Title: Stronghold Insurance Company, Inc. vs. Republic-Asahi Glass Corporation

Facts:
Republic-Asahi Glass Corporation (Republic-Asahi) contracted JDS Construction (JDS), owned by Jose D. Santos, Jr., on May 24, 1989, for the construction of roadways and a drainage system for P5,300,000, to be completed in 240 days beginning May 8, 1989. To ensure fulfillment, JDS and Stronghold Insurance Co., Inc. (SICI) jointly issued Performance Bond No. SICI-25849/g(13)9769 for P795,000. After paying JDS two progress billings totaling P274,621.01, Republic-Asahi terminated the contract due to unsatisfactory progress on November 24, 1989. Subsequently, Republic-Asahi incurred an additional P3,256,874 for project completion with a different contractor and sought compensation from JDS and SICI under the performance bond.

After failed attempts to claim the bond amount, Republic-Asahi filed a complaint against JDS and SICI. However, JDS's owner, Jose D. Santos, Jr., had passed away in 1990, and his business's whereabouts were unknown. SICI argued that the claim was extinguished by Santos's death and maintained that it was released from liability due to a lack of due process in the liquidation of the contracted work. The trial court dismissed the case against both defendants. Upon appeal, Republic-Asahi's motion for reconsideration led to the reinstatement of the case against SICI, but not against the deceased Santos. After further proceedings, the trial court reaffirmed its dismissal of the case regarding SICI, leading Republic-Asahi to appeal to the Court of Appeals (CA), which reversed the trial court's decision, holding that SICI's obligation was not extinguished by the death of Jose D. Santos, Jr.

Issues:
1. Whether the liability of a surety company under a performance bond is extinguished by the death of the principal obligor.
2. Whether the surety company was deprived of its right to procedural due process.

Court's Decision:
The Supreme Court denied the petition of Stronghold Insurance Company, Inc. (SICI), affirming the Court of Appeals' decision that SICI's liability under the performance bond did not extinguish upon the death of Jose D. Santos, Jr., the principal obligor. The Court emphasized that, as a general rule, obligations are transmissible to the heirs unless prevented by the nature of the obligation, stipulations of the parties, or by law. In this case, the performance bond guaranteed the contract's fulfillment, making SICI's liability solidary

and not extinguished by Santos's death. The Court also dismissed SICI's claim of being denied procedural due process, emphasizing the contract's conditions, which stipulated SICI's solidary liability.

Doctrine:
The Supreme Court reiterated that a surety's liability under a performance bond is solidary. Therefore, the death of the principal obligor does not extinguish the obligation, nor does it absolve the surety of its liability under the bond.

Class Notes:
– **Solidary Liability**: In contracts of suretyship, the surety is as directly bound with the principal debtor to the creditor. The liability of the surety is solidary with the principal debtor unless otherwise stipulated.
– **Transmission of Obligations**: Obligations arising from contracts are transmissible to the heirs of the debtor unless the transmission is prevented by the contract's nature, stipulations of the parties, or legal provision.
– **Procedural Due Process in Surety Contracts**: A surety's liability under a bond remains even if the surety claims a lack of procedural due process in liquidating the work unless there's a specific stipulation or legal provision to the contrary.

The case exemplifies the principles surrounding contracts of suretyship and the transmissibility of obligations, emphasizing the enduring nature of solidary obligations notwithstanding the death of a principal obligor.

Historical Background:
This decision underscores the judiciary's stance on the continuation of contractual obligations beyond the life of the obligor, reflecting the legal tenet that ensures the fulfillment of contractual obligations through the estate of the deceased. It highlights the importance of clearly understanding the implications of entering into surety agreements and the potential responsibilities that may extend beyond an obligor's lifetime.