benefits and eventually executed their individual release and quitclaim in favor of the company. Finally, it declared that there was no showing that the total closure of operations was motivated by any specific and clearly determinable union activity of the employees. The dispositive portion reads:

> WHEREFORE, premises considered, judgment is hereby rendered DISMISSING the complaint of Domingo P. Constantino, Jr. on ground of prescription of cause of action and the consolidated complaints of the rest of complainants for lack of merit.
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> SO ORDERED.[8]

Unconvinced, the petitioners elevated an appeal before the NLRC.

The NLRC Ruling

In its February 27, 2015 Decision, the NLRC affirmed the findings of the LA. It held that the Audited Financial Statements show that Phil Carpet continuously incurred net losses starting 2007 leading to its closure in the year 2010. The NLRC added that Phil Carpet complied with the procedural requirements of effecting the closure of business pursuant to the Labor Code. The *fallo* reads:

> **WHEREFORE**, premises considered, complainants' appeal from the Decision of the Labor Arbiter Marita V. Padolina is hereby DISMISSED for lack of merit.
>
> **SO ORDERED.**[9]

Undeterred, the petitioners filed a motion for reconsideration thereof. In its resolution, dated March 31, 2015, the NLRC denied the same.

Aggrieved, the petitioners filed a petition for *certiorari* with the CA.

The CA Ruling

In its assailed decision, dated January 8, 2016, the CA ruled that the total cessation of Phil Carpet's manufacturing operations was not made in bad faith because the same was clearly due to economic necessity. It determined that there was no convincing evidence to show that the regular clients of Phil Carpet secretly transferred their job orders to Pacific Carpet; and that Phil Carpet's machines were not transferred to Pacific Carpet but were actually sold to the latter after the closure of business as shown by the several sales invoices and official receipts issued by Phil Carpet. The CA

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[8] Id. at 83.
[9] Id. at 43.

adjudged that the dismissal of the petitioners who were union officers and members of PHILCEA did not constitute unfair labor practice because Phil Carpet was able to show that the closure was due to serious business losses.

The CA opined that the petitioners' claim that their termination was a mere pretense because Phil Carpet continued operation through Pacific Carpet was unfounded because mere ownership by a single stockholder or by another corporation of all or nearly all of the capital stock of a corporation is not of itself sufficient ground for disregarding the separate corporate personality. The CA disposed the petition in this wise:

> WHEREFORE, premises considered, the instant petition for certiorari is hereby DISMISSED.
>
> SO ORDERED.[10]

The petitioners moved for reconsideration, but their motion was denied by the CA in its assailed resolution, dated April 11, 2016.

Hence, this present petition.

ISSUES

WHETHER THE PETITIONERS WERE DISMISSED FROM EMPLOYMENT FOR A LAWFUL CAUSE

WHETHER THE PETITIONERS' TERMINATION FROM EMPLOYMENT CONSTITUTES UNFAIR LABOR PRACTICE

WHETHER PACIFIC CARPET MAY BE HELD LIABLE FOR PHIL CARPET'S OBLIGATIONS

WHETHER THE QUITCLAIMS SIGNED BY THE PETITIONERS ARE VALID AND BINDING

The petitioners argue that Phil Carpet did not totally cease its operations; that most of the job orders of Phil Carpet were transferred to its wholly owned subsidiary, Pacific Carpet; and that the signing of quitclaims did not bar them from pursuing their case because they were made to believe that the closure was legal.

In its Comment,[11] dated August 26, 2016, Phil Carpet averred that the termination of the petitioners' employment as a consequence of its total closure and cessation of operations was in accordance with law and

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[10] Id. at 49.
[11] *Rollo* (Vol. II), pp. 1138-1164.

supported by substantial evidence; that the petitioners could only offer bare and self-serving claims and sham evidence such as financial statements that did not pertain to Phil Carpet; and that under the Labor Code, any compromise settlement voluntarily agreed upon by the parties with the assistance of the regional office of the DOLE was final and binding upon the parties.

In their Reply,[12] dated November 8, 2016, the petitioners alleged that the losses of Phil Carpet were almost proportionate to the net income of its subsidiary, Pacific Carpet; and that the alleged sale, which transpired between Phil Carpet and Pacific Carpet, was simulated.

The Court's Ruling

The petition is bereft of merit.

The petitioners were terminated from employment for an authorized cause

Under Article 298 (formerly Article 283) of the Labor Code, closure or cessation of operation of the establishment is an authorized cause for terminating an employee, *viz.*:

> Article 298. *Closure of establishment and reduction of personnel.* - The employer may also terminate the employment of any employee due to the installation of labor-saving devices, redundancy, retrenchment to prevent losses or the **closing or cessation of operations of the establishment or undertaking** unless the closing is for the purpose of circumventing the provisions of this Title, by serving a written notice on the workers and the Department of Labor and Employment at least one (1) month before the intended date thereof. In case of termination due to the installation of labor-saving devices or redundancy, the worker affected thereby shall be entitled to a separation pay equivalent to at least one (1) month pay or to at least one (1) month pay for every year of service, whichever is higher. In case of retrenchment to prevent losses and **in cases of closure or cessation of operations of establishment or undertaking not due to serious business losses or financial reverses, the separation pay shall be equivalent to at least one (1) month pay or at least one-half (1/2) month pay for every year of service, whichever is higher.** A fraction of at least six (6) months shall be considered as one (1) whole year. [Emphases supplied]

Closure of business is the reversal of fortune of the employer whereby there is a complete cessation of business operations and/or an actual locking-up of the doors of establishment, usually due to financial losses. Closure of

[12] Id. at 1174-1186.

business, as an authorized cause for termination of employment, aims to prevent further financial drain upon an employer who cannot pay anymore his employees since business has already stopped. In such a case, the employer is generally required to give separation benefits to its employees, unless the closure is due to serious business losses.[13]

Further, in *Industrial Timber Corporation v. Ababon,*[14] the Court held:

> A reading of the foregoing law shows that a partial or total closure or cessation of operations of establishment or undertaking may either be due to serious business losses or financial reverses or otherwise. Under the first kind, the employer must sufficiently and convincingly prove its allegation of substantial losses, while under the second kind, the employer can lawfully close shop anytime as long as cessation of or withdrawal from business operations was *bona fide* in character and not impelled by a motive to defeat or circumvent the tenurial rights of employees, and as long as he pays his employees their termination pay in the amount corresponding to their length of service. Just as no law forces anyone to go into business, no law can compel anybody to continue the same. It would be stretching the intent and spirit of the law if a court interferes with management's prerogative to close or cease its business operations just because the business is not suffering from any loss or because of the desire to provide the workers continued employment.
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> In sum, under Article 283 of the Labor Code, three requirements are necessary for a valid cessation of business operations: (a) service of a written notice to the employees and to the DOLE at least one month before the intended date thereof; (b) the cessation of business must be *bona fide* in character; and (c) payment to the employees of termination pay amounting to one month pay or at least one-half month pay for every year of service, whichever is higher.[15] [citations omitted]

In this case, the LA's findings that Phil Carpet suffered from serious business losses which resulted in its closure were affirmed *in toto* by the NLRC, and subsequently by the CA. It is a rule that absent any showing that the findings of fact of the labor tribunals and the appellate court are not supported by evidence on record or the judgment is based on a misapprehension of facts, the Court shall not examine anew the evidence

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[13] *Sangwoo Philippines, Inc. v. Sangwoo Philippines, Inc. Employees Union-Olalia*, 722 Phil. 846, 855 (2013).
[14] 515 Phil. 805 (2006).
[15] Id. at 819.

submitted by the parties.[16] In *Alfaro v. Court of Appeals*,[17] the Court explained the reasons therefor, to wit:

> The Supreme Court is not a trier of facts, and this doctrine applies with greater force in labor cases. Factual questions are for the labor tribunals to resolve. In this case, the factual issues have already been determined by the labor arbiter and the National Labor Relations Commission. Their findings were affirmed by the CA. Judicial review by this Court does not extend to a reevaluation of the sufficiency of the evidence upon which the proper labor tribunal has based its determination.
>
> Indeed, factual findings of labor officials who are deemed to have acquired expertise in matters within their respective jurisdictions are generally accorded not only respect, but even finality, and are binding on the Supreme Court. Verily, their conclusions are accorded great weight upon appeal, especially when supported by substantial evidence. Consequently, the Supreme Court is not duty-bound to delve into the accuracy of their factual findings, in the absence of a clear showing that the same were arbitrary and bereft of any rational basis.[18]

Even after perusal of the records, the Court finds no reason to take exception from the foregoing rule. Phil Carpet continuously incurred losses starting 2007, as shown by the Audited Financial Statements[19] which were offered in evidence by the petitioners themselves. The petitioners, in claiming that Phil Carpet continued to earn profit in 2011 and 2012, disregarded the reason for such income, which was Phil Carpet's act of selling its remaining inventories. Notwithstanding such income, Phil Carpet continued to incur total comprehensive losses in the amounts of ₱9,559,716 and ₱12,768,277 for the years 2011 and 2012, respectively.[20]

Further, even if the petitioners refuse to consider these losses as serious enough to warrant Phil Carpet's total and permanent closure, it was a business judgment on the part of the company's owners and stockholders to cease operations, a judgment which the Court has no business interfering with. The only limitation provided by law is that the closure must be "*bona fide* in character and not impelled by a motive to defeat or circumvent the tenurial rights of employees."[21] Thus, when an employer complies with the foregoing conditions, the Court cannot prohibit closure "just because the business is not suffering from any loss or because of the desire to provide the workers continued employment."[22]

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[16] *Ignacio v. Coca-Cola Bottlers Phils., Inc.*, 417 Phil. 747, 752 (2001).
[17] 416 Phil. 310 (2001).
[18] Id. at 318.
[19] *Rollo* (Vol. I), pp. 124-208.
[20] Id. at 218-262.
[21] Article 298, Labor Code.
[22] *Angeles v. Polytex Design, Inc.*, 562 Phil. 152, 159 (2007).

Finally, Phil Carpet notified DOLE[23] and the petitioners[24] of its decision to cease manufacturing operations on January 3, 2011, or at least one (1) month prior to the intended date of closure on February 3, 2011. The petitioners were also given separation pay equivalent to 100% of their monthly basic salary for every year of service.

The dismissal of the petitioners did not amount to unfair labor practice

Article 259 (formerly Article 248) of the Labor Code enumerates the unfair labor practices of employers, to wit:

> Art. 259. Unfair Labor Practices of Employers. – It shall be unlawful for an employer to commit any of the following unfair labor practices:
>
> (a) To interfere with, restrain or coerce employees in the exercise of their right to self-organization;
>
> (b) To require as a condition of employment that a person or an employee shall not join a labor organization or shall withdraw from one to which he belongs;
>
> (c) To contract out services or functions being performed by union members when such will interfere with, restrain or coerce employees in the exercise of their right to self-organization;
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> (d) To initiate, dominate, assist or otherwise interfere with the formation or administration of any labor organization, including the giving of financial or other support to it or its organizers or supporters;
>
> (e) To discriminate in regard to wages, hours of work and other terms and conditions of employment in order to encourage or discourage membership in any labor organization. Nothing in this Code or in any other law shall stop the parties from requiring membership in a recognized collective bargaining agent as a condition for employment, except those employees who are already members of another union at the time of the signing of the collective bargaining agreement. Employees of an appropriate bargaining unit who are not members of the recognized collective bargaining agent may be assessed a reasonable fee equivalent to the dues and other fees paid by members of the recognized collective bargaining agent, if such non-union members accept the benefits under the collective bargaining agreement: *Provided,* That the individual authorization required under Article 242, paragraph (o) of this Code shall not apply to the non-members of the recognized collective bargaining agent;

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[23] *Rollo* (Vol. I), pp. 121-122.
[24] Id. at 554-595; *rollo* (Vol. II), pp. 596-643.

> (f) To dismiss, discharge or otherwise prejudice or discriminate against an employee for having given or being about to give testimony under this Code;
>
> (g) To violate the duty to bargain collectively as prescribed by this Code;
>
> (h) To pay negotiation or attorney's fees to the union or its officers or agents as part of the settlement of any issue in collective bargaining or any other dispute; or
>
> (i) To violate a collective bargaining agreement.
>
> The provisions of the preceding paragraph notwithstanding, only the officers and agents of corporations, associations or partnerships who have actually participated in, authorized or ratified unfair labor practices shall be held criminally liable.

Unfair labor practice refers to acts that violate the workers' right to organize.[25] There should be no dispute that all the prohibited acts constituting unfair labor practice in essence relate to the workers' right to self-organization.[26] Thus, an employer may only be held liable for unfair labor practice if it can be shown that his acts affect in whatever manner the right of his employees to self-organize.[27]

The general principle is that one who makes an allegation has the burden of proving it. Although there are exceptions to this general rule, in the case of unfair labor practice, the alleging party has the burden of proving it.[28] In the case of *Standard Chartered Bank Employees Union (NUBE) v. Confesor*,[29] this Court elaborated:

> **In order to show that the employer committed ULP under the Labor Code, substantial evidence is required to support the claim.** Substantial evidence has been defined as such relevant evidence as a reasonable mind might accept as adequate to support a conclusion.[30] [Emphasis supplied]

Moreover, good faith is presumed and he who alleges bad faith has the duty to prove the same.[31]

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[25] ARTICLE 258. [247] *Concept of Unfair Labor Practice and Procedure for Prosecution Thereof.* — Unfair labor practices violate the constitutional right of workers and employees to self-organization, are inimical to the legitimate interests of both labor and management, including their right to bargain collectively and otherwise deal with each other in an atmosphere of freedom and mutual respect, disrupt industrial peace and hinder the promotion of healthy and stable labor-management relations. x x x

[26] *Culili v. Eastern Telecommunications Philippines, Inc.*, 657 Phil. 342, 368 (2011).

[27] Id.

[28] *UST Faculty Union v. University of Santo Tomas*, 602 Phil. 1016, 1025 (2009).

[29] 476 Phil. 346 (2004).

[30] Id. at 367.

[31] *Central Azucarera De Bais Employees Union-NFL [CABEU-NFL] v. Central Azucarera De Bais, Inc. [CAB]*, 649 Phil. 629, 645 (2010).

The petitioners miserably failed to discharge the duty imposed upon them. They did not identify the acts of Phil Carpet which, they claimed, constituted unfair labor practice. They did not even point out the specific provisions which Phil Carpet violated. Thus, they would have the Court pronounce that Phil Carpet committed unfair labor practice on the ground that they were dismissed from employment simply because they were union officers and members. The constitutional commitment to the policy of social justice, however, cannot be understood to mean that every labor dispute shall automatically be decided in favor of labor.[32]

In this case, as far as the pieces of evidence offered by the petitioners are concerned, there is no showing that the closure of the company was an attempt at union-busting. Hence, the charge that Phil Carpet is guilty of unfair labor practice must fail for lack of merit.

Pacific Carpet has a personality separate and distinct from Phil Carpet

The petitioners, in asking the Court to disregard the separate corporate personality of Pacific Carpet and to make it liable for the obligations of Phil Carpet, rely heavily on the former being a subsidiary of the latter.

A corporation is an artificial being created by operation of law. It possesses the right of succession and such powers, attributes, and properties expressly authorized by law or incident to its existence. It has a personality separate and distinct from the persons composing it, as well as from any other legal entity to which it may be related.[33]

Equally well-settled is the principle that the corporate mask may be removed or the corporate veil pierced when the corporation is just an alter ego of a person or of another corporation. For reasons of public policy and in the interest of justice, the corporate veil will justifiably be impaled only when it becomes a shield for fraud, illegality or inequity committed against third persons.[34]

Hence, any application of the doctrine of piercing the corporate veil should be done with caution. A court should be mindful of the milieu where it is to be applied. It must be certain that the corporate fiction was misused to such an extent that injustice, fraud, or crime was committed against another, in disregard of rights. The wrongdoing must be clearly and convincingly

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[32] *Mercury Drug Corporation v. NLRC*, 258 Phil. 384, 391 (1989).
[33] *General Credit Corporation v. Alsons Development and Investment Corporation*, 542 Phil. 219, 231 (2007).
[34] *Philippine National Bank v. Andrada Electric Engineering Company*, 430 Phil. 882, 894 (2002).

established; it cannot be presumed. Otherwise, an injustice that was never unintended may result from an erroneous application.[35]

Further, the Court's ruling in *Philippine National Bank v. Hydro Resources Contractors Corporation*[36] is enlightening, *viz.*:

> The doctrine of piercing the corporate veil applies only in three (3) basic areas, namely: 1) defeat of public convenience as when the corporate fiction is used as a vehicle for the evasion of an existing obligation; 2) fraud cases or when the corporate entity is used to justify a wrong, protect fraud, or defend a crime; or 3) alter ego cases, where a corporation is merely a farce since it is a mere alter ego or business conduit of a person, or where the corporation is so organized and controlled and its affairs are so conducted as to make it merely an instrumentality, agency, conduit or adjunct of another corporation.
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> x x x x
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> In this connection, case law lays down a three-pronged test to determine the application of the *alter ego* theory, which is also known as the instrumentality theory, namely:
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> (1) Control, not mere majority or complete stock control, but complete domination, not only of finances but of policy and business practice in respect to the transaction attacked so that the corporate entity as to this transaction had at the time no separate mind, will or existence of its own;
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> (2) Such control must have been used by the defendant to commit fraud or wrong, to perpetuate the violation of a statutory or other positive legal duty, or dishonest and unjust act in contravention of plaintiff's legal right; and
>
> (3) The aforesaid control and breach of duty must have proximately caused the injury or unjust loss complained of.
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> The first prong is the "instrumentality" or "control" test. This test requires that the subsidiary be completely under the control and domination of the parent. It examines the parent corporation's relationship with the subsidiary. It inquires whether a subsidiary corporation is so organized and controlled and its affairs are so conducted as to make it a mere instrumentality or agent of the parent corporation such that its separate existence as a distinct corporate entity will be ignored. It seeks to establish whether the subsidiary corporation has no autonomy and the parent corporation, though acting through the subsidiary in form and appearance, "is operating the business directly for itself."

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[35] Id. at 894-895

[36] 706 Phil. 297 (2013).

> The second prong is the "fraud" test. This test requires that the parent corporation's conduct in using the subsidiary corporation be unjust, fraudulent or wrongful. It examines the relationship of the plaintiff to the corporation. It recognizes that piercing is appropriate only if the parent corporation uses the subsidiary in a way that harms the plaintiff creditor. As such, it requires a showing of "an element of injustice or fundamental unfairness."
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> The third prong is the "harm" test. This test requires the plaintiff to show that the defendant's control, exerted in a fraudulent, illegal or otherwise unfair manner toward it, caused the harm suffered. A causal connection between the fraudulent conduct committed through the instrumentality of the subsidiary and the injury suffered or the damage incurred by the plaintiff should be established. The plaintiff must prove that, unless the corporate veil is pierced, it will have been treated unjustly by the defendant's exercise of control and improper use of the corporate form and, thereby, suffer damages.
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> To summarize, piercing the corporate veil based on the *alter ego* theory requires the concurrence of three elements: control of the corporation by the stockholder or parent corporation, fraud or fundamental unfairness imposed on the plaintiff, and harm or damage caused to the plaintiff by the fraudulent or unfair act of the corporation. The absence of any of these elements prevents piercing the corporate veil.[37] [Citations omitted]

The Court finds that none of the tests has been satisfactorily met in this case.

Although ownership by one corporation of all or a great majority of stocks of another corporation and their interlocking directorates may serve as *indicia* of control, by themselves and without more, these circumstances are insufficient to establish an alter ego relationship or connection between Phil Carpet on the one hand and Pacific Carpet on the other hand, that will justify the puncturing of the latter's corporate cover.[38]

This Court has declared that "mere ownership by a single stockholder or by another corporation of all or nearly all of the capital stock of a corporation is not of itself sufficient ground for disregarding the separate corporate personality."[39] It has likewise ruled that the "existence of interlocking directors, corporate officers and shareholders is not enough justification to pierce the veil of corporate fiction in the absence of fraud or other public policy considerations."[40]

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[37] Id. at 309-312.
[38] Id. at 313.
[39] Id.
[40] *Pacific Rehouse Corporation v. CA*, 730 Phil. 325, 352 (2014).

It must be noted that Pacific Carpet was registered with the Securities and Exchange Commission on January 29, 1999,[41] such that it could not be said that Pacific Carpet was set up to evade Phil Carpet's liabilities. As to the transfer of Phil Carpet's machines to Pacific Carpet, settled is the rule that "where one corporation sells or otherwise transfers all its assets to another corporation for value, the latter is not, *by that fact alone*, liable for the debts and liabilities of the transferor."[42]

All told, the petitioners failed to present substantial evidence to prove their allegation that Pacific Carpet is a mere alter ego of Phil Carpet.

The quitclaims were valid and binding upon the petitioners

Where the person making the waiver has done so voluntarily, with a full understanding thereof, and the consideration for the quitclaim is credible and reasonable, the transaction must be recognized as being a valid and binding undertaking.[43] Not all quitclaims are *per se* invalid or against policy, except (1) where there is clear proof that the waiver was wangled from an unsuspecting or gullible person, or (2) where the terms of settlement are unconscionable on their face; in these cases, the law will step in to annul the questionable transactions.[44]

In this case, the petitioners question the validity of the quitclaims they signed on the ground that Phil Carpet's closure was a mere pretense. As the closure of Phil Carpet, however, was supported by substantial evidence, the petitioners' reason for seeking the invalidation of the quitclaims must necessarily fail. Further, as aptly observed by the CA, the contents of the quitclaims, which were in Filipino, were clear and simple, such that it was unlikely that the petitioners did not understand what they were signing.[45] Finally, the amount they received was reasonable as the same complied with the requirements of the Labor Code.

WHEREFORE, the petition is **DENIED**. The January 8, 2016 Decision and April 11, 2016 Resolution of the Court of Appeals in CA-G.R. SP No. 140663, are **AFFIRMED** in *toto*.

SO ORDERED.

JOSE CATRAL MENDOZA
Associate Justice

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[41] *Rollo* (Vol. II), p. 851.
[42] *Pantranco Employees Association v. NLRC*, 600 Phil. 645, 660 (2009).
[43] *Magsalin v. National Organization of Working Men*, 451 Phil. 254, 263 (2003).
[44] *Bogo-Medellin Sugarcane Planters Association, Inc. v. NLRC*, 357 Phil. 113, 126 (1998).
[45] *Rollo* (Vol. I), p. 47.

WE CONCUR:

(On Official Leave)
ANTONIO T. CARPIO
Associate Justice

DIOSDADO M. PERALTA
Associate Justice
Acting Chairperson

(On Leave)
MARVIC M.V.F. LEONEN
Associate Justice

SAMUEL R. MARTIRES
Associate Justice

ATTESTATION

I attest 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.

DIOSDADO M. PERALTA
Associate Justice
Acting Chairperson, Second Division

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution and the Division Acting Chairperson's Attestation, 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