

****Title: Mondragon Sales, Inc. vs. Victoriano S. Sola, Jr., G.R. No. 701 Phil. 661 (2016)****

****Facts:****

Petitioner Mondragon Personal Sales Inc. entered into a Contract of Services with respondent Victoriano S. Sola, Jr., set to last from October 2, 1994, to October 1, 1997. Under this contract, Sola was to provide service facilities and was entitled to a commission based on monthly sales minus VAT. Before this contract, Sola's wife, Lina Sola, had a debt with Mondragon from her Franchise Distributorship Agreement. In January 1995, Sola acknowledged and confirmed his wife's debt in a letter to Mondragon's Vice-President for Finance and bound himself to pay it.

From February to April 1995, Mondragon withheld Sola's service fees to offset his wife's debt, amounting to P125,040.01. Sola ceased his operations on April 29, 1995.

On May 24, 1995, Sola filed a Complaint with the RTC of Davao, seeking accounting and rescission of the contract, alleging wrongful withholding of service fees. Mondragon filed an answer with a counterclaim, stating that withholding was justified due to Sola's written acknowledgment of the debt.

The RTC granted Mondragon's preliminary attachment and replevin requests despite Sola's opposition, which was dismissed by the Supreme Court on procedural grounds. After trial, the RTC ruled in Mondragon's favor, finding that Sola was properly compensated through withheld fees as agreed in the contract and Sola's acknowledgment letter.

On appeal, the CA reversed the RTC, rescinded the service contract, and remanded the case to determine unlawfully withheld fees, also awarding P25,000 in attorney's fees to Sola. Mondragon's motion for reconsideration was denied, prompting the present appeal.

****Issues:****

1. Whether Mondragon breached the contract by withholding Sola's service fees.
2. Whether Sola assumed his wife's debt and its implications.
3. Whether the RTC award of Mondragon's counterclaim was proper.
4. Whether legal compensation occurred between the parties' mutual debts.

****Court's Decision:****

The Supreme Court reversed the CA decision, reinstating the RTC judgment in favor of Mondragon.

****1. Breach of Contract:****

The Supreme Court held that Mondragon's act of withholding was justified. Sola had expressly agreed to assume the debt and allowed for service fees to be offset against it. Therefore, withholding the fees was not a breach, and no basis for rescission existed.

****2. Assumption of Debt:****

The Court found that Sola's letter signified a co-debt arrangement for his wife's obligations. This established Sola as a principal debtor, validating Mondragon's act of withholding fees.

****3. RTC's Award of Counterclaim:****

The Supreme Court agreed with the RTC's award to Mondragon. The unchallenged debts substantiated the amount owing from Sola. The award included the principal balance of P1,543,643.96 and attorney's fees.

****4. Legal Compensation:****

The Court acknowledged legal compensation occurred by law. All requisites of legal compensation under Article 1279 of the Civil Code were met, allowing Mondragon to offset Sola's service fees against his confirmed debt.

****Doctrine:****

Legal compensation occurs by operation of law when mutual debts fulfill specific conditions: being principal debts, consisting of money or consumable items of the same kind and quality, due, liquidated, demandable debts, and free from third-party retention or controversies (Article 1279 of the Civil Code).

****Class Notes:****

- ***Legal Compensation***: Requires debts to be mutual, principal, liquidated, due, and of money or consumable items among other conditions (Art. 1279, Civil Code).
- ***Rescission of Contracts***: Article 1191 deals with reciprocal obligations and allows rescission for substantial breaches.
- ***Obligations of Spouses***: Joint administrator debts can impose subsidiary liability on the other spouse, but primary liability remains individual unless explicitly assumed.

****Historical Background:****

The case reflects complex issues surrounding contractual agreements, compensation, and assumption of debt within marital contexts in Philippine jurisprudence. It emphasizes the importance of clear, written undertakings and the circumstances under which legal compensation can occur by law, shaping contractual and family obligations' handling within

Philippine law.