

Title:

Grace Park Engineering Co., Inc. vs. Mohamad Ali Dimaporo: A Case of Contract Rescission and Mutual Restitution

Facts:

On April 1, 1954, Grace Park Engineering Co., Inc. (plaintiff-appellee) entered into a contract with Mohamad Ali Dimaporo (defendant-appellant) for the sale and installation of cassava flour and starch processing machinery and equipment at a consideration of P52,000.00 to be installed in Karomatan, Lanao Mill Site. The payment terms included initial and subsequent payments, with a balance of P36,750.00 payable in 12 monthly installments. Dimaporo was responsible for providing a building, labor, food, foundation materials, and water system for the project.

During installation, Dimaporo failed to fulfill these responsibilities, causing the corporation to shoulder the necessary materials, labor, and expenses with Dimaporo's consent due to his financial constraints. The installation took over a year, culminating in a breach of the 70-working-day agreement. Subsequently, Grace Park demanded payment of the balance and the advanced expenses, which Dimaporo refused, arguing that the corporation did not fulfill the contract's conditions.

Grace Park filed a complaint against Dimaporo for rescission of the contract with mutual restitution and damages on October 1, 1955. Dimaporo sought the same but demanded freight charges for restitution and damages in his favor. The trial court found both parties in breach without identifying the initial infractor and ordered mutual restitution without damages or costs, leading to Dimaporo's direct appeal to the Supreme Court.

Issues:

1. Whether Dimaporo was guilty of breaching the contract.
2. Whether Dimaporo was obligated to return the machinery and equipment.
3. Whether Dimaporo was liable to pay Grace Park P19,628.93 with interest.
4. Whether Dimaporo was entitled to damages in his favor.

Court's Decision:

The Supreme Court, adhering to the trial court's factual findings, held that both parties breached the contract. It affirmed the rescission and ordered mutual restitution without damages or interest on advanced expenses (P19,628.93) by Dimaporo, modifying the lower court's decision to exclude the interest requirement. Dimaporo's contention regarding the

non-delivery of machinery due to incomplete installation was dismissed, emphasizing both parties' failures and their consequences on the contract.

Doctrine:

The court reiterated the principles of contract rescission under Article 1192 and Article 1385 of the New Civil Code, emphasizing mutual restitution and the equitable tempering of liabilities when both parties breach a contract.

Class Notes:

- Breach of Contract: A violation of any of the agreed terms and conditions of a contract.
- Rescission: The cancellation of a contract and restoration of the parties to their original positions, as far as possible.
- Mutual Restitution: Obligation of both parties in a rescinded contract to return what has been received under the contract.
- Article 1192, New Civil Code: Addresses the consequences when both parties commit a breach of the contract, suggesting equitable adjustment by courts.
- Article 1385, New Civil Code: Provides that rescission obligates the return of things which were the object of the contract, including their fruits, and the price with its interest.

Historical Background:

This case underscores the complexities involved in business contracts, particularly in the processing industry sector during the mid-20th century in the Philippines. It also highlights the legal framework governing contractual obligations and resolutions during that time, marking a significant reference point for future similar disputes.