



Republic of the Philippines  
Supreme Court  
Manila

SECOND DIVISION

WONDER BOOK CORPORATION,  
Petitioner,

G.R. No. 187316

Present:

CARPIO, *J.*,  
*Chairperson,*

- versus -

BRION,  
PEREZ,  
SERENO, and  
REYES, *JJ.*

PHILIPPINE BANK OF  
COMMUNICATIONS,  
Respondent.

Promulgated:

JUL 16 2012

*H. M. Calabogon*

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DECISION

REYES, *J.*:

This is a petition for review under Rule 45 of the Rules of Court assailing the Decision<sup>1</sup> dated March 25, 2009 of the Court of Appeals (CA) in CA-G.R. SP No. 102860, which reversed and set aside the Order<sup>2</sup> 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 filed by respondent Philippine Bank of Communications (PBCOM).

<sup>1</sup> Penned by Associate Justice Apolinario D. Bruselas, Jr., with Associate Justices Remedios A. Salazar-Fernando and Fernanda Lampas Peralta, concurring; *rollo*, pp. 33-45.

<sup>2</sup> Penned by Executive Judge Norberto J. Quisumbing, Jr.; *id.* at 52-67.

### **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,<sup>3</sup> 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<sup>4</sup> 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.<sup>5</sup>

On February 9, 2005, the RTC issued an Order<sup>6</sup> 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.

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<sup>3</sup> Basic Polyprinters and Packaging Corporation, Cuisine Connection, Inc., Fine Arts International, Gibson HP Corporation, Gibson Mega Corporation, Harry U. Limtong Corporation, Main Pacific Features, Inc. and T.O.L. Realty & Development Corporation; *id.* at 15.

<sup>4</sup> *Id.* at 233-236.

<sup>5</sup> *Id.* at 188.

<sup>6</sup> *Id.* at 273-281.

[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.<sup>7</sup>

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

On October 25, 2005, the CA rendered a Decision<sup>10</sup> 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<sup>11</sup> dated January 16, 2008. The denial became final as PBCOM did not move for reconsideration or interpose an appeal to this Court.<sup>12</sup>

Meantime, on September 5, 2006, Wonder Book filed a petition for rehabilitation<sup>13</sup> 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

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<sup>7</sup> Id. at 280-281.

<sup>8</sup> Id. at 184-227.

<sup>9</sup> Id. at 238-272.

<sup>10</sup> Penned by Associate Justice Delilah Vidallon-Magtolis, with Associate Justices Josefina Guevara Salonga and Fernanda Lampas Peralta, concurring; id. at 156-168.

<sup>11</sup> Penned by Associate Justice Jose C. Reyes, Jr., with Associate Justices Jose L. Sabio, Jr. and Myrna Dimaranan Vidal, concurring; id. at 282-295.

<sup>12</sup> Id. at 296.

<sup>13</sup> Id. at 169-183.

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 ₱264 Million, which are insured for ₱245 Million but yet to be collected.<sup>14</sup>

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.<sup>15</sup> 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 ₱10 Million; and (d) use 70% and 30% of its unpaid insurance claim for the payment of its debts and capital infusion, respectively.<sup>16</sup>

The RTC issued a Stay Order<sup>17</sup> on September 5, 2006.

PBCOM filed an Opposition<sup>18</sup> 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,

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<sup>14</sup> Id. at 171.

<sup>15</sup> Id. at 56.

<sup>16</sup> Id. at 58.

<sup>17</sup> Id. at 68-70.

<sup>18</sup> Id. at 71-81.

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.<sup>19</sup> 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.<sup>20</sup>

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.<sup>21</sup>

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.<sup>22</sup>

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<sup>19</sup> Id. at 82-115.

<sup>20</sup> Id. at 86-87.

<sup>21</sup> Id. at 87.

<sup>22</sup> Id.

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.<sup>23</sup> Wonder Books expects to accomplish the foregoing on capital from investors and sales during the three-year moratorium.<sup>24</sup>

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.<sup>25</sup> (Citation omitted)

PBCOM filed a petition for review<sup>26</sup> of the approval of Wonder Book’s rehabilitation plan, which the CA granted in a Decision<sup>27</sup> 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:

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<sup>23</sup> Id. at 86.

<sup>24</sup> Id. at 57.

<sup>25</sup> Id. at 126.

<sup>26</sup> Id. at 118-144.

<sup>27</sup> Id. at 33-45.

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 [₱]144,922,218.00 whereas its liabilities totaled to [₱]306,141,399.00. In effect, the debt ratio of [Wonder Book] is 2.11 to 1. This means that [Wonder Book] has [₱]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.<sup>28</sup> (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 [₱]10 Million as working capital. If the insurance claim in the amount of [₱]245 Million will be collected, 70% or the amount of [₱]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 [₱]10 Million as working capital was not reflected in the projected balance sheet of [Wonder Book]. There was also no mention

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<sup>28</sup>

Id. at 39.

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 15<sup>th</sup> 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<sup>29</sup> (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 15<sup>th</sup> year, its profit margin will be only 2.9% ([P]13,785,000.00/[P]466,277,000.00). This tells us that for every peso in sales, [Wonder Book] will be generating 3 centavos net profit, which is most insubstantial to cover up its ending deficit of [P]50,960,000.00. Thus, at the end of the rehabilitation period, though [Wonder Book] will be able to fully pay its obligation to [PBCOM], it will remain insolvent. It would still have a capital deficiency of [P]46,142,000.00. Its total assets will be only [P]196,515,000.00 whereas its total liabilities will still be [P]242,657,000.00. Consequently, its debt ratio would remain high, at 1.23 to 1. It would have [P]1.23 pesos in debt for every peso of asset. Furthermore, liquidity problems would still exist because on the 15<sup>th</sup> year, its current ratio would be 0.9353 to 1 ([P]83,339,000.00/[P]89,104,000.00), meaning [Wonder Book] would only have 0.9353 cents to meet every peso of its current liabilities. x x x<sup>30</sup> (Citations omitted)

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<sup>29</sup> Id. at 39-41.

<sup>30</sup> Id. at 41-42.



Wonder Book instituted the present petition claiming that the CA erred in dismissing its petition for rehabilitation. The CA allegedly has no basis in concluding that Wonder Book is insolvent, hence, incapable of being rehabilitated considering that: (a) ₱162,286,966.00 of its total liabilities in the amount of ₱286,944,120.00 represents advances or loans extended by affiliates that are not due and demandable during the period of rehabilitation; (b) the prevailing rules do not preclude a corporation who is insolvent from seeking rehabilitation; (c) there is nothing in the rules that specify a parameter for classifying a debt as sustainable or not, hence, its apparent insolvency should not be a determinant of the feasibility of its rehabilitation; (d) one of its shareholders paid a supplier the amount of ₱13,600,000.00, thus, ensuring the continuous supply of products for sale, and was willing to postpone collection until Wonder Book is successfully rehabilitated;<sup>31</sup> (e) its suppliers have agreed to supply products on credit and this indicates their faith in the feasibility of the proposed rehabilitation plan;<sup>32</sup> and (f) the payment posted by one of its stockholders was more than enough to cover the promised capital infusion of ₱10,000,000.00.

### **Our Ruling**

The sole issue is whether Wonder Book's petition for rehabilitation is impressed with merit and this Court rules in the negative.

### **I**

Rehabilitation contemplates a continuance of corporate life and activities in an effort to restore and reinstate the corporation to its former position of successful operation and solvency. The purpose of rehabilitation proceedings is to enable the company to gain a new lease on life and thereby allow creditors to be paid their claims from its earnings. The rehabilitation

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<sup>31</sup> Id. at 24.

<sup>32</sup> Id. at 24-25.

of a financially distressed corporation benefits its employees, creditors, stockholders and, in a larger sense, the general public.<sup>33</sup>

Rehabilitation proceedings in our jurisdiction, much like the bankruptcy laws of the United States, have equitable and rehabilitative purposes. On one hand, they attempt to provide for the efficient and equitable distribution of an insolvent debtor's remaining assets to its creditors; and on the other, to provide debtors with a "fresh start" by relieving them of the weight of their outstanding debts and permitting them to reorganize their affairs. The rationale of Presidential Decree No. 902-A, as amended, is to "effect a feasible and viable rehabilitation," by preserving a floundering business as going concern, because the assets of a business are often more valuable when so maintained than they would be when liquidated.<sup>34</sup>

Under Section 23, Rule 4 of the Interim Rules, a rehabilitation plan may be approved if there is a showing that rehabilitation is feasible and the opposition entered by the creditors holding a majority of the total liabilities is unreasonable. In determining whether the objections to the approval of a rehabilitation plan are reasonable or otherwise, the court has the following to consider: (a) that the opposing creditors would receive greater compensation under the plan than if the corporate assets would be sold; (b) that the shareholders would lose their controlling interest as a result of the plan; and (c) that the receiver has recommended approval.

Rehabilitation is therefore available to a corporation who, while illiquid, has assets that can generate more cash if used in its daily operations than sold. Its liquidity issues can be addressed by a practicable business plan that will generate enough cash to sustain daily operations, has a definite source of financing for its proper and full implementation, and anchored on

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<sup>33</sup> *Pacific Wide Realty and Development Corporation v. Puerto Azul Land, Inc.*, G.R. No. 178768, November 25, 2009, 605 SCRA 503, 514-515.

<sup>34</sup> *Bank of the Philippine Islands v. Securities and Exchange Commission*, G.R. No. 164641, December 20, 2007, 541 SCRA 294, 301.

realistic assumptions and goals. This remedy should be denied to corporations whose insolvency appears to be irreversible and whose sole purpose is to delay the enforcement of any of the rights of the creditors, which is rendered obvious by the following: (a) the absence of a sound and workable business plan; (b) baseless and unexplained assumptions, targets and goals; (c) speculative capital infusion or complete lack thereof for the execution of the business plan; (d) cash flow cannot sustain daily operations; and (e) negative net worth and the assets are near full depreciation or fully depreciated.

In *China Banking Corporation v. Cebu Printing and Packaging Corporation*,<sup>35</sup> this Court declared that Cebu Printing and Packaging Corporation can no longer be rehabilitated given its patent insolvency that appeared irremediable because of the unfounded projections on profitability:

The RTC found CEPRI to be in the state of insolvency which precludes it from being entitled to rehabilitation. The findings of fact of the RTC must be given respect as it is clear and categorical in ruling that CEPRI is not merely in the state of illiquidity, but in an apparent state of insolvency. There is nothing more detailed than the contents of the said Order, which reads, in part:

“After the aforesaid initial hearing, this Court made a careful and judicious scrutiny and evaluation as to whether the petition for rehabilitation filed by the petitioner is impressed with merit or not. Up to this time, this Court is not satisfied that there is merit in the said petition.

*Foremost* of all, it appears that the petitioner does not really have enough assets, net worth and earning to meet and settle its outstanding liabilities. As stated by it in paragraph 7.8 of the petition, it has outstanding liabilities in the aggregate sum of ₱69,539,903.57 to the Bank of Philippine Islands and China Banking Corporation. These major liabilities are broken down as follows: ₱20,230,000.00 to BPI and ₱49,309,903.57 to China Banking Corporation as of December 31, 2001. There is a strong probability that these may still increase substantially after December 31, 2001. However, the petitioner has relatively less assets to answer for these liabilities. As historically shown by its audited financial statements, the petitioner’s assets from 1990 to 2000 were only worth as follows: ₱352,222.40 in 1990 (Exhibit K), ₱452,723.33 in

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<sup>35</sup> G.R. No. 172880, August 11, 2010, 628 SCRA 154.

1991 (Exhibit K), ₱569,948.19 in 1992 (Exhibit L), ₱787,300.65 in 1993 (Exhibit M), ₱761,310.69 in 1994 (Exhibit N), ₱3,042,411.81 in 1995 (Exhibit O), ₱5,608,866.70 in 1996 (Exhibit P), ₱8,100,022.81 in 1997 (Exhibit Q), ₱10,007,490.26 in 1998 (Exhibit R), ₱10,905,649.83 in 1999 (Exhibit S) and ₱11,615,251.75 in 2000 (Exhibit T). x x x For all intents and purposes, it can thus be said that the petitioner was not actually better off in terms of its assets and equity in 2001 than in 2000. **In view thereof, this Court concurs with the oppositor, China Banking Corporation, that the petitioner is actually now in a state of insolvency, not illiquidity.** In other words, it cannot be the proper subject of rehabilitation.

*Secondly*, this Court is not really prepared to give full faith to the financial projections of the petitioner (Annex H-1 of the petition). The assumption that petitioner's gross sales will increase by 25% to 30% within the next five years is without adequate basis. It is too speculative and unrealistic. It is not borne by petitioner's historical operations. Neither is it borne by an objective industry forecast. It is even belied by the Packaging Industry Profile prepared by the DTI Cebu Provincial Office which the petitioner submitted to this Court (Exhibit U). In said Packaging Industry Profile, it is categorically and explicitly stated that "packaging demand is projected by the Strategic Industry Research and Analysis (SIRA) to increase only by around 4.7% compound per annum over the period 1997-2003." And so, there is actually no faithful and adequate showing by the petitioner that it has ample capacity to pay its outstanding and overdue loans to its major creditors such as the BPI and China Banking Corporation, even if it be given a breathing spell.

x x x."<sup>36</sup> (Citation omitted)

This Court finds no reason to accord a different treatment to Wonder Book. The figures appearing on Wonder Book's financial documents and the nature and value of its assets are indeed discouraging. *First*, as of August 2006, Wonder Book's total assets are worth ₱144,922,218.00 and its total liabilities amount to ₱306,141,399.00 and this is a clear evidence of its actual insolvency, not mere illiquidity, and dispossession of financial leverage. *Second*, bulk or approximately seventy-two percent (72%) of its current assets consists of inventories<sup>37</sup> and the average turn-over rate is seventy-three (73) days, hence, cannot be relied on for a quick cash flow. *Third*, a majority or seventy-seven percent (77%) of its non-current assets is

<sup>36</sup> Id. at 170-172.

<sup>37</sup> *Rollo*, p. 88.

comprised of deferred tax assets<sup>38</sup> or taxes that have been paid on income that have not yet been reported, hence, may only be used to decrease future tax liability but not for the increase of capital, the finance of operations or the purchase of an asset. *Fourth*, its property and equipment comprise only two percent (2%) of its non-current assets. Apart from the fact that these consist largely of personal properties – computers and store equipment – that are certain to depreciate over time, there is no evidence that the valuation assigned to them by Wonder Book is attributable to an independent third-party appraiser. There is likewise no mention of their actual market values as, more often than not, they will be sold for less than their book value.

In other words, rehabilitation is not the proper remedy for Wonder Book's dire financial condition. Given that it is actually insolvent and not just suffering from temporary liquidity problems, rehabilitation is not a viable option.

## II

Another reason for this Court's denial of Wonder Book's petition is its failure to comply with Section 5 of the Interim Rules, which enumerates the minimum requirements of an acceptable rehabilitation plan:

**Sec. 5. Rehabilitation Plan.** — The rehabilitation plan shall include: (a) the desired business targets or goals and the duration and coverage of the rehabilitation; (b) the terms and conditions of such rehabilitation which shall include the manner of its implementation, giving due regard to the interests of secured creditors; (c) the material financial commitments to support the rehabilitation plan; (d) the means for the execution of the rehabilitation plan, which may include conversion of the debts or any portion thereof to equity, restructuring of the debts, *dacion en pago*, or sale of assets or of the controlling interest; (e) a liquidation analysis that estimates the proportion of the claims that the creditors and shareholders would receive if the debtor's properties were liquidated; and (f) such other relevant information to enable a reasonable investor to make an informed decision on the feasibility of the rehabilitation plan.

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<sup>38</sup>

Id.

It is imperative for a distressed corporation seeking rehabilitation to present “material financial commitments” as this is critical in determining its resolve, determination, earnestness and good faith in financing its proposed rehabilitation plan. As discussed above, Wonder Book’s “material financial commitments” are limited to converting all deposits for future subscriptions to common stock and treating all its payables to its officers and stockholders as trade payables. These, unfortunately, do not qualify as sincere commitment and even betray Wonder Book’s intent to fund the implementation of its rehabilitation plan using whatever cash it will generate during the reprieve provided by the stay order and the moratorium on the principal and interest payments. This scheme is certainly unfair as PBCOM or any of Wonder Book’s creditors cannot be compelled to finance Wonder Book’s rehabilitation by a delay in the payment of their claims or a considerable reduction in the amounts thereof.

Apart from the fact that the deposits for future subscriptions in the amount of ₱319,000.00<sup>39</sup> is insignificant as compared to Wonder Book’s capital deficiency of ₱161,219,121.00,<sup>40</sup> its projected balance sheet reveals that Wonder Book has no intention to carry out this commitment. No adjustment in its paid-up capital is reflected in the balance sheet attached to Wonder Book’s rehabilitation plan as the amount thereof is consistently pegged at ₱4,500,000.00 until the end of the rehabilitation period. Indeed, this commitment is far from being “material” as it will not even create a dent on Wonder Book’s capital deficit. Furthermore, it will not qualify as a “commitment” and is, in fact, a mere artifice, as Wonder Book’s balance sheet unequivocally demonstrates.

On the other hand, treating its debts to its stockholders and officers as trade payables only signifies that no priority in payment will be accorded to them but this does not provide Wonder Book with the means to finance the activities supposedly ensuring its successful rehabilitation.

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<sup>39</sup> Id. at 88-89.

<sup>40</sup> Id. at 41.

While Wonder Book mentioned that there are individuals who have expressed their interest in investing and financing its business plans, their identities were not disclosed nor were the evidence of the existence of these funds proved. It was alleged before this Court that one of its stockholders paid the amount of ₱13,600,000.00 to one of Wonder Book's suppliers and this constitutes sufficient compliance with the commitment of substantial capital infusion. However, apart from being belated, uncorroborated and unreflected in Wonder Book's rehabilitation plan and balance sheet, this supposed payment will not do wonders to change the undisputed fact that Wonder Book will still be saddled with a deficit of ₱50,960,000.00 by the end of the fifteen-year period.

The foregoing only goes to show that rehabilitation is a vain waste of effort and resources and a mere exercise in futility. Worse, that Wonder Book will still post a negative net worth after its rehabilitation plan is fully implemented suggests that the remedy of rehabilitation is availed without a reasonable expectation that Wonder Book will regain its prior status of viability and profitability but with a mere crapshoot that the value of its present pool of assets will increase during the rehabilitation period. Given Wonder Book's admission that fifteen (15) years do not suffice for it to register a positive net worth, it is logical to assume that the only thing the stockholders are gunning for is the recovery of their investments or a portion thereof after the corporate debts are satisfied from the liquidation of the corporate assets. This Court cannot sanction such a selfish venture. While there is no absolute certainty in rehabilitation, the sacrifice that the creditors are compelled to make can only be considered justified if the restoration of the corporation's former state of solvency is feasible due to a sound business plan with an assured funding. Such cannot be said in this case, hence, PBCOM's skepticism is not unfounded.

The RTC's approval of the subject rehabilitation plan is heavily premised on the collection of Wonder Book's insurance claim and the conversion of the deposit for future subscription to common stocks. However, Wonder Book has already admitted the impossibility of being paid by reducing its two (2) commitments discussed above and by writing-off this receivable from its balance sheet. A cursory examination of Wonder Book's balance sheet reveals its lack of sincerity insofar as these two (2) commitments are concerned and this should have been enough for the RTC to dismiss Wonder Book's attempt at rehabilitation.

Wonder Book's undertaking to fully pay its debts through sales, which it expected to increase by ten percent (10%) annually during the period it is under rehabilitation, hardly inspires belief. No basis was provided for this presumptive figure such as forecasts of independent industry analysts. In fact, even Wonder Book's performance in previous years does not indicate that its sales grow annually at such rate. Wonder Book also failed to explain its favorable assumptions relative to its future market share and ability to contend with large-scale corporations when it cited the competition posed by the latter as one of the reasons for its monumental losses. Notably, the proposed changes in Wonder Book's internal operations are far from being innovative and merely imitate the business plans of its successful competitors. Wonder Book did not explain why it assumed that the consumers would shift their loyalties in its favor.

Wonder Book alleged that it posted pre-tax income of ₱1,167,765.00 and ₱826,714.00 in 2007 and 2008. In its rehabilitation plan, which it submitted for approval in 2007 and approved in 2008, Wonder Book projected that it will earn the following pre-tax income during the first five (5) years of rehabilitation:

1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	5 <sup>th</sup>
₱4,958,000.00	₱5,804,000.00	₱5,934,000.00	₱6,367,000.00	₱6,616,000.00



Apart from the fact that Wonder Book's actual income does not even approximate its projected income, there was even a plunge in its earnings for two (2) successive years belying its anticipated annual growth rate of ten percent (10%). Wonder Book is therefore mistaken in interpreting its actual income for 2007 and 2008 as a positive indicator of its viability and fitness for rehabilitation. On the contrary, it validates the doubtful stance taken by PBCOM and the CA that Wonder Book can no longer rise from its financial debacles even if granted a lengthy respite.


**WHEREFORE**, premises considered, the petition is **DENIED** and the Decision dated March 25, 2009 of the Court of Appeals in CA-G.R. SP No. 102860 is **AFFIRMED**.

**SO ORDERED.**



**BIENVENIDO L. REYES**  
Associate Justice

**WE CONCUR:**




**ANTONIO T. CARPIO**  
Senior Associate Justice  
Chairperson, Second Division



**ARTURO D. BRION**  
Associate Justice

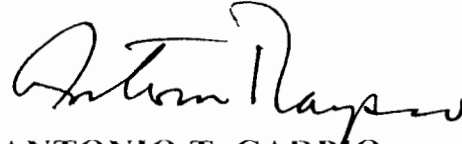


**JOSE PORTUGAL PEREZ**  
Associate Justice

  
**MARIA LOURDES P. A. SERENO**  
Associate Justice

**C E R T I F I C A T I O N**

I certify that the conclusions in the above Decision had been reached in consultation before the case was assigned to the writer of the opinion of the Court's Division.

  
**ANTONIO T. CARIPIO**  
Senior Associate Justice  
(Per Section 12, R.A. 296  
The Judiciary Act of 1948, as amended)