691 Phil. 83

SECOND DIVISION

[G.R. No. 187316, July 16, 2012]

WONDER BOOK CORPORATION, PETITIONER, VS. PHILIPPINE BANK OF COMMUNICATIONS, RESPONDENT.

D E C I S I O N

REYES, J.:

This is a petition for review under Rule 45 of the Rules of Court assailing the Decision[1] dated March 25, 2009 of the Court of Appeals (CA) in CA-G.R. SP No. 102860, which reversed and set aside the Order.[2] dated February 15, 2008 of Branch 21 of the Regional Trial Court (RTC) of Imus, Cavite in SEC Case No. 058-06 upon a petition for review tiled by respondent Philippine Bank of Communications (PBCOM).

Factual Antecedents

The facts are undisputed.

Petitioner Wonder Book Corporation (Wonder Book) is a corporation duly organized and existing under Philippine laws engaged in the business of retailing books, school and office supplies, greeting cards and other related items. It operates the chain of stores known as the Diplomat Book Center.

On February 27, 2004, Wonder Book and eight (8) other corporations,[3] collectively known as the Limtong Group of Companies (LGC), filed a joint petition for rehabilitation with the RTC. The petition was docketed as SEC Case No. 031-04 and raffled to Branch 21.

On March 2, 2004, a Stay Order[4] was issued.

On April 30, 2004, Equitable PCI Bank (EPCI Bank), one of the creditors of LGC, filed an opposition raising, among others, the impropriety of nine (9) corporations with separate and distinct personalities seeking joint rehabilitation under one proceeding.[5]

On February 9, 2005, the RTC issued an Order[6] approving the petition for rehabilitation, the dispositive portion of which states:

> CONSIDERING THE FOREGOING, the Court hereby approves the Rehabilitation Plan of the [LGC] thereby granting the [LGC] a moratorium of two (2) years from today in the payment of all its obligations, together with the corresponding interests, to its creditor banks, subject to the modification that the interest charges shall be reduced to 5% per annum.

> After the two-year grace period, the [LGC] shall commence to pay its existing obligations with its creditor banks monthly within a period of fifteen (15) years.
>
> [LGC] are enjoined to comply strictly with the provisions of the Rehabilitation Plan, perform its obligations thereunder and take all actions necessary to carry out the Plan, failing which, the Court shall either, upon motion, motu proprio or upon recommendation of the Rehabilitation Receiver, terminate the proceedings pursuant to Section 27, Rule 1 of the Interim Rules of Procedure on Corporate Rehabilitation.
>
> The Rehabilitation Receiver is directed to strictly monitor the implementation of the Plan and submit a quarterly report on the progress thereof.
>
> SO ORDERED.[7]

The foregoing was questioned by EPCI Bank and PBCOM before the CA by way of a petition for review. EPCI Bank's petition[8] was docketed as CA-G.R. SP No. 89461 and raffled to the Third Division. PBCOM's petition[9] was docketed as CA-G.R. SP No. 89507 and raffled to the Eight Division.

On October 25, 2005, the CA rendered a Decision[10] granting EPCI Bank's petition. The CA reversed the Order dated February 9, 2005 of the RTC and dismissed LGC's petition for rehabilitation. LGC filed a petition for review on *certiorari* with this Court, which was later withdrawn.

On the other hand, PBCOM's petition was denied by the CA in a Decision[11] dated January 16, 2008. The denial became final as PBCOM did not move for reconsideration or interpose an appeal to this Court.[12]

Meantime, on September 5, 2006, Wonder Book filed a petition for rehabilitation[13] with the RTC, which was docketed as SEC Case No. 058-06 and raffled to Branch 21. Wonder Book cited the following as causes for its inability to pay its debts as they fall due: (a) high interest rates, penalties and charges imposed by its creditors; (b) low demand for gift items and greeting cards due to the widespread use of cellular phones and economic recession; (c) competition posed by other stores; and (d) the fire on July 19, 2002 that destroyed its inventories worth P264 Million, which are insured for P245 Million but yet to be collected.[14]

Wonder Book's rehabilitation plan put forward a payment program that guaranteed full payment of its loan from PBCOM after fifteen (15) years at a reduced interest rate of five percent (5%) per annum with a waiver of all penalties and moratorium on interest and principal payments for two (2) years and five (5) years, respectively, that will be counted from the court's approval. Wonder Book proposed to pay its trade creditors and the interest that will accrue during the two-year moratorium within ten (10) years from the approval of its rehabilitation plan.[15] Further, it committed to: (a) convert all deposits for future subscriptions to common stock; (b) treat all its liabilities to its officers and stockholders as trade payables; (c) infuse an additional capital of P10 Million; and (d) use 70% and 30% of its unpaid insurance claim for the payment of its debts and capital infusion, respectively.[16]

The RTC issued a Stay Order[17] on September 5, 2006.

PBCOM filed an Opposition[18] dated October 18, 2006 stating that: (a) Wonder Book's petition cannot be granted on the basis of proposals that are vague and anchored on baseless presumptions; (b) it is clear from Wonder Book's financial statements that it is insolvent and can no longer be rehabilitated; (c) Wonder Book's proposed capital infusion is speculative at best, as there is no reasonable expectation that it will be paid under the insurance covering the inventory that was destroyed by fire on July 19, 2002; (d) Wonder Book failed to present an alternative funding for its capital infusion should its insurance claim fail to materialize; (e) Wonder Book failed to specify how its proposed sales, marketing and production strategies would be carried out; (f) Wonder Book failed to specify its underpinnings for its claim that these strategies would certainly lead to its expected rate of profitability; and (g) Wonder Book's proposed payment program is too onerous.

On September 17, 2007, Wonder Book filed what it described as its detailed rehabilitation plan.[19] Wonder Book maintained its proposed term of fifteen (15) years and reduced interest rate of 5% per annum. However, it shortened the period on the suspension of principal payments from five (5) to three (3) years and extended the moratorium on interest payment from two (2) to three (3) years. It also lengthened the period for the payment of interest that will accrue during the stay from ten (10) to twelve (12) years and proffered a waiver of penalties and interest from February 2004 up to the court's approval of its rehabilitation plan.[20]

Wonder Book likewise intimated the sale of some real properties owned by TOL Realty and Development Corporation (TOL), an affiliate that is likewise undergoing rehabilitation and similarly indebted to PBCOM. The proceeds of such sale will be used for the payment of TOL's debt to PBCOM and any excess will be used to settle Wonder's Book debt to PBCOM.[21]

Wonder Book limited its commitments to the conversion of deposits for future subscriptions to common stock and treatment of its payables to its officers and stockholders as trade payables.[22]

Wonder Book undertook to implement the following changes in its internal operations by: (a) changing the name "Diplomat Book Center" to one more appropriate for a bookstore and retailer of office and school supplies; (b) closing down non-performing branches and opening new stores in areas with high human traffic; (c) improving product display and variety; (d) investing in technology to properly monitor sales and manage inventory; (e) launching customer loyalty program; (f) allocating three percent (3%) of total sales to advertising and promotions; (g) strengthening its organization by improving its hiring, training and incentive programs; and (h) carrying its own brand of products.[23] Wonder Books expects to accomplish the foregoing on capital from investors and sales during the three-year moratorium.[24] On February 15, 2008, the RTC issued an Order, approving Wonder Book's rehabilitation plan, the dispositive portion of which states:

> CONSIDERING THE FOREGOING, the Court hereby approves the Detailed Rehabilitation Plan, together with the receiver's report and recommendation and its clarifications and corrections and enjoins the petitioner to strictly comply with the provisions of the plan, perform its obligations thereunder and take all actions necessary to carry out the plan, failing which, the Court shall either, upon motion, motu proprio or upon the recommendation of the Rehabilitation Receiver, terminate the proceedings pursuant to Section 27, Rule 1 of the Interim Rules of Procedure on Corporate Rehabilitation.
>
> The Rehabilitation Receiver is directed to strictly monitor the implementation of the Plan and submit a quarterly report on the progress thereof.
>
> SO ORDERED.[25] (Citation omitted)

PBCOM filed a petition for review[26] of the approval of Wonder Book's rehabilitation plan, which the CA granted in a Decision[27] dated March 25, 2009. According to the CA, Wonder Book's financial statements reveal that it is not merely illiquid but in a state of insolvency:

> A perusal of the interim financial statement of [Wonder Book] as of August 2006 will readily show that [Wonder Book] is not merely having liquidity problems, but it is actually in a state of serious insolvency. It should be noted that this fact was never denied by [Wonder Book]. The RTC even mentioned in its order that as of August 2006, the total assets of [Wonder Book] is only [P]144,922,218.00 whereas its liabilities totaled to [P]306,141,399.00. In effect, the debt ratio of [Wonder Book] is 2.11 to 1. This means that [Wonder Book] has [P]2.11 pesos in debt for every peso of asset. Obviously, [Wonder Book] is in terrible financial condition as it does not have enough assets to pay its obligations. For a good financial status, the total debt ratio should be 1 or less.[28] (Citation omitted)

The CA noted that Wonder Book failed to support its petition with reassuring "material financial commitments", which is a requirement under Section 5 of the 2000 Interim Rules on Corporate Rehabilitation (Interim Rules):

> Indeed, page 7 of the assailed order provides the following:
>
> > "[Wonder Book] will commit an additional amount of [P]10 Million as working capital. If the insurance claim in the amount of [P]245 Million will be collected, 70% or the amount of [P]171,500,000.00 shall be used to pay existing debts and 30% shall be used as additional working capital. The stockholders agreed that no dividends will be paid within the rehabilitation period.

The directors and shareholders of [Wonder Book] are so fully committed to rehabilitate the corporation that they have committed to convert their deposit for future subscription to common stock.

The company is highly confident that the financing will be made available by its investors once the rehabilitation plan is given green light by the court. Its financial plan does not take into consideration the possibility of sourcing funds outside internally generated cash nor the entry of strategic investors who have expressed interest in the completion of the project and assist in rehabilitating the corporation."

We note, however, that the foregoing statements were mentioned in [Wonder Book's] original rehabilitation plan but were no longer restated in its detailed rehabilitation plan, which was the one approved by the RTC. True enough, the commitment of [Wonder Book] to put up additional [P]10 Million as working capital was not reflected in the projected balance sheet of [Wonder Book]. There was also no mention about the expected insurance claim in the amount of [P]245 Million whereby 70% thereof or the amount of [P]171,500,000.00 should be used to pay existing debts and the remaining 30% shall be used as additional working capital. As a matter of fact, a full-allowance for non-recovery of said insurance claim was already provided by [Wonder Book] because the latter believed that it could no longer be recovered.

It may be observed that the detailed rehabilitation plan merely provided for two management commitments, such as, (1) all deposits for future subscriptions by the officers and directors will be converted to common stock and (2) all liabilities (cash advances made by the stockholders' (sic) to the corporation) of the company from the officers and stockholders shall be treated just like trade payable. But these could hardly be considered as "material financial commitments" that would support [Wonder Book's] rehabilitation plan. The first commitment was not even shown in the projected balance sheet of [Wonder Book]. The subscribed and paid-up capital of [Wonder Book] remained at [P]4,500,000.00 even at the end of the 15th year from the approval of the rehabilitation plan. Even so, the deposits for future subscription is (sic) only [P]319,000.00, which is very significant vis-à-vis [Wonder Book's] capital deficiency of [P]161,219,121.00 as of August 2006. x x x[29] (Citations omitted)

The CA also noted that Wonder Book's expected profits during the rehabilitation period are not sufficient to cover its liabilities and reverse its dismal financial state:

A careful examination of the projected balance sheet and income statement of [Wonder Book] for the period of rehabilitation reveals that while [Wonder Book] will be earning, the same will not be sufficient to cover its accumulated losses. At the 15th year, its profit margin will be