Title:
American Biscuit Co. Inc. v. Operators Incorporated & Associated Biscuit Co. Inc.: A Case of Contractual Obligations and Violations

Facts:
This case spins around a complex agreement triad involving American Biscuit Company, Inc. (American Biscuit), Operators Incorporated (Operators), and Associated Biscuit, Inc. (Associated) tracing back to before World War II when American Biscuit was a thriving manufacturer. Due to financial difficulties post-war, it entered an Operating Contract with Operators on September 26, 1953, where Operators took over the business operations in exchange for handling American Biscuit's debts and sharing profits. Later, a Tripartite Agreement was signed on June 12, 1954, introducing Associated into the arrangement, expected to share in the obligations and rights of Operators. Disagreements emerged concerning the responsibilities particularly towards creditors and operational costs, leading American Biscuit to sue for the cancellation of these agreements, alleging breach due to non-fulfillment of financial commitments by Associated and removal of machinery.

The trial court dismissed all parties' claims against each other, but the Court of Appeals modified this decision, holding Associated liable for certain damages while acknowledging mutual breaches among the parties. Each party appealed to the Supreme Court, challenging aspects of the appellate court's judgment.

Issues:
1. Whether Associated Biscuit violated the Operating Contract and Tripartite Agreement by not fulfilling financial obligations.
2. If the solidary liability of Operators for Associated's breaches existed under the Tripartite Agreement.
3. Whether American Biscuit correctly sought judicial redress without resorting to arbitration as stipulated in the agreements.

Court's Decision:
The Supreme Court affirmed the decision of the Court of Appeals in full. The Court held that Associated did breach the agreements by failing to address American Biscuit's financial commitments and overhead expenses. The Court also found that Operators and Associated had assumed American Biscuit's liabilities to its creditors _in solidum_, meaning jointly and severally, and thus were solidary liable. However, American Biscuit's action of directly going to court was deemed incorrect since any disputes should have been subject to

arbitration as per the contracts.

Doctrine:
– The essential ingredient of payment for extinguishing obligations is its completeness or full payment.
– Solidarity may exist even when the creditors are not bound in the same manner, and a solidary obligor need not be an indispensable party in every suit related to joint obligations.
– The decision underscores the enforcement of arbitration clauses within contracts and the consequences of bypassing such agreed-upon resolutions.

Class Notes:
– **Solidary Obligations:** Under Article 1207 of the Civil Code, "there is a solidary liability only when the obligation expressly so states, when the law so provides or when the nature of the obligation requires solidarity."
– **Arbitration Clause Compliance:** The importance of adhering to agreed mechanisms for dispute resolution, such as arbitration, before seeking judicial intervention, as emphasized under Article 1216 of the Civil Code.
– **Integrity of Payment:** Article 1233 of the Civil Code mandates that payment, as a mode of extinguishing obligations, must be complete for the debt to be considered settled.

Historical Background:
This case illustrates a post-World War II scenario where businesses faced challenges reconvening operations. It highlights the legal intricacies involved in corporate partnerships, specifically in addressing financial distress and operational takeover agreements. The dispute underlines the legal framework surrounding contractual obligations, breaches, and the interplay between corporate ventures in the Philippines during the mid-20th century.