Title: Lirag Textile Mills, Inc. and Basilio L. Lirag vs. Social Security System and Hon. Pacifico de Castro

Facts:
This legal dispute originated from a Purchase Agreement dated September 4, 1961, between Lirag Textile Mills, Inc. (hereinafter Lirag), represented by Basilio L. Lirag, and the Social Security System (SSS), wherein SSS agreed to purchase preferred shares worth P1 million from Lirag under specific conditions. Following the agreement, SSS disbursed payments amounting to P1 million for 10,000 preferred shares. The agreement mandated that Lirag would repurchase these shares in annual installments beginning the fourth year since their issuance. To ensure compliance, Basilio L. Lirag also acted as a surety. However, Lirag failed to repurchase the shares and pay the agreed dividends.

SSS initiated legal action for specific performance and damages in the Court of First Instance of Rizal, Quezon City (Civil Case No. Q-12275), demanding payment of the principal amount (P1 million), dividends amounting to P220,000, among other damages. Lirag contested, arguing that the agreement's fulfillment was contingent upon the company's financial capacity, which had been severely compromised due to various adversities including unrestrained smuggling, financial scarcities, labor disputes, and a catastrophic fire.

Issues:
1. Whether the Purchase Agreement is a debt instrument.
2. The obligation of Lirag Textile Mills, Inc. and Basilio L. Lirag to fulfill the Purchase Agreement's terms amidst financial adversities.
3. The liability of Basilio L. Lirag as a surety.
4. The admissibility of the claim for dividends, liquidated damages, and attorney's fees.

Court's Decision:
The Supreme Court upheld the lower court's ruling, affirming that the Purchase Agreement constituted a debt instrument. It ruled that the agreement engendered a creditor-debtor relationship, stipulating an unconditional obligation to repurchase the preferred shares on specified dates, which did not depend on Lirag's financial capacity. Consequently, both Lirag Textile Mills, Inc. and Basilio L. Lirag were jointly and severally liable for the payment of the principal amount (P1 million), dividends (P220,000), liquidated damages (P146,400), and attorney's fees (P10,000).

Doctrine:
This case reiterates the principle that an agreement creating an unconditional obligation to repay at specified dates constitutes a debt instrument, thereby engendering a creditor-debtor relationship. Furthermore, it underscores that the surety's liability is immediate and is not contingent upon the financial capacity of the principal debtor.

Class Notes:
– A Purchase Agreement specifying unconditional repayment terms is deemed a debt instrument.
– A surety's obligation is immediate and unconditional, irrespective of the principal debtor's capacity to pay.
– Agreed dividends, when specified as a fixed annual percentage, are treated akin to interest payments on a loan and must be paid notwithstanding the debtor's financial adversities.
– **Legal Citations:** Article 1159 of the Civil Code articulates that obligations arising from contracts have the force of law between the contracting parties and must be complied with in good faith.

Historical Background:
The case illustrates the judicial interpretation of contractual agreements within corporate transactions in the Philippines during a period marked by economic challenges. It highlights the legal expectations of corporate entities and their officers when entering into financial agreements, irrespective of external economic pressures or internal financial difficulties. This decision underscores the importance of the sanctity of contracts and the obligations they impose, which are fundamental to commercial law in the Philippines.