

Title: **\*\*Spouses Lam vs. Kodak Philippines, Ltd.: A Case of Contractual Obligations and Remedies\*\***

Facts:

The case originates from a contract entered into on January 8, 1992, between the Spouses Alexander and Julie Lam (Lam Spouses), and Kodak Philippines, Ltd. (Kodak). The agreement was for the sale of three units of Kodak Minilab System 22XL to the Lam Spouses for P1,796,000.00 per unit under specific terms, including a 19% multiple order discount, no downpayment, and a 48-month installment payment scheme. The first unit was delivered and installed, but later disputes arose when checks for two monthly installments were initially requested to be held by the Lam Spouses due to insufficient funds but still negotiated by Kodak. In response to dishonored checks for subsequent payments, Kodak canceled the sale, demanding the return of the delivered unit and its accessories. The Lam Spouses countered by rescinding the contract due to Kodak's failure to deliver the two remaining units.

Kodak then filed a complaint for replevin and/or recovery of sum of money at the Regional Trial Court (RTC), Makati. The Lam Spouses, after failing to appear at the pre-trial conference, were declared in default, leading to Kodak's ex-parte presentation of evidence and the trial court ruling in Kodak's favor. The court ordered for the seizure of the delivered Minilab Equipment unit, accessories, and a generator set (mistakenly involved in the case). The Court of Appeals eventually set aside these orders, remanding the case to the trial court for pre-trial.

Upon reassessment, the RTC recognized Kodak's failure to deliver the two remaining units as a default on their contractual obligation, affecting the transaction's integral condition. Despite this, it ruled that the Lam Spouses should still be liable for the unit received but concurrently held that Kodak's petition to recover additional compensation for the unit's deterioration was unjustifiable since it elected to cancel the sale.

The Lam Spouses filed a Notice of Partial Appeal on the RTC's decision, specifically on the denial of their substantial claims for damages. Kodak's appeal was dismissed for their failure to file the appellant's brief. The Court of Appeals modified the RTC decision, granting additional compensations but to a lesser extent than what the Lam Spouses pursued.

Issues:

1. Whether the contract entailed obligations that are severable, divisible, and susceptible to

partial performance under the New Civil Code.

2. What are the entitlements of the parties upon rescission of the contract under the New Civil Code.

**Court's Decision:**

The Supreme Court held that the contract between the Lam Spouses and Kodak entailed an indivisible obligation. The nature of the agreement, the terms, and the intention laid out within confirmed a singular transaction covering all three units. Both parties opted for the contract's rescission, hence necessitating mutual restitution to their original state pre-contract, as recognized by both the RTC and the Court of Appeals. The resolution of the appealed factual issues fell beyond the Supreme Court's purview under a petition review on certiorari under Rule 45, which is limited to questions of law, not factual determinations made by lower courts.

**Doctrine:**

The case reiterates the principle of contract interpretation that emphasizes the intention of the parties, especially in discerning whether obligations are divisible or indivisible. It also exemplifies the remedies available for contractual breaches, specifically the option for rescission under Article 1191 of the New Civil Code, prompting mutual restitution.

**Class Notes:**

- Indivisible vs. Divisible Contracts: An indivisible contract requires the performance of every part of the agreed obligation to satisfy the contract terms. A divisible contract allows for partial performances to fulfill separate obligations.
- Rescission under Article 1191: An option for the aggrieved party in reciprocal obligations, allowing for the contract's nullification and prompting mutual restitution.

**Historical Background:**

This case underscores the contractual disputes frequent in business transactions, highlighting the vital need for clear terms and mutual understanding, abiding by the principles of good faith, and the protective mechanisms the Philippine legal system offers to both parties in bilateral contracts.