Republic of the Philippines
Supreme Court
Manila

SECOND DIVISION

MARIETTA N. PORTILLO,
Petitioner,

- *versus* -

RUDOLF LIETZ, INC., RUDOLF LIETZ and COURT OF APPEALS,
Respondents.

G.R. No. 196539

Present:

CARPIO, *J.*,
Chairperson,
BRION,
DEL CASTILLO,
PEREZ, and
PERLAS-BERNABE, *JJ.*

Promulgated:

OCT 10 2012

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DECISION

PEREZ, *J.*:

Before us is a petition for *certiorari* assailing the Resolution[1] dated 14 October 2010 of the Court of Appeals in CA-G.R. SP No. 106581 which modified its Decision[2] dated 31 March 2009, thus allowing the legal compensation of petitioner Marietta N. Portillo's (Portillo) monetary claims against respondent corporation Rudolf Lietz, Inc.'s (Lietz Inc.)[3] claim for

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1 Penned by Associate Justice Isaias Dicdican with Associate Justices Bienvenido L. Reyes (now a member of this Court) and Marlene Gonzales-Sison, concurring. *Rollo*, pp. 40-42.

2 Id. at 21-30.

3 Designated as such to distinguish from respondent Rudolf Lietz, the individual, simply designated herein as Rudolf.

liquidated damages arising from Portillo's alleged violation of the "Goodwill Clause" in the employment contract executed by the parties.

The facts are not in dispute.

In a letter agreement dated 3 May 1991, signed by individual respondent Rudolf Lietz (Rudolf) and conformed to by Portillo, the latter was hired by the former under the following terms and conditions:

> A copy of [Lietz Inc.'s] work rules and policies on personnel is enclosed and an inherent part of the terms and conditions of employment.
>
> We acknowledge your proposal in your application specifically to the effect that you will not engage in any other gainful employment by yourself or with any other company either directly or indirectly without written consent of [Lietz Inc.], and we hereby accept and henceforth consider your proposal an undertaking on your part, a breach of which will render you liable to [Lietz Inc.] for liquidated damages.
>
> If you are in agreement with these terms and conditions of employment, please signify your conformity below.[4]

On her tenth (10^{th}) year with Lietz Inc., specifically on 1 February 2002, Portillo was promoted to Sales Representative and received a corresponding increase in basic monthly salary and sales quota. In this regard, Portillo signed another letter agreement containing a "Goodwill Clause:"

> It remains understood and you agreed that, on the termination of your employment by act of either you or [Lietz Inc.], and for a period of three (3) years thereafter, you shall not engage directly or indirectly as employee, manager, proprietor, or solicitor for yourself or others in a similar or competitive business or the same character of work which you were employed by [Lietz Inc.] to do and perform. Should you breach this good will clause of this Contract, you shall pay [Lietz Inc.] as liquidated

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4 *Rollo*, p. 22.

> damages the amount of 100% of your gross compensation over the last 12 months, it being agreed that this sum is reasonable and just.[5]

Three (3) years thereafter, on 6 June 2005, Portillo resigned from Lietz Inc. During her exit interview, Portillo declared that she intended to engage in business—a rice dealership, selling rice in wholesale.

On 15 June 2005, Lietz Inc. accepted Portillo's resignation and reminded her of the "Goodwill Clause" in the last letter agreement she had signed. Upon receipt thereof, Portillo jotted a note thereon that the latest contract she had signed in February 2004 did not contain any "Goodwill Clause" referred to by Lietz Inc. In response thereto, Lietz Inc. categorically wrote:

> Please be informed that the standard prescription of prohibiting employees from engaging in business or seeking employment with organizations that directly or indirectly compete against [Lietz Inc.] for three (3) years after resignation remains in effect.
>
> The documentation you pertain to is an internal memorandum of your salary increase, not an employment contract. The absence of the three-year prohibition clause in this document (or any document for that matter) does not cancel the prohibition itself. We did not, have not, and will not issue any cancellation of such in the foreseeable future[.] [T]hus[,] regretfully, it is erroneous of you to believe otherwise.[6]

In a subsequent letter dated 21 June 2005, Lietz Inc. wrote Portillo and supposed that the exchange of correspondence between them regarding the "Goodwill Clause" in the employment contract was a moot exercise since Portillo's articulated intention to go into business, selling rice, will not compete with Lietz Inc.'s products.

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5 Id. at 23.

6 Id. at 23-24.

Subsequently, Lietz Inc. learned that Portillo had been hired by Ed Keller Philippines, Limited to head its Pharma Raw Material Department. Ed Keller Limited is purportedly a direct competitor of Lietz Inc.

Meanwhile, Portillo's demands from Lietz Inc. for the payment of her remaining salaries and commissions went unheeded. Lietz Inc. gave Portillo the run around, on the pretext that her salaries and commissions were still being computed.

On 14 September 2005, Portillo filed a complaint with the National Labor Relations Commission (NLRC) for non-payment of 1½ months' salary, two (2) months' commission, 13th month pay, plus moral, exemplary and actual damages and attorney's fees.

In its position paper, Lietz Inc. admitted liability for Portillo's money claims in the total amount of ₱110,662.16. However, Lietz Inc. raised the defense of legal compensation: Portillo's money claims should be offset against her liability to Lietz Inc. for liquidated damages in the amount of ₱869,633.09[7] for Portillo's alleged breach of the "Goodwill Clause" in the employment contract when she became employed with Ed Keller Philippines, Limited.

On 25 May 2007, Labor Arbiter Daniel J. Cajilig granted Portillo's complaint:

> WHEREFORE, judgment is hereby rendered ordering respondents Rudolf Lietz, Inc. to pay complainant Marietta N. Portillo the amount of

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7 Varied amount of ₱980,295.25 in the 14 October 2010 Resolution of the Court of Appeals. Id. at 42.

> Php110,662.16, representing her salary and commissions, including 13th month pay.[8]

On appeal by respondents, the NLRC, through its Second Division, affirmed the ruling of Labor Arbiter Daniel J. Cajilig. On motion for reconsideration, the NLRC stood pat on its ruling.

Expectedly, respondents filed a petition for *certiorari* before the Court of Appeals, alleging grave abuse of discretion in the labor tribunals' rulings.

As earlier adverted to, the appellate court initially affirmed the labor tribunals:

> **WHEREFORE**, considering the foregoing premises, judgment is hereby rendered by us **DENYING** the petition filed in this case. The Resolution of the National Labor Relations Commission (NLRC), Second Division, in the labor case docketed as NLRC NCR Case No. 00-09-08113-2005 [NLRC LAC No. 07-001965-07(5)] is hereby **AFFIRMED**.[9]

The disposition was disturbed. The Court of Appeals, on motion for reconsideration, modified its previous decision, thus:

> **WHEREFORE**, in view of the foregoing premises, we hereby **MODIFY** the decision promulgated on March 31, 2009 in that, while we uphold the monetary award in favor of the [petitioner] in the aggregate sum of ₱110,662.16 representing the unpaid salary, commission and 13th month pay due to her, we hereby allow legal compensation or set-off of such award of monetary claims by her liability to [respondents] for liquidated damages arising from her violation of the "Goodwill Clause" in her employment contract with them.[10]

Portillo's motion for reconsideration was denied.

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8 Id. at 25.
9 Id. at 30.
10 Id. at 42.

Hence, this petition for *certiorari* listing the following acts as grave abuse of discretion of the Court of Appeals:

> THE COURT OF APPEALS ACTED WITH GRAVE ABUSE OF DISCRETION BY EVADING TO RECOGNIZE (*sic*) THAT THE RESPONDENTS' EARLIER PETITION IS FATALLY DEFECTIVE[;]
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> THE COURT OF APPEALS ACTED WITH GRAVE ABUSE OF DISCRETION BY OVERSTEPPING THE BOUNDS OF APPELLATE JURISDICTION[;]
>
> THE COURT OF APPEALS ACTED WITH GRAVE ABUSE OF DISCRETION BY MODIFYING ITS PREVIOUS DECISION BASED ON AN ISSUE THAT WAS RAISED ONLY ON THE FIRST INSTANCE AS AN APPEAL BUT WAS NEVER AT THE TRIAL COURT AMOUNTING TO DENIAL OF DUE PROCESS[;]
>
> THE COURT OF APPEALS ACTED WITH GRAVE ABUSE OF DISCRETION BY EVADING THE POSITIVE DUTY TO UPHOLD THE RELEVANT LAWS[.][11]

Simply, the issue is whether Portillo's money claims for unpaid salaries may be offset against respondents' claim for liquidated damages.

Before anything else, we address the procedural error committed by Portillo, *i.e.*, filing a petition for *certiorari*, a special civil action under Rule 65 of the Rules of Court, instead of a petition for review on *certiorari*, a mode of appeal, under Rule 45 thereof. On this score alone, the petition should have been dismissed outright.

Section 1, Rule 45 of the Rules of Court expressly provides that a party desiring to appeal by *certiorari* from a judgment or final order or resolution of the Court of Appeals may file a verified petition for review on *certiorari*. Considering that, in this case, appeal by *certiorari* was available to Portillo, that available recourse foreclosed her right to resort to a special civil action for *certiorari*, a limited form of review and a remedy

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[11] Id. at 6.

of last recourse, which lies only where there is no appeal or plain, speedy and adequate remedy in the ordinary course of law.[12]

A petition for review on *certiorari* under Rule 45 and a petition for *certiorari* under Rule 65 are mutually exclusive remedies. *Certiorari* cannot co-exist with an appeal or any other adequate remedy.[13] If a petition for review is available, even prescribed, the nature of the questions of law intended to be raised on appeal is of no consequence. It may well be that those questions of law will treat exclusively of whether or not the judgment or final order was rendered without or in excess of jurisdiction, or with grave abuse of discretion. This is immaterial. The remedy is appeal, not *certiorari* as a special civil action.[14]

Be that as it may, on more than one occasion, to serve the ultimate purpose of all rules of procedures—attaining substantial justice as expeditiously as possible[15]—we have accepted procedurally incorrect petitions and decided them on the merits. We do the same here.

The Court of Appeals anchors its modified ruling on the ostensible causal connection between Portillo's money claims and Lietz Inc.'s claim for liquidated damages, both claims apparently arising from the same employment relations. Thus, did it say:

> x x x [T]his Court will have to take cognizance of and consider the "Goodwill Clause" contained [in] the employment contract signed by and between [respondents and Portillo]. There is no gainsaying the fact that such "Goodwill Clause" is part and parcel of the employment contract extended to [Portillo], and such clause is not contrary to law, morals and

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12 Section 1, Rule 65 of the Rules of Court.

13 *Estinozo v. Court of Appeals*, G.R. No. 150276, 12 February 2008, 544 SCRA 422, 431.

14 Id.

15 *Cirtek Employees Labor Union-Federation of Free Workers v. Cirtek Electronics, Inc.*, G.R. No. 190515, 6 June 2011, 650 SCRA 656, 659.

> public policy. There is thus a causal connection between [Portillo's] monetary claims against [respondents] and the latter's claim for liquidated damages against the former. Consequently, we should allow legal compensation or set-off to take place. [Respondents and Portillo] are both bound principally and, at the same time, are creditors of each other. [Portillo] is a creditor of [respondents] in the sum of ₱110,662.16 in connection with her monetary claims against the latter. At the same time, [respondents] are creditors of [Portillo] insofar as their claims for liquidated damages in the sum of ₱980,295.25[16] against the latter is concerned.[17]

We are not convinced.

Paragraph 4 of Article 217 of the Labor Code appears to have caused the reliance by the Court of Appeals on the "causal connection between [Portillo's] monetary claims against [respondents] and the latter's claim from liquidated damages against the former."

> **Art. 217. Jurisdiction of Labor Arbiters and the Commission.** – (a) Except as otherwise provided under this code, the Arbiters shall have original and exclusive jurisdiction to hear and decide, within thirty (30) calendar days after the submission of the case by the parties for decision without extension, even in the absence of stenographic notes, the following case involving all workers, whether agricultural or non-agricultural:
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> x x x x
>
> 4. Claims for actual, moral, exemplary and other forms of damages arising from the employer-employee relations; (Underscoring supplied)

Evidently, the Court of Appeals is convinced that the claim for liquidated damages emanates from the "Goodwill Clause of the employment contract and, therefore, is a claim for damages arising from the employer-employee relations."

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16 *Rollo*, p. 42.
17 Id. at 41-42.

As early as *Singapore Airlines Limited v. Paño*,[18] we established that not all disputes between an employer and his employee(s) fall within the jurisdiction of the labor tribunals. We differentiated between abandonment *per se* and the manner and consequent effects of such abandonment and ruled that the first, is a labor case, while the second, is a civil law case.

> Upon the facts and issues involved, jurisdiction over the present controversy must be held to belong to the civil Courts. While seemingly petitioner's claim for damages arises from employer-employee relations, and the latest amendment to Article 217 of the Labor Code under PD No. 1691 and BP Blg. 130 provides that all other claims arising from employer-employee relationship are cognizable by Labor Arbiters [citation omitted], in essence, petitioner's claim for damages is grounded on the "wanton failure and refusal" without just cause of private respondent Cruz to report for duty despite repeated notices served upon him of the disapproval of his application for leave of absence without pay. This, coupled with the further averment that Cruz "maliciously and with bad faith" violated the terms and conditions of the conversion training course agreement to the damage of petitioner removes the present controversy from the coverage of the Labor Code and brings it within the purview of Civil Law.
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> Clearly, the complaint was anchored not on the abandonment *per se* by private respondent Cruz of his job—as the latter was not required in the Complaint to report back to work—but on the *manner* and *consequent effects* of such abandonment of work translated in terms of the damages which petitioner had to suffer.
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> Squarely in point is the ruling enunciated in the case of Quisaba *vs*. Sta. Ines Melale Veneer & Plywood, Inc. [citation omitted], the pertinent portion of which reads:
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> > "Although the acts complained of seemingly appear to constitute 'matter involving employee-employer' relations as Quisaba's dismissal was the severance of a pre-existing employee-employer relations, his complaint is grounded not on his dismissal *per se*, as in fact he does not ask for reinstatement or backwages, but on the manner of his dismissal and the consequent effects of such dismissal.
> >
> > "Civil law consists of that 'mass of precepts that determine or regulate the relations . . . that exist between members of a society for the protection of private interest (1 Sanchez Roman 3).

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[18] 207 Phil. 585 (1983).

> "The 'right' of the respondents to dismiss Quisaba should not be confused with the manner in which the right was exercised and the effects flowing therefrom. If the dismissal was done anti-socially or oppressively as the complaint alleges, then the respondents violated Article 1701 of the Civil Code which prohibits acts of oppression by either capital or labor against the other, and Article 21, which makes a person liable for damages if he wilfully causes loss or injury to another in a manner that is contrary to morals, good customs or public policy, the sanction for which, by way of moral damages, is provided in article 2219, No. 10. [citation omitted]"
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> **Stated differently, petitioner seeks protection under the civil laws and claims no benefits under the Labor Code. The primary relief sought is for liquidated damages for breach of a contractual obligation. The other items demanded are not labor benefits demanded by workers generally taken cognizance of in labor disputes, such as payment of wages, overtime compensation or separation pay. The items claimed are the natural consequences flowing from breach of an obligation, intrinsically a civil dispute.**[19] (Emphasis supplied)

Subsequent rulings amplified the teaching in *Singapore Airlines.* The *reasonable causal connection* rule was discussed. Thus, in *San Miguel Corporation v. National Labor Relations Commission*,[20] we held:

> While paragraph 3 above refers to "all money claims of workers," it is not necessary to suppose that the entire universe of money claims that might be asserted by workers against their employers has been absorbed into the original and exclusive jurisdiction of Labor Arbiters. In the first place, paragraph 3 should be read not in isolation from but rather within the context formed by paragraph 1 (relating to unfair labor practices), paragraph 2 (relating to claims concerning terms and conditions of employment), paragraph 4 (claims relating to household services, a particular species of employer-employee relations), and paragraph 5 (relating to certain activities prohibited to employees or to employers). It is evident that there is a unifying element which runs through paragraph 1 to 5 and that is, that they all refer to cases or disputes arising out of or in connection with an employer-employee relationship. This is, in other words, a situation where the rule of *noscitur a sociis* may be usefully invoked in clarifying the scope of paragraph 3, and any other paragraph of Article 217 of the Labor Code, as amended. We reach the above conclusion from an examination of the terms themselves of Article 217, as

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19 Id. at 589-591.

20 244 Phil. 741 (1988).

> last amended by B.P. Blg. 227, and even though earlier versions of Article 217 of the Labor Code expressly brought within the jurisdiction of the Labor Arbiters and the NLRC "cases arising from employer-employee relations, [citation omitted]" which clause was not expressly carried over, in printer's ink, in Article 217 as it exists today. For it cannot be presumed that money claims of workers which do not arise out of or in connection with their employer-employee relationship, and which would therefore fall within the general jurisdiction of regular courts of justice, were intended by the legislative authority to be taken away from the jurisdiction of the courts and lodged with Labor Arbiters on an exclusive basis. **The Court, therefore, believes and so holds that the "money claims of workers" referred to in paragraph 3 of Article 217 embraces money claims which arise out of or in connection with the employer-employee relationship, or some aspect or incident of such relationship. Put a little differently, that money claims of workers which now fall within the original and exclusive jurisdiction of Labor Arbiters are those money claims which have some *reasonable causal connection* with the employer-employee relationship**.[21] (Emphasis supplied)

We thereafter ruled that the "reasonable causal connection with the employer-employee relationship" is a requirement not only in employees' money claims against the employer but is, likewise, a condition when the claimant is the employer.

In *Dai-Chi Electronics Manufacturing Corporation v. Villarama, Jr.*,[22] which reiterated the *San Miguel* ruling and allied jurisprudence, we pronounced that a non-compete clause, as in the "Goodwill Clause" referred to in the present case, with a stipulation that a violation thereof makes the employee liable to his former employer for liquidated damages, refers to post-employment relations of the parties.

In *Dai-Chi*, the trial court dismissed the civil complaint filed by the employer to recover damages from its employee for the latter's breach of his contractual obligation. We reversed the ruling of the trial court as we found that the employer did not ask for any relief under the Labor Code but sought

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21 Id. at 747-748.

22 G.R. No. 112940, 21 November 1994, 238 SCRA 267.

to recover damages agreed upon in the contract as redress for its employee's breach of contractual obligation to its "damage and prejudice." We iterated that Article 217, paragraph 4 does not automatically cover all disputes between an employer and its employee(s). We noted that the cause of action was within the realm of Civil Law, thus, jurisdiction over the controversy belongs to the regular courts. At bottom, we considered that the stipulation referred to post-employment relations of the parties.

That the "Goodwill Clause" in this case is likewise a post-employment issue should brook no argument. There is no dispute as to the cessation of Portillo's employment with Lietz Inc.[23] She simply claims her unpaid salaries and commissions, which Lietz Inc. does not contest. At that juncture, Portillo was no longer an employee of Lietz Inc.[24] The "Goodwill Clause" or the "Non-Compete Clause" is a contractual undertaking effective after the cessation of the employment relationship between the parties. In accordance with jurisprudence, breach of the undertaking is a civil law dispute, not a labor law case.

It is clear, therefore, that while Portillo's claim for unpaid salaries is a money claim that arises out of or in connection with an employer-employee relationship, Lietz Inc.'s claim against Portillo for violation of the goodwill clause is a money claim based on an act done after the cessation of the employment relationship. And, while the jurisdiction over Portillo's claim is vested in the labor arbiter, the jurisdiction over Lietz Inc.'s claim rests on the regular courts. Thus:

> As it is, petitioner does not ask for any relief under the Labor Code. It merely seeks to recover damages based on the parties' contract of

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23 See Article 212, paragraph (l) of the Labor Code.

24 See Article 212, paragraph (f) of the Labor Code.

employment as redress for respondent's breach thereof. Such cause of action is within the realm of Civil Law, and jurisdiction over the controversy belongs to the regular courts. More so must this be in the present case, what with the reality that the stipulation refers to the post-employment relations of the parties.

For sure, a plain and cursory reading of the complaint will readily reveal that the subject matter is one of claim for damages arising from a breach of contract, which is within the ambit of the regular court's jurisdiction. [citation omitted]

It is basic that jurisdiction over the subject matter is determined upon the allegations made in the complaint, irrespective of whether or not the plaintiff is entitled to recover upon the claim asserted therein, which is a matter resolved only after and as a result of a trial. Neither can jurisdiction of a court be made to depend upon the defenses made by a defendant in his answer or motion to dismiss. If such were the rule, the question of jurisdiction would depend almost entirely upon the defendant.[25] [citation omitted]

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Whereas this Court in a number of occasions had applied the jurisdictional provisions of Article 217 to claims for damages filed by employees [citation omitted], we hold that by the designating clause "arising from the employer-employee relations" Article 217 should apply with equal force to the claim of an *employer* for actual damages against its dismissed employee, where the basis for the claim arises from or is necessarily connected with the fact of termination, and should be entered as a counterclaim in the illegal dismissal case.[26]

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This is, of course, to distinguish from cases of actions for damages where the employer-employee relationship is merely incidental and the cause of action proceeds from a different source of obligation. Thus, the jurisdiction of regular courts was upheld where the damages, claimed for were based on tort [citation omitted]**, malicious prosecution** [citation omitted]**, or breach of contract, as when the claimant seeks to recover a debt from a former employee** [citation omitted] **or seeks liquidated damages in enforcement of a prior employment contract.** [citation omitted]

Neither can we uphold the reasoning of respondent court that because the resolution of the issues presented by the complaint does not entail application of the Labor Code or other labor laws, the dispute is intrinsically civil. Article 217(a) of the Labor Code, as amended, clearly bestows upon the Labor Arbiter original and exclusive jurisdiction over

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25 *Yusen Air & Sea Service Phils., Inc. v. Villamor*, 504 Phil. 437, 447 (2005).

26 *Bañez v. Hon. Valdevilla*, 387 Phil. 601, 608 (2000).

> claims for damages arising from employer-employee relations—in other words, the Labor Arbiter has jurisdiction to award not only the reliefs provided by labor laws, but also damages governed by the Civil Code.[27] (Emphasis supplied)

In the case at bar, the difference in the nature of the credits that one has against the other, conversely, the nature of the debt one owes another, which difference in turn results in the difference of the forum where the different credits can be enforced, prevents the application of compensation. Simply, the labor tribunal in an employee's claim for unpaid wages is without authority to allow the compensation of such claims against the post employment claim of the former employer for breach of a post employment condition. The labor tribunal does not have jurisdiction over the civil case of breach of contract.

We are aware that in *Bañez v. Hon. Valdevilla,* we mentioned that:

> Whereas this Court in a number of occasions had applied the jurisdictional provisions of Article 217 to claims for damages filed by employees [citation omitted], we hold that by the designating clause "arising from the employer-employee relations" Article 217 should apply with equal force to the claim of an *employer* for actual damages against its dismissed employee, where the basis for the claim arises from or is necessarily connected with the fact of termination, and should be entered as a counterclaim in the illegal dismissal case.[28]

While on the surface, *Bañez* supports the decision of the Court of Appeals, the facts beneath premise an opposite conclusion. There, the salesman-employee obtained from the NLRC a final favorable judgment of illegal dismissal. Afterwards, the employer filed with the trial court a complaint for damages for alleged nefarious activities causing damage to

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27 Id. at 610-611.

28 Supra note 26 at 608.

the employer. Explaining further why the claims for damages should be entered as a counterclaim in the illegal dismissal case, we said:

> Even under Republic Act No. 875 (the 'Industrial Peace Act,' now completely superseded by the Labor Code), jurisprudence was settled that where the plaintiff's cause of action for damages arose out of, or was necessarily intertwined with, an alleged unfair labor practice committed by the union, the jurisdiction is exclusively with the (now defunct) Court of Industrial Relations, and the assumption of jurisdiction of regular courts over the same is a nullity. To allow otherwise would be "to sanction split jurisdiction, which is prejudicial to the orderly administration of justice." Thus, even after the enactment of the Labor Code, where the damages separately claimed by the employer were allegedly incurred as a consequence of strike or picketing of the union, such complaint for damages is deeply rooted from the labor dispute between the parties, and should be dismissed by ordinary courts for lack of jurisdiction. As held by this Court in *National Federation of Labor vs. Eisma*, 127 SCRA 419:
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> > Certainly, the present Labor Code is even more committed to the view that on policy grounds, and equally so in the interest of greater promptness in the disposition of labor matters, a court is spared the often onerous task of determining what essentially is a factual matter, namely, the damages that may be incurred by either labor or management as a result of disputes or controversies arising from employer-employee relations.[29]

Evidently, the ruling of the appellate court is modeled after the basis used in *Bañez* which is the "intertwined" facts of the claims of the employer and the employee or that the "complaint for damages is deeply rooted from the labor dispute between the parties." Thus, did the appellate court say that:

> There is no gainsaying the fact that such "Goodwill Clause" is part and parcel of the employment contract extended to [Portillo], and such clause is not contrary to law, morals and public policy. There is thus a causal connection between [Portillo's] monetary claims against [respondents] and the latter's claim for liquidated damages against the former. Consequently, we should allow legal compensation or set-off to take place.[30]

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29 Id. at 608-609.

30 *Rollo,* pp. 41-42.

The Court of Appeals was misguided. Its conclusion was incorrect.

There is no causal connection between the petitioner employees' claim for unpaid wages and the respondent employers' claim for damages for the alleged "Goodwill Clause" violation. Portillo's claim for unpaid salaries did not have anything to do with her alleged violation of the employment contract as, in fact, her separation from employment is not "rooted" in the alleged contractual violation. She resigned from her employment. She was not dismissed. Portillo's entitlement to the unpaid salaries is not even contested. Indeed, Lietz Inc.'s argument about legal compensation necessarily admits that it owes the money claimed by Portillo.

The alleged contractual violation did not arise during the existence of the employer-employee relationship. It was a post-employment matter, a post-employment violation. Reminders are apt. That is provided by the fairly recent case of *Yusen Air and Sea Services Phils., Inc. v. Villamor*,[31] which harked back to the previous rulings on the necessity of "reasonable causal connection" between the tortious damage and the damage arising from the employer-employee relationship. *Yusen* proceeded to pronounce that the absence of the connection results in the absence of jurisdiction of the labor arbiter. Importantly, such absence of jurisdiction cannot be remedied by raising before the labor tribunal the tortious damage as a defense. Thus:

> When, as here, the cause of action is based on a quasi-delict or tort, which has no reasonable causal connection with any of the claims provided for in Article 217, jurisdiction over the action is with the regular courts. [citation omitted]

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[31] Supra note 25.

> As it is, petitioner does not ask for any relief under the Labor Code. It merely seeks to recover damages based on the parties' contract of employment as redress for respondent's breach thereof. Such cause of action is within the realm of Civil Law, and jurisdiction over the controversy belongs to the regular courts. More so must this be in the present case, what with the reality that the stipulation refers to the post-employment relations of the parties.
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> For sure, a plain and cursory reading of the complaint will readily reveal that the subject matter is one of claim for damages arising from a breach of contract, which is within the ambit of the regular court's jurisdiction. [citation omitted]
>
> It is basic that jurisdiction over the subject matter is determined upon the allegations made in the complaint, irrespective of whether or not the plaintiff is entitled to recover upon the claim asserted therein, which is a matter resolved only after and as a result of a trial. Neither can jurisdiction of a court be made to depend upon the defenses made by a defendant in his answer or motion to dismiss. If such were the rule, the question of jurisdiction would depend almost entirely upon the defendant.[32] (Underscoring supplied).

The error of the appellate court in its Resolution of 14 October 2010 is basic. The original decision, the right ruling, should not have been reconsidered.

Indeed, the application of compensation in this case is effectively barred by Article 113 of the Labor Code which prohibits wage deductions except in three circumstances:

> ART. 113. Wage Deduction. – No employer, in his own behalf or in behalf of any person, shall make any deduction from wages of his employees, except:
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> (a) In cases where the worker is insured with his consent by the employer, and the deduction is to recompense the employer for the amount paid by him as premium on the insurance;
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> (b) For union dues, in cases where the right of the worker or his union to check-off has been recognized by the employer or authorized in writing by the individual worker concerned; and

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[32] Id. at 446-447.

(c) In cases where the employer is authorized by law or regulations issued by the Secretary of Labor.

WHEREFORE, the petition is **GRANTED**. The Resolution of the Court of Appeals in CA-G.R. SP No. 106581 dated 14 October 2010 is **SET ASIDE**. The Decision of the Court of Appeals in CA-G.R. SP No. 106581 dated 31 March 2009 is **REINSTATED**. No costs.

SO ORDERED.

JOSE PORTUGAL PEREZ
Associate Justice

WE CONCUR:

ANTONIO T. CARPIO
Associate Justice
Chairperson

ARTURO D. BRION
Associate Justice

MARIANO C. DEL CASTILLO
Associate Justice

ESTELA M. PERLAS-BERNABE
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.

ANTONIO T. CARPIO
Associate Justice
Chairperson, Second Division

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.

MARIA LOURDES P. A. SERENO
Chief Justice