



Republic of the Philippines  
Supreme Court  
Manila

THIRD DIVISION

EDUARDO ATIENZA,  
*Petitioner,*

G.R. No. 205405

Present:

-versus-

LEONEN, J.,  
*Chairperson,*  
HERNANDO,  
CARANDANG,\*  
DELOS SANTOS, and  
LOPEZ, J. Y., JJ.

GOLDEN RAM ENGINEERING  
SUPPLIES & EQUIPMENT  
CORPORATION and  
BARTOLOME TORRES,  
*Respondents.*

Promulgated:

June 28, 2021

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DECISION

**HERNANDO, J.:**

This Appeal by *Certiorari* under Rule 45<sup>1</sup> assails the May 31, 2012 Decision<sup>2</sup> of the Court of Appeals (CA) in CA-G.R. CV No. 92372 which affirmed with modification the August 28, 2008 Decision<sup>3</sup> of the Regional Trial Court (RTC) of Manila, Branch 173, in Civil Case No. 94-72195, as well as the appellate court's January 14, 2013 Resolution<sup>4</sup> denying the motion for reconsideration thereof.

\* Designated as additional member per raffle dated July 10, 2019 vice J. Inting who recused due to his sister's (then Court of Appeals Associate Justice Socorro B. Inting) prior participation in the Court of Appeals.

<sup>1</sup> *Rollo*, pp. 3-49.

<sup>2</sup> Id. at 51-68; penned by Associate Justice Japar B. Dimaampao with Justices Michael P. Elbinias and Socorro B. Inting concurring.

<sup>3</sup> Id. at 75-95; penned by Judge Rosario C. Cruz.

<sup>4</sup> Id. at 71-72.

The RTC and the CA uniformly found respondent Golden Ram Engineering and Supplies Equipment Corporation (GRESEC) liable to petitioner Eduardo Atienza (Atienza) for breach of warranty in the sale of two vessel engines installed in Atienza's passenger vessel, *MV Ace I*, and ordered GRESEC to pay Atienza damages. However, the appellate court diverged from the RTC's ruling and absolved respondent Bartolome Torres (Torres), President and Manager of GRESEC, from solidary liability with the respondent corporation, and deleted the awards of moral damages, attorney's fees, and costs of suit.

### **Factual antecedents:**

Considering the conflicting rulings of the lower courts, we find it imperative to juxtapose their factual findings on the issues of solidary liability, award of moral damages, attorney's fees and costs of suit.

First, the appellate court's succinct summary of the facts:

[Petitioner] Eduardo Atienza was engaged in the business of operating *MV Ace I*, a passenger vessel plying the Batangas-Mindoro route. [Respondent] Golden Ram Engineering Supplies and Equipment Corporation [GRESEC] is a dealer and distributor of engines and heavy equipment. Its President and Manager is [respondent] Bartolome T. Torres.

Asserting his claim for damages arising from breach of warranty, Atienza filed a Complaint, averring, *inter alia*, that Torres offered for sale two vessel engines amounting to ₱3.5 Million Pesos to be installed in *MV Ace I*, described as follows:

TWO (2) MAN Diesel Engines, Type D 2840 LE, rated at 470 Hp each, continuous output "A" at 1800 rpm, complete with 2 x ZF (Zahnradfabrik Friedrichshafen AG) Reversed/Reduction Gear Type BW 161 4.06:1 standard ration in accordance with the attached Technical Specification and Scope of Supply.

On 24 August 1993, Atienza bought the two vessel engines from [GRESEC] and as proof of his purchase, he was issued a *Proforma Invoice* which stated therein the warranty period, *viz*:

#### **WARRANTY PERIOD OF THE EQUIPMENT:**

The warranty period is given in accordance with the General Conditions of Sale DK.0105.N-12-87, article XI, herewith attached, for a period of 12 months, reckoned from date of commissioning, but not longer than 18 months after notification of readiness for delivery ex-warehouse Manila. The warranty period is further limited to 2000 hours of operation.

Atienza forthwith paid the amount of P2.5 Million Pesos, after which the two engines were delivered and commissioned by [GRESEC] sometime in March 1994.

On 26 September 1994, the engine on the right side of MV Ace I suffered a major dysfunction, the diagnosis of which revealed that the connecting rod had split resulting in engine stuck up. Atienza immediately reported the incident to [GRESEC] which sent a certain Engineer R. R. Torres (Engr. Torres), its Sales and Service Engineer, to inspect and determine the extent of the damage. Engr. Torres confirmed that the "defect was inherent being attributable to factory defect". This finding was reported to MAN B&W Diesel, Singapore Pte. Ltd. (MAN Diesel), the foreign supplier. In turn, the latter promised that the engine which suffered the malfunction would be replaced in accordance with the warranty.

Thereafter, Atienza made pleas for the replacement of the engine but his entreaties fell on deaf ears. Inevitably, he suffered losses for failure to operate since 26 September 1994. On 28 October 1994, Atienza wrote [GRESEC] a *Demand Letter* offering two alternatives for the company – *one*, replace the engine or reimburse him for the losses he had incurred, or *two*, retrieve the two engines and refund the cost with interest plus payment for losses. However, [GRESEC] paid no heed to his demand prompting him to lodge a Complaint for damages.

In their Answer, [GRESEC] and Torres (collectively, defendants) admitted the breakdown of the engine but confuted Atienza's assertion that Engr. Torres had confirmed that "defect was inherent being attributable to factory defect". Contrariwise, they claimed that the cause of the damage to the engine was improper maintenance on the part of Atienza. Defendants maintained that they never promised to replace the engine and that MAN Diesel was liable only for replacement of parts found to be defective on account of unsound material, faulty design or poor workmanship. Inasmuch as the defect of the engine was brought about by improper maintenance, the warranty claim must necessarily be denied as it was not within the coverage thereof. Moreover, [GRESEC] was merely an agent of MAN Diesel which had the authority to grant or deny warranty claims. [Defendants] likewise professed that Atienza had quoted portions of Article XI (Warranty Clause) of the General Conditions to support his claim; yet, he conveniently omitted other provisions which would nullify his claim. In particular, they cited Item 5 which states –

5. No warranty shall be accepted by MAN if damage is due to:

x x x x

-Purchaser failing to comply with handling, maintenance and service instructions for goods (e.g. operation instructions)."<sup>5</sup>

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<sup>5</sup> Id. at 52-54.

On the other hand, the RTC's factual findings, cited by the appellate court in its disposition, presented the testimonial and documentary evidence of both parties:

The Pro-forma invoice provides that the conditions and the period of the warranty is as follows:

WARRANTY PERIOD OF EQUIPMENT

The warranty period is given in accordance with the General Conditions of Sale DK.0105.N-12-87, article XI, herewith attached, for a period of 12 months, reckoned from date of commissioning, but not longer than 18 months after notification of readiness for delivery ex-warehouse Manila. The warranty period is further limited to 2000 hours of operation.

XI. WARRANTY

1. MAN's warranty covers the property explicitly guaranteed. Where parts are to be found defective on account of unsound material, faulty design or poor workmanship, MAN, shall at its option, repair or replace on an ex-factory basis, free of charge, all parts of its delivery which in consequence of such deficiencies are found to be unfit to use or seriously affected in use.

The warranty is to the exclusion of all other claims. All parts replaced shall become the property of MAN. For repair work and parts replaced MAN offers the same warranty as for the original goods in respect of bought-out items used by MAN in the manufacture of goods without any appreciable onward processing. MAN's liability shall be limited to assigning its warranty claims on the supplier. Bought-out items come under MAN's warranty insofar as MAN is responsible for the selection of the correct type and size of item. If elimination of a defect by MAN is unreasonable, the Purchaser or a third party may with the consent of MAN eliminate said defect expertly himself. In such cases, MAN shall reimburse the costs by not more than the amount that MAN would have incurred had MAN itself eliminated the fault.

x x x x

2. MAN's warranty commences on the day the commissioning ends and ends after 12 months. The warranty shall expire in all cases not later than 18 months after shipment or notification of readiness for dispatch.

x x x x

5. No warranty shall be accepted by MAN if damage is due to:

x x x x

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- the Purchaser failing to comply with handling, maintenance and service instructions for goods (e.g. operation instructions)

It is not controverted that the starboard engine broke down six months from time it was commissioned. This means that it was well within the 12-month period under the warranty. Raymond Torres testified on cross-examination that the starboard engine had not reached 2,000 hours at the time of breakdown of the engine and it was also within the period of 12 months from the time of commissioning (tsn, pp. 22-23, dated September 10, 1996).

From the time the starboard engine was commissioned it had performed differently from that of the portside engine. According to [Atienza] who was present during the sea trial in Manila Bay on February 13, 1994 it was [respondent] Bartolome Torres and [Engr.] Raymond Torres who effected the start of the vessel and [Atienza] observed that the right side of engine was [not functioning properly]. When asked what is the matter with the right engine (*sic*), Bartolome Torres and [Engr.] Raymond Torres said that it only lacks adjustment. On the trip from Manila to Batangas, the right engine was still slow in acceleration. But they were told to just use the engine for two weeks. The right engine emitted black smoke (tsn, dated February 23, 1999). They again informed Bartolome Torres and [Engr.] Raymond Torres who fixed the engine while the vessel MV Ace I was docked in Batangas City. The black smoke disappeared but the acceleration was still the same.

After one week, the right engine again emitted black smoke. [Atienza] again informed Bartolome Torres who said that they will change the piston ring. [Atienza] was concerned why anything had to be replaced in the new engine. After repair, the black smoke disappeared but the acceleration of the engine was still slow.

*The right engine again emitted black smoke after three weeks. [Atienza] was advised by defendants to change the propeller because its heavy and big. However, when a brand new propeller was used there was no remarkable change. It was only for one month that the black smoke did not appear.*

[Atienza] did not receive any written report about the repairs that were done on the starboard engine. It was their understanding that it was Bartolome Torres and [Engr.] Raymond Torres who will maintain the engines, all instructions by them were being followed by Manila Ace crew (tsn, dated August 12, 1999).

When the right engine broke down, [Atienza] was verbally assured that [respondents] will replace the engine. They did not say that they will refer the matter to MAN Diesel nor did they furnish [Atienza with] a copy of the findings of MAN Singapore (tsn, dated January 27, 2000).

It is the allegation of [respondents] that MAN denied the warranty claims of [Atienza] under paragraph 5 on the ground that, "the Purchaser failed to comply with the handling, maintenance and servicing instructions for the goods."

However, [respondents] failed to substantiate their claim. It merely presented log sheets that were allegedly accomplished by the crew of MV Ace I.  
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[Atienza], on the other hand, presented witnesses to prove that [respondents] were the ones in charge of maintaining the two engines. Arsenio Lim, operations Manager of Manila Ace, testified that they were instructed by [respondents] that when something goes wrong with the two engines, they should call Mr. Torres (tsn, dated March 14, 1996). They are not supposed to let another person touch the engine. A week after the starboard engine broke, [Engr.] Raymond Torres went to see the engine and even took pictures without even opening the engine. In front of many people [Engr.] Raymond Torres said "ok, I will change this after one week."

Rolando Casipi, oiler of Manila Ace, testified that [Engr.] Raymond Torres [told] them when to change oil and that they cannot change oil without Raymond Torres present or supervising it. He was beside the chief engineer when [Engr.] Raymond Torres told their chief engineer that if there is any trouble in the engine just call him (tsn, dated August 12, 1997).

[Atienza] testified that he received no written report about the repairs that were done and that it was their understanding that it was Bartolome Torres and [Engr.] Raymond Torres who will maintain the engines, all instructions by them were being followed by Manila Ace crew (tsn, dated August 12, 1999).

[Respondents] maintain that for [Atienza] to avail of the warranty he should submit a written complaint. This was not accomplished by [Atienza] for the reason that he always called upon Bartolome Torres and [Engr.] Raymond Torres whenever there were problems with the engine (tsn, dated April 13, 1999). [Respondents] did not require from [Atienza] a written complaint whenever they fixed the engine. **[Respondents] acted in bad faith when it required a written complaint from [Atienza] after MAN Singapore had allegedly denied the claim on the warranty. They did not even inform [Atienza] that they will refer the matter to MAN Singapore.**

[Respondents] also failed to explain the reason why of the two engines bought by [Atienza], which was used and maintained simultaneously, only the starboard engine suffered malfunction and eventually it broke down.<sup>6</sup> (Emphasis supplied)

### **Ruling of the Regional Trial Court:**

The RTC found that Atienza proved by preponderance of evidence that he sustained damages because respondents, GRESEC and Bartolome, breached the warranty against hidden defects in the sale of the two (2) vessel engines. The RTC noted that despite repeated demands, respondents gave Atienza a run around and failed to seasonably replace the starboard engine.

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<sup>6</sup> Id. at 86-91.

The trial court found respondents GRESEC and Bartolome to be in bad faith in their refusal to replace the vessel engines and declared, thus:

WHEREFORE, premises considered, judgment is hereby rendered in favor of [Atienza], and [GRESEC and Bartolome] are hereby ordered IN SOLIDUM to pay [Atienza]:

1. Compensatory or actual damages in the form of unrealized income in the total amount of One Million Six Hundred Thousand Pesos (P1,600,000.00) with legal interest from date of filing of the Complaint;
2. The amount of P200,000.00 as and by way of moral damages;  
and
3. The amount of P150,000.00 as and by way of attorney's fees and costs of suit.<sup>7</sup>

#### **Ruling of the Court of Appeals:**

The CA affirmed with modification the RTC's ruling. While it agreed with the trial court that Atienza established his cause of action against respondents by a preponderance of evidence, the CA differed from the RTC's finding concerning Bartolome's solidary liability with GRESEC, and whether the respondents were in bad faith which entitles Atienza to the payment of moral damages, attorney's fees and cost of suit.

According to the CA, respondents' denial of Atienza's warranty claim was done in good faith based on their honest belief that the claim did not comply with Item XI of the Warranty Conditions of the contract of sale and the malfunctioning engine had not been properly maintained. In the same vein, absent a demonstration of respondents' bad faith, the CA likewise deleted the RTC's award of attorney's fees and costs of suit.

Lastly, the appellate court exculpated Bartolome from solidary liability with GRESEC as the latter is a separate juridical personality. Consistent with its finding of respondents' lack of bad faith and gross negligence, the appellate court ruled that the separate corporate personality of GRESEC which entered into the sales transaction with Atienza could not be disregarded as to solidarily bind Bartolome for the breach of warranty.

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<sup>7</sup> Id. at 95.

### Issue

Hence, this appeal by *certiorari* of Atienza insisting that the sales transaction between him and respondents was attended by bad faith. Atienza maintains that the CA gravely erred or completely ignored the evidence:

[1] That show the bad faith, malice and intent to cause damage committed by Bartolome Torres as Director, Stockholder, of [GRESEC] hence his liability with the respondent corporation is *IN SOLIDUM*.

[2] That on account of bad faith, malice and intent to cause damage by Bartolome Torres, petitioner suffered moral damages and having been compelled to litigate to protect its rights and interest, petitioner should be awarded reasonable Attorney's Fees.

[3] When it modified the Decision of the [RTC] exculpating respondent Bartolome Torres from liability in solidum with the corporation which he wholly owns.<sup>8</sup>

We collapse the issues into the singular issue of whether respondents' denial of Atienza's warranty claim for the defective vessel engines was done in bad faith as to hold Bartolome solidarily liable with GRESEC for the payment of actual and moral damages, attorney's fees and costs of suit.

### Our Ruling

At the outset, we emphasize that GRESEC's liability to Atienza for the lower courts' uniform award of actual damages is no longer in issue. The appellate and the trial courts were one in its ruling that the defective engines sold by respondents to Atienza breached the implied warranty that the thing sold shall be free from any hidden faults or defects. Stated differently, the lower courts found that the malfunction of the vessel engines is not due to Atienza's negligence in maintaining these.

As found by the RTC, which factual findings were sustained by the CA, Atienza discharged the burden of proof by a preponderance of evidence that there were hidden defects in the engines sold by respondents. The appellate court affirmed the trial court's ruling as follows:

A warranty is a statement or representation made by the seller of goods, contemporaneously and as part of the contract of sale, having reference to the character, quality or title of the goods, and by which he promises to insure that certain facts are or shall be as he represents them to be.

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<sup>8</sup> Id. at 22-23.



It is not disputed that there is no express agreement between the parties as to the coverage of the warranty. In the absence of an express stipulation between the parties, the applicable provision is paragraph 2, Article 1547 of the Civil Code which states that in a contract of sale there is an implied warranty that the thing shall be free from hidden defects. A hidden defect is one which is unknown or could not have been known to the vendee. Corollarily, Articles 1561 and 1566 of the same Code set forth the responsibility of the vendor against hidden defects:

Art. 1561. The vendor shall be responsible for warranty against the hidden defects which the thing sold may have, should they render it unfit for the use for which it is intended, or should they diminish its fitness for such use to such an extent that, had the vendee been aware thereof, he would not have acquired it or would have given a lower price for it; but said vendor shall not be answerable for patent defects or those which may be visible, or for those which are not visible if the vendee is an expert who, by reason of his trade or profession, should have known them.

Art. 1566. The vendor is responsible to the vendee for any hidden faults or defects in the thing sold, even though he was not aware thereof.

This provision shall not apply if the contrary has been stipulated, and the vendor was not aware of the hidden faults or defects in the thing sold.

x x x x

We find no persuasive reason to depart from the factual finding of the [RTC] that the engine malfunction was due to a hidden defect which was unknown to [Atienza] at the time he bought the engine x x x.

x x x x

*Au contrario*, there is lack of evidence to show that the engine malfunctioned due to [Atienza's] negligence in its maintenance. x x x

x x x x

Item No. (2), Section IX, Appendix I of the *Pro-Forma Invoice* provides that the warranty of the engine commences from the day of commissioning and ends twelve (12) months thereafter. In the *Pre-Trial Order* dated 5 November 1996, both parties entered into a stipulation of fact that the date the engine was commissioned was sometime in March 1994. Thus, the filing of the *Complaint* on 16 November 1994 is well within the warranty period.

We hold and so rule that the *Pro-Forma Invoice* for which [Atienza] affixed his signature is in the nature of a contract of adhesion. A contract of adhesion is defined as one in which one of the parties imposes a ready made form of contract, which the other party may accept or reject, but which the latter

cannot modify. It is construed strictly against the party who drafted it or gave rise to any ambiguity therein. Being a contract of adhesion, the said provision in the *Pro-Forma Invoice* must be strictly construed against [respondents], the party which prepared the agreement.<sup>9</sup>

However, the CA and the RTC diverged on their factual findings of bad faith by respondents. The RTC ruled that respondents' denial of Atienza's claim was beset by bad faith; the CA ruled that it was not.

We are thus called upon to break the impasse. Upon a careful consideration, we agree with the finding of the RTC that respondents were in bad faith.

Bad faith, under the law, does not simply connote bad judgment or negligence. It imports a dishonest purpose or some moral obliquity and conscious doing of a wrong, a breach of a known duty through some motive or interest or ill will that partakes of the nature of fraud.<sup>10</sup>

In finding that respondents acted in bad faith in denying Atienza's warranty claim, the RTC considered the following circumstances:

*First.* The starboard engine broke down a mere six (6) months from the time it was commissioned. In fact, on cross examination of respondents' witness, Engr. Torres, respondent Bartolome's son, testified that the engine broke down well within the period of 12 months from the time of its commissioning and had not reached 2,000 hours of use.

*Second.* From the time it was commissioned, the starboard engine performed poorly compared with the portside engine and continuously emitted black smoke which Atienza reported to the respondents.

*Third.* Various parts of the malfunctioning engine, such as the piston ring and the propeller, successively conked out and had to be replaced which concerned Atienza given that the engine was purportedly brand new. Respondents ostensibly appeared to remedy the problem, but the starboard engine continued to malfunction and breakdown.

*Fourth.* During negotiations for the sale of the engines and in the course of its operation, respondents, along with Engr. Torres, repeatedly told Atienza that they were responsible for, and in charge of, maintaining the engines.

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<sup>9</sup> *Id.* at 56-59, 64.

<sup>10</sup> *Aliling v. Feliciano*, 686 Phil. 389, 919 (2012) citing *Nazareno v. City of Dumaguete*, 607 Phil. 768 (2009).

Atienza's employees, the operations manager, the chief engineer and the oiler of MV Ace I, were specifically instructed by respondent Bartolome and Engr. Torres to inform them of any problem concerning the engine.

*Fifth.* Respondents did not provide Atienza with written reports on the repairs made on the engines. Atienza thought he was only dealing with respondents in the repair of the engine. He was not made aware of respondents' principal, MAN Singapore's, requirement to file a written claim in order to avail of the warranty. Atienza maintains that respondents never required him to file a written complaint before they undertook to repair the malfunctioning engine. Neither did respondents inform Atienza that they will refer the matter to their principal, MAN Singapore.

*Sixth.* Respondents represented to Atienza that the starboard engine performs up to par and comparably with the portside engine reaching between 1,800 to 2,200 Revolutions Per Minute (RPM). However, contrary to the representation of respondents, the starboard engine had a weak acceleration and below the minimum RPM required by MV Ace I.<sup>11</sup>

*Lastly.* Respondents presented in evidence "the authorization of MAN regarding the shipment of four (4) demo units."

We find no fault in the ratiocination of the RTC, to wit:

Had [respondents] complied with its obligation under the warranty, it can be reasonably expected that [Atienza] would have continued earning in the same manner as its previous trips, which clearly indicate that it failed to earn during the time it had to stop operations because of engine breakdown.

Because of respondents' failure to replace the unserviceable engine which resulted in cessation of operations of [Atienza's] vessel, he suffered serious anxiety, sleepless nights, social humiliation and economic dislocation. He is entitled to moral damages in the amount of P200,000.00.

[Atienza] presented evidence that because of the cessation of the operations of MV Ace I on September 26, 1994, the company failed to meet its obligations and creditors abandoned it for its failure to pay its obligations.

The breach of warranty involved in this case does not involve simple negligence on the part of [respondents]. They presented (Exh. "16"), the authorization of MAN regarding the shipment of four (4) demo units. To the mind of the Court, this is an indication that it delivered demo units instead of brand new units to [Atienza]. Coupled by the fact that from the beginning, [Atienza] has complained [of] the slow acceleration of the starboard engine, the

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<sup>11</sup> *Rollo*, pp. 29-30 citing TSN, April 3, 1999, pp. 32-40.

black smoke that it emits and its breakdown. There being fraud and bad faith on the part of [respondents], the award of moral damages is proper.

Because of [respondents'] unjustifiable refusal to satisfy [Atienza's] valid claim, [Atienza] was compelled to litigate and incur expenses to protect his interest. [Atienza] was constrained to engage the services of a counsel for a fee of 20% of all amounts recovered as and for attorney's fees plus ₱1,000.00 as appearance fee. In his direct-examination, [Atienza] disclosed that he had already incurred half a million for his legal expenses (tsn, dated February 23, 1999). The award of ₱150,000.00 attorney's fee is therefore proper.<sup>12</sup>

From all the foregoing circumstances and as found by the trial court, we need not belabor the point. The bad faith of respondents in refusing to repair and subsequently replace a defective engine which already underperformed during sea trial and began malfunctioning six (6) months after its commissioning has been clearly established. Respondents' uncaring attitude towards fixing the engine which relates to MV Ace I's seaworthiness amounts to bad faith.<sup>13</sup> Thus, the RTC's grant of moral damages, attorney's fees and costs of suit has sufficient basis.

In *Nazareno v. City of Dumaguete*,<sup>14</sup> the Court expounded on the requisite elements for a litigant's entitlement to moral damages, thus:

Moral damages are awarded if the following elements exist in the case: (1) an injury clearly sustained by the claimant; (2) a culpable act or omission factually established; (3) a wrongful act or omission by the defendant as the proximate cause of the injury sustained by the claimant; and (4) the award of damages predicated on any of the cases stated Article 2219 of the Civil Code. In addition, the person claiming moral damages must prove the existence of bad faith by clear and convincing evidence for the law always presumes good faith. It is not enough that one merely suffered sleepless nights, mental anguish, and serious anxiety as the result of the actuations of the other party. Invariably such action must be shown to have been willfully done in bad faith or with ill motive. Bad faith, under the law, does not simply connote bad judgment or negligence. It imports a dishonest purpose or some moral obliquity and conscious doing of a wrong, a breach of a known duty through some motive or interest or ill will that partakes of the nature of fraud.<sup>15</sup>

Undoubtedly, respondents' unjustified denial of Atienza's warranty claim compelled him to litigate. Under Article 2208 (2) (5) of the Civil Code, attorney's fees and expenses of litigation may be recovered:

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<sup>12</sup> Id. at 93-95.

<sup>13</sup> See *Geromo v. La Paz Housing and Development Corporation*, 803 Phil. 506 (2017).

<sup>14</sup> *Supra* note 9.

<sup>15</sup> Id. at 803-804.

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(2) When the defendant's act or omission has compelled the plaintiff to litigate with third persons or to incur expenses to protect his interest;

x x x x

(5) Where the defendant acted in gross and evident bad faith in refusing to satisfy the plaintiff's plainly valid, just and demandable claim;

However, as regards the trial court's finding of respondents' solidary liability to Atienza for damages, we note that the trial court's Decision did not contain a discussion on the solidary liability of Bartolome with GRESEC. The RTC simply ordered respondents to pay, in solidum, the monetary awards to Atienza.

Solidary liability cannot be lightly inferred. "There is solidary liability when the obligation expressly so states, when the law so provides, or when the nature of the obligation so requires. Settled is the rule that a director or officer shall only be personally liable for the obligations of the corporation, if the following conditions concur: (1) the complainant alleged in the complaint that the director or officer assented to patently unlawful acts of the corporation, or that the officer was guilty of gross negligence or bad faith; and (2) the complainant clearly and convincingly proved such unlawful acts, negligence or bad faith."<sup>16</sup>

Basic is the principle that a corporation is vested by law with a personality separate and distinct from that of each person composing or representing it. Equally fundamental is the general rule that corporate officers cannot be held personally liable for the consequences of their acts, for as long as these are for and in behalf of the corporation, within the scope of their authority and in good faith. The separate corporate personality is a shield against the personal liability of corporate officers, whose acts are properly attributed to the corporation.<sup>17</sup>

In *Tramat Mercantile v. Court of Appeals*,<sup>18</sup> we ruled that personal liability of a corporate director, trustee or officer along (although not necessarily) with the corporation may so validly attach, as a rule, only when:

<sup>16</sup> *Bazar v. Ruizol*, 797 Phil. 656, 669-670 (2016).

<sup>17</sup> *Solidbank Corp. v. Mindanao Ferroalloy Corp.*, 502 Phil. 651 (2005).

<sup>18</sup> 308 Phil. 13 (1994).

1. He assents (a) to a patently unlawful act of the corporation, or (b) for **bad faith or gross negligence in directing its affairs**, or (c) for conflict of interest, resulting in damages to the corporation, its stockholders or other persons;
2. He consents to the issuance of watered stocks or who, having knowledge thereof, does not forthwith file with the corporate secretary his written objection thereto;
3. He agrees to hold himself personally and solidarily liable with the corporation; or
4. He is made, by a specific provision of law, to personally answer for his corporate action.<sup>19</sup> (Emphasis supplied)

Consistent with the foregoing principles, we disagree with the CA's pronouncement absolving respondent Bartolome from liability to the damages incurred by Atienza. Atienza established sufficient and specific evidence to show that Bartolome had acted in bad faith or gross negligence in the sale of the defective vessel engine and the delivery and installation of demo units instead of a new engine which Atienza paid for.

**WHEREFORE**, the petition is hereby **GRANTED**. The May 31, 2012 Decision of the Court of Appeals in CA-G.R. CV No. 92372 and its January 14, 2013 Resolution are **SET ASIDE**. The Decision of the Regional Trial Court, Branch 173, Manila City in Civil Case No. 94-72195 dated August 28, 2008 is **REINSTATED**. Respondents Golden Ram Engineering Supplies and Equipment Corporation and Bartolome T. Torres are **DECLARED SOLIDARILY LIABLE** to petitioner Eduardo Atienza for the following amounts:

1. Compensatory or actual damages in the form of unrealized income in the total amount of One Million Six Hundred Thousand Pesos (₱1,600,000.00) with legal interest from date of filing of the Complaint on November 16, 1994;
  2. Moral damages in the amount of ₱200,000.00;
  3. Attorney's fees and costs of suit in the amount of ₱150,000.00;
- and
4. 6% *per annum* interest on the total of the monetary awards from the finality of this Decision until full payment thereof.<sup>20</sup>

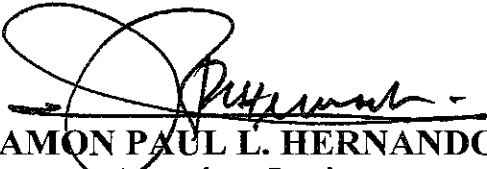
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<sup>19</sup> Id. at 17.


<sup>20</sup> See *Rivera v. Spouses Chua*, 750 Phil. 663 (2015).

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**SO ORDERED.**

  
**RAMON PAUL L. HERNANDO**  
Associate Justice

**WE CONCUR:**

  
**MARVIC M. V. F. LEONEN**  
Associate Justice  
Chairperson

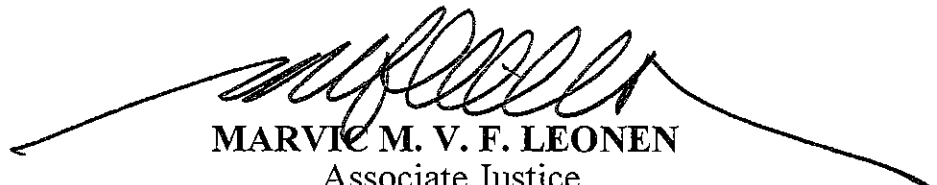
  
**ROSMARI D. CARANDANG**  
Associate Justice

  
**EDGARDO DELOS SANTOS**  
Associate Justice

  
**JHOSEP V. LOPEZ**  
Associate Justice

**ATTESTATION**

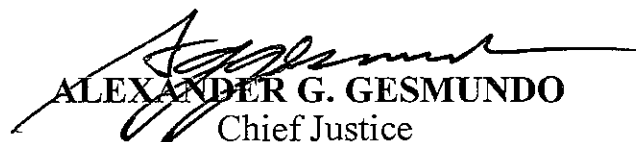
I attest that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.



**MARVIC M. V. F. LEONEN**  
Associate Justice  
Chairperson

**CERTIFICATION**

Pursuant to Section 13, Article VIII of the Constitution and the Division 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.



**ALEXANDER G. GESMUNDO**  
Chief Justice