



Republic of the Philippines  
Supreme Court  
Manila

SECOND DIVISION

**METROPOLITAN BANK AND TRUST COMPANY,**

Petitioner,

Present:

CARPIO, *J.*, Chairperson,  
PERALTA,  
MENDOZA,  
LEONEN, and  
JARDELEZA, *JJ.*

-versus-

**LIBERTY CORRUATED  
BOXES MANUFACTURING  
CORPORATION,**  
Respondent.

Promulgated:

25 JAN 2017

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DECISION

**LEONEN, J.:**

A corporation with debts that have already matured may still file a petition for rehabilitation under the Interim Rules of Procedure on Corporation Rehabilitation.

This resolves a Petition for Review<sup>1</sup> on certiorari assailing the Court of Appeals' June 13, 2008 Decision<sup>2</sup> and August 20, 2008 Resolution.<sup>3</sup> The

<sup>1</sup> *Rollo*, pp. 22–52. The Petition was filed under Rule 45 of the Rules of Court.

<sup>2</sup> *Id.* at 54–73. The Decision was penned by Associate Justice Martin S. Villarama, Jr. (later Associate Justice of this Court) and concurred in by Associate Justices Noel G. Tijam and Estela M. Perlas-Bernabe (now Associate Justice of this Court) of the Special Fourth Division, Court of Appeals, Manila.

<sup>3</sup> *Id.* at 75. The Resolution was penned by Associate Justice Martin S. Villarama, Jr. (later Associate Justice of this Court) and concurred in by Associate Justices Noel G. Tijam and Estela M. Perlas-

Court of Appeals affirmed the Regional Trial Court's December 21, 2007 Order<sup>4</sup> approving Liberty Corrugated Boxes Manufacturing Corp.'s rehabilitation plan.

Respondent Liberty Corrugated Boxes Manufacturing Corp. (Liberty) is a domestic corporation that produces corrugated packaging boxes.<sup>5</sup> It obtained various credit accommodations and loan facilities from petitioner Metropolitan Bank and Trust Company (Metrobank) amounting to ₱19,940,000.00. To secure its loans, Liberty mortgaged to Metrobank 12 lots in Valenzuela City.<sup>6</sup>

Liberty defaulted on the loans.<sup>7</sup>

On June 21, 2007, Liberty filed a Petition<sup>8</sup> for corporate rehabilitation before Branch 74 of the Regional Trial Court of Malabon City. Liberty claimed that it could not meet its obligations to Metrobank because of the Asian Financial Crisis, which resulted in a drastic decline in demand for its goods, and the serious sickness of its Founder and President, Ki Kiao Koc.<sup>9</sup>

Liberty's rehabilitation plan consisted of: (a) a debt moratorium; (b) renewal of marketing efforts; (c) resumption of operations; and (d) entry into condominium development, a new business.<sup>10</sup>

On June 27, 2007, the Regional Trial Court, finding the Petition sufficient in form and substance, issued a Stay Order<sup>11</sup> and set an initial hearing for the Petition. On August 6, 2007, Metrobank filed its Comment/Opposition. It argued that Liberty was not qualified for corporate rehabilitation; that Liberty's Petition for rehabilitation and rehabilitation plan were defective; and that rehabilitation was not feasible. It also claimed that Liberty filed the Petition solely to avoid its obligations to the bank.

In its September 20, 2007 Order,<sup>12</sup> the Regional Trial Court gave due course to the Petition and referred the rehabilitation plan to the Rehabilitation Receiver.

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Bernabe (now Associate Justice of this Court) of the Former Special Fourth Division, Court of Appeals, Manila.

<sup>4</sup> Id. at 334–336. The Order was issued by Assisting Judge Leonardo L. Leonida of Branch 74, Regional Trial Court, Malabon City.

<sup>5</sup> Id. at 469.

<sup>6</sup> Id.

<sup>7</sup> Id. at 470.

<sup>8</sup> Id. at 77–89. The case was docketed as SEC Case No. S8-001-MN.

<sup>9</sup> Id. at 78 and 81.

<sup>10</sup> Id. at 111–139.

<sup>11</sup> Id. at 259–262. The Order was issued by Assisting Judge Leonardo L. Leonida of Branch 74, Regional Trial Court, Malabon City.

<sup>12</sup> Id. at 310–313. The Order was issued by Assisting Judge Leonardo L. Leonida of Branch 74, Regional Trial Court, Malabon City.

Rehabilitation Receiver Rafael Chris F. Teston recommended the approval of the plan, provided that Liberty would initiate construction on the property in Valenzuela within 12 months from approval.<sup>13</sup>

In its December 21, 2007 Order,<sup>14</sup> the Regional Trial Court approved the rehabilitation plan. The trial court found that Liberty was capable of being rehabilitated and that the rehabilitation plan was feasible and viable.<sup>15</sup>

Metrobank appealed to the Court of Appeals. On June 13, 2008, the Court of Appeals issued the Decision<sup>16</sup> denying the Petition and affirming the Regional Trial Court's December 21, 2007 Order.

The Court of Appeals affirmed the Regional Trial Court's finding that debtor corporations could still avail themselves of the remedy of rehabilitation under the Interim Rules of Procedure on Corporate Rehabilitation (Interim Rules) even if they were already in default.<sup>17</sup> It held that even insolvent corporations could still file a petition for rehabilitation.<sup>18</sup>

The Court of Appeals also found that the trial court correctly approved the rehabilitation plan over Metrobank's Opposition upon the recommendation of the Rehabilitation Receiver, who had carefully considered and addressed Metrobank's criticism on the plan's viability.<sup>19</sup>

The Court of Appeals stressed that the purpose of rehabilitation proceedings is to enable the distressed company to gain a new lease on life and to allow the creditors to be paid their claims. It held that the approval of the Regional Trial Court was precisely "to effect a feasible and viable rehabilitation' of ailing corporations[,]"<sup>20</sup> as required by Presidential Decree No. 902-A.

Metrobank moved for reconsideration, but the Motion was denied<sup>21</sup> on August 20, 2008.

Hence, this Petition was filed.

This Court required respondent Liberty Corrugated Boxes Manufacturing Corp. to file its comment on the Petition within 10 days from

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<sup>13</sup> Id. at 314-333.

<sup>14</sup> Id. at 334-336.

<sup>15</sup> Id. at 336.

<sup>16</sup> Id. at 54-73.

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

<sup>18</sup> Id. at 69.

<sup>19</sup> Id. at 70.

<sup>20</sup> Id. at 72.

<sup>21</sup> Id. at 75.

notice.<sup>22</sup> On March 23, 2009, respondent filed its Comments to the Petition,<sup>23</sup> noted by this Court in its April 20, 2009 Resolution.<sup>24</sup> Petitioner Metropolitan Bank and Trust Company filed its Reply<sup>25</sup> dated May 26, 2009, which this Court noted in its July 20, 2009 Resolution.<sup>26</sup> This Court also gave due course to the Petition and required the parties to submit their respective memoranda within 30 days from notice.

The parties filed their Memoranda on September 24, 2009<sup>27</sup> and November 3, 2009.<sup>28</sup>

Petitioner argues that respondent can no longer file a petition for corporate rehabilitation. It claims that Rule 4, Section 1 of the Interim Rules restricts the kind of debtor who can file petitions for corporate rehabilitation.<sup>29</sup> Petitioner insists that the phrase “who foresees the impossibility of meeting its debts when they respectively fall due” must be construed plainly to mean that an element of foresight is required.<sup>30</sup> Because foresight is required, the debts of the corporation should not have matured.<sup>31</sup>

Petitioner also argues that the Regional Trial Court’s approval of the rehabilitation plan is contrary to Rule 4, Section 23 of the Interim Rules.<sup>32</sup> Under the provision, the court may approve the rehabilitation plan over the opposition of the creditors only when two (2) elements concur: (a) when the court finds that the rehabilitation of the debtor is feasible; and (b) when the

<sup>22</sup> Id. at 409, Resolution dated November 19, 2008.

<sup>23</sup> Id. at 429–439. Respondent filed an Urgent Motion for Extension of Time to File Comment dated February 6, 2009, which this Court granted (Id. at 424–428).

<sup>24</sup> Id. at 442.

<sup>25</sup> Id. at 443–459.

<sup>26</sup> Id. at 460–461.

<sup>27</sup> Id. at 467–498, petitioner’s Memorandum.

<sup>28</sup> Id. at 499–516, respondent’s Memorandum.

<sup>29</sup> CORP. REHAB. RULE, Rule 4, sec. 1 provides:

Section 1. *Who May Petition.* - Any debtor who foresees the impossibility of meeting its debts when they respectively fall due, or any creditor or creditors holding at least twenty-five percent (25%) of the debtor's total liabilities, may petition the proper Regional Trial Court to have the debtor placed under rehabilitation.

<sup>30</sup> *Rollo*, p. 476.

<sup>31</sup> Id. at 476–477.

<sup>32</sup> CORP. REHAB. RULE, Rule 4, sec. 23 provides:

Section 23. *Approval of the Rehabilitation Plan.* - The Court may approve a rehabilitation plan even over the opposition of creditors holding a majority of the total liabilities of the debtor if, in its judgment, the rehabilitation of the debtor is feasible and the opposition of the creditors is manifestly unreasonable.

In determining whether or not the opposition of the creditors is manifestly unreasonable, the court shall consider the following:

a. That the plan would likely provide the objecting class of creditors with compensation greater than that which they would have received if the assets of the debtor were sold by a liquidator within a three-month period;

b. That the shareholders or owners of the debtor lose at least their controlling interest as a result of the plan; and

c. The Rehabilitation Receiver has recommended approval of the plan.

In approving the rehabilitation plan, the court shall issue the necessary orders or processes for its immediate and successful implementation. It may impose such terms, conditions, or restrictions as the effective implementation and monitoring thereof may reasonably require, or for the protection and preservation of the interests of the creditors should the plan fail.

opposition of the creditors is “manifestly unreasonable.”<sup>33</sup> Petitioner claims that the Regional Trial Court did not declare the manifest unreasonableness of petitioner’s opposition.<sup>34</sup>

Petitioner likewise argues that respondent’s Petition for rehabilitation and the attached inventory of accounts receivable failed to disclose the maturity dates of the accounts.<sup>35</sup> This failure renders the Petition defective under Rule 4, Section 2(d) of the Interim Rules.<sup>36</sup>

Petitioner further claims that the rehabilitation plan lacked material financial commitments required under Rule 4, Section 5 of the Interim Rules.<sup>37</sup> The rehabilitation plan did not claim that new money would be invested in the corporation.<sup>38</sup>

On the other hand, respondent insists on its qualification to seek rehabilitation.<sup>39</sup> It argues that petitioner’s reading of Rule 4, Section 1 of the Interim Rules is restrictive, merely indicating the minimum conditions for a debtor to be able to file a petition for rehabilitation.<sup>40</sup>

In support of its claim that the remedy of corporate rehabilitation

<sup>33</sup> *Rollo*, p. 482.

<sup>34</sup> *Id.* at 482–483.

<sup>35</sup> *Id.* at 488.

<sup>36</sup> CORP. REHAB. RULE, Rule 4, sec. 2 provides:

Section 2. *Contents of the Petition.* - The petition filed by the debtor must be verified and must set forth with sufficient particularity all the following material facts: (a) the name and business of the debtor; (b) the nature of the business of the debtor; (c) the history of the debtor; (d) the cause of its inability to pay its debts; (e) all the pending actions or proceedings known to the debtor and the courts or tribunals where they are pending; (f) threats or demands to enforce claims or liens against the debtor; and (g) the manner by which the debtor may be rehabilitated and how such rehabilitation may benefit the general body of creditors, employees, and stockholders.

The petition shall be accompanied by the following documents:

....

(d) An Inventory of Assets which must list with reasonable specificity all the assets of the debtor, stating the nature of each asset, the location and condition thereof, the book value or market value of the asset, and attaching the corresponding certificate of title therefor in case of real property, or the evidence of title or ownership in case of movable property, the encumbrances, liens or claims thereon, if any, and the identities and addresses of the lienholders and claimants. The Inventory shall include a Schedule of Accounts Receivable which must indicate the amount of each, the persons from whom due, the date of maturity, and the degree of collectibility categorizing them as highly collectible to remotely collectible[.]

<sup>37</sup> CORP. REHAB. RULE, Rule 4, sec. 5 provides:

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.

<sup>38</sup> *Rollo*, p. 492.

<sup>39</sup> *Id.* at 503.

<sup>40</sup> *Id.* at 504.

covers defaulting debtors, respondent cites Rule 4, Sections 4<sup>41</sup> and 6<sup>42</sup> of the Interim Rules.<sup>43</sup> Under Section 6, a stay order, which may assume that cases have been filed to collect on matured debts, may be granted.

Respondent argues that the Court of Appeals' finding that the rehabilitation plan is feasible is well-grounded and in keeping with Rule 4, Section 23 of the Interim Rules.<sup>44</sup> The Rehabilitation Receiver deemed the rehabilitation plan viable.<sup>45</sup> The Petition also listed the receivables, clearly due for collection, in its annexes.<sup>46</sup>

Respondent further contends that contrary to petitioner's arguments, the rehabilitation plan contains material financial commitments.<sup>47</sup> When the Interim Rules speak of "material financial commitments to support the rehabilitation plan,"<sup>48</sup> it does not mean that the commitment must come from outside sources. The corporation's showing that the rehabilitation plan can find sufficient funding should be sufficient.<sup>49</sup>

The issues for resolution are:

First, whether respondent, as a debtor in default, is qualified to file a petition for rehabilitation under Presidential Decree No. 902-A and Rule 4, Section 1 of the Interim Rules; and

Second, whether respondent's Petition for rehabilitation is sufficient in form and substance and respondent's rehabilitation plan, feasible.

## I.A

A corporation that may seek corporate rehabilitation is characterized not by its debt but by its capacity to pay this debt.

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<sup>41</sup> CORP. REHAB. RULE, Rule 4, sec. 4 provides:

Section 4. *Creditor-initiated Petitions*. – Where the petition is filed by a creditor or creditors, it is sufficient that the petition is accompanied by a rehabilitation plan and a list of nominees to the position of Rehabilitation Receiver and verified by a sworn statement that the affiant has read the petition and that its contents are true and correct of his personal knowledge or based on authentic records obtained from the debtor.

<sup>42</sup> CORP. REHAB. RULE, Rule 4, sec. 6 provides:

Sec. 6. *Stay Order*. – If the court finds the petition to be sufficient in form and substance, it shall, not later than five (5) days from the filing of the petition, issue an Order (a) appointing a Rehabilitation Receiver and fixing his bond; (b) staying enforcement of all claims, whether for money or otherwise and whether such enforcement is by court action or otherwise, against the debtor, its guarantors and sureties[.]

<sup>43</sup> *Rollo*, p. 504.

<sup>44</sup> *Id.* at 508–509.

<sup>45</sup> *Id.* at 509.

<sup>46</sup> *Id.*

<sup>47</sup> *Id.* at 511.

<sup>48</sup> *Id.*

<sup>49</sup> *Id.*

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Rule 4, Section 1 of the Interim Rules provides:

RULE 4  
*Debtor-Initiated Rehabilitation*

SECTION 1. *Who May Petition.* – Any debtor who foresees the impossibility of meeting its debts when they respectively fall due, or any creditor or creditors holding at least twenty-five percent (25%) of the debtor's total liabilities, may petition the proper Regional Trial Court to have the debtor placed under rehabilitation.

Petitioner insists that the words of the Interim Rules are clear and must be given their plain and literal meaning. A better interpretation requires scrutiny of the purpose behind the enactment of the Interim Rules and its provisions.

*Philippine Bank of Communications v. Basic Polyprinters and Packaging Corporation*<sup>50</sup> reiterates the purpose of rehabilitation, which is to provide meritorious corporations an opportunity for recovery:

Under the Interim Rules, rehabilitation is the process of restoring “the debtor to a position of successful operation and solvency, if it is shown that its continuance of operation is economically feasible and its creditors can recover by way of the present value of payments projected in the plan more if the corporation continues as a going concern than if it is immediately liquidated.” It 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.<sup>51</sup> (Citations omitted)

As stated by the Court of Appeals in *Philippine Bank of Communications*, rehabilitation is in line with the State's objective to promote a wider and more meaningful equitable distribution of wealth.<sup>52</sup>

In line with this objective, the Interim Rules provide for a liberal construction of its provisions:

RULE 2  
*Definition of Terms and Construction*

....

SECTION 2. *Construction.* – These Rules shall be liberally construed to

<sup>50</sup> 745 Phil. 651 (2014) [Per J. Bersamin, First Division].

<sup>51</sup> Id. at 660.

<sup>52</sup> Id. at 657.

carry out the objectives of Sections 5(d), 6(c) and 6(d) of Presidential Decree No. 902-A, as amended, and to assist the parties in obtaining a just, expeditious, and inexpensive determination of cases. Where applicable, the Rules of Court shall apply suppletorily to proceedings under these Rules.

To adopt petitioner's interpretation would undermine the purpose of the Interim Rules. There is no reason why corporations with debts that may have already matured should not be given the opportunity to recover and pay their debtors in an orderly fashion. The opportunity to rehabilitate the affairs of an economic entity, regardless of the status of its debts, redounds to the benefit of its creditors, owners, and to the economy in general. Rehabilitation, rather than collection of debts from a company already near bankruptcy, is a better use of judicial rewards.

A.M. No. 08-8-10-SC<sup>53</sup> further describes the remedy initiated by a petition for rehabilitation:

[A] petition for rehabilitation, the procedure for which is provided in the Interim Rules of Procedure on Corporate Recovery, should be considered as a special proceeding. It is one that seeks to establish the status of a party or a particular fact. As provided in section 1, Rule 4 of the Interim Rules on Corporate Recovery, the status or fact sought to be established is the *inability of the corporate debtor to pay its debts* when they fall due so that a rehabilitation plan, containing the formula for the successful recovery of the corporation, may be approved in the end. It does not seek a relief from an injury caused by another party. (Emphasis supplied)

Thus, the condition that triggers rehabilitation proceedings is not the maturation of a corporation's debts but the inability of the debtor to pay these.

### I.B

Where the law does not distinguish, neither should this Court.<sup>54</sup> Because the definition under the Interim Rules is encompassing,<sup>55</sup> there should be no distinction whether a claim has matured or otherwise.

Petitioner's proposed interpretation contradicts provisions of the Interim Rules, which contemplate situations where a debtor corporation may already be in default. As correctly pointed out by respondent, a creditor may

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<sup>53</sup> Re: Transfer of Cases from the Securities and Exchange Commission to the Regional Trial Courts (2001).

<sup>54</sup> *Abreera v. Barza*, 615 Phil. 595, 622 (2009) [Per J. Peralta, Third Division].

<sup>55</sup> *Spouses Sobrejuanite v. ASB Development Corporation*, 508 Phil. 715, 723 (2005) [Per J. Ynares-Santiago, First Division].



possibly petition for the debtor's rehabilitation for default on debts already owed.<sup>56</sup>

Rule 4, Section 1 of the Interim Rules does not specify what kind of debtor may seek rehabilitation. The provision allows creditors holding 25% of the debtor corporation's total liabilities to petition for the corporation's rehabilitation.

Further, Rule 4, Section 6 of the Interim Rules provides for a stay order "staying enforcement of all claims, whether for money or otherwise and whether such enforcement is by court action or otherwise."<sup>57</sup> A stay order, however, only applies to the suspension of the enforcement of claims. Hence, claims, if proper, can still be instituted in other proceedings. There may already be pending claims against a debtor corporation for debts already matured.

In *Spouses Sobrejuanite v. ASB Development*,<sup>58</sup> the purpose of the stay order is to preserve the rights of both the debtor corporation and its creditors:

The purpose for the suspension of the proceedings is *to prevent a creditor from obtaining an advantage or preference over another* and to protect and preserve the rights of party litigants as well as the interest of the investing public or creditors. Such suspension is intended to give enough breathing space for the management committee or rehabilitation receiver to make the business viable again, without having to divert attention and resources to litigations in various fora.<sup>59</sup> (Emphasis supplied, citations omitted)

The stay order prevents preference or advantage of creditors over others, including the advantage that a creditor with matured money claims may have over one whose claims are not in yet in default.

Rule 2, Section 1 of the Interim Rules defines the term "claim":

RULE 2  
*Definition of Terms and Construction*

.....

"Claim" shall include all claims or demands of whatever nature or character against a debtor or its property, whether for money or otherwise.

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<sup>56</sup> *Rollo*, pp. 504–505.

<sup>57</sup> CORP. REHAB. RULE, Rule 4, sec. 6.

<sup>58</sup> 508 Phil. 715 (2005) [Per J. Ynares-Santiago, First Division].

<sup>59</sup> *Id.* at 721.

The term “claim,” which includes “all claims or demands of whatever nature or character,” is not limited to claims which have not yet defaulted.

This does not mean that those with secured claims against corporations undergoing rehabilitation are deprived of the preference given them by law. *Negros Navigation Co., Inc. v. Court of Appeals*<sup>60</sup> enumerated the guidelines in the treatment of claims against corporations undergoing rehabilitation:

1. All claims against corporations, partnerships, or associations that are pending before any court, tribunal, or board, without distinction as to whether or not a creditor is secured or unsecured, shall be suspended effective upon the appointment of a management committee, rehabilitation receiver, board, or body in accordance with the provisions of Presidential Decree No. 902-A.
2. Secured creditors retain their preference over unsecured creditors, but enforcement of such preference is equally suspended upon the appointment of a management committee, rehabilitation receiver, board, or body. In the event that the assets of the corporation, partnership, or association are finally liquidated, however, secured and preferred credits under the applicable provisions of the Civil Code will definitely have preference over unsecured ones.<sup>61</sup>

While the corporation is undergoing rehabilitation, all claims, regardless of nature, are suspended from enforcement. However, once the corporation has successfully rehabilitated or finally liquidated, the enforcement of these secured claims takes precedence.

In *Negros Navigation Co.*, Tsuneishi Heavy Industries (Tsuneishi) filed a collection case against Negros Navigation Co, Inc. (Negros Navigation) for repairman’s lien, or the unpaid services for the repair of its vessels.<sup>62</sup> The Regional Trial Court of Cebu issued a writ of preliminary attachment against Negros Navigation’s properties and held that Tsuneishi’s repairman’s lien constituted a superior maritime lien.<sup>63</sup> Negros Navigation then filed before the Regional Trial Court of Manila a petition for corporate rehabilitation with prayer for suspension of payments, which the trial court, in issuing a stay order, granted.<sup>64</sup> On appeal, Tsuneishi argued before this Court that its maritime liens were not covered by the stay order.<sup>65</sup>

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<sup>60</sup> 594 Phil. 97 (2008) [Per J. Nachura, Third Division].

<sup>61</sup> Id. at 114, citing *Rizal Commercial Banking Corporation v. Intermediate Appellate Court*, 378 Phil. 10 (1999) [Per J. Melo, En Banc].

<sup>62</sup> Id. at 101.

<sup>63</sup> Id. at 102.

<sup>64</sup> Id.

<sup>65</sup> Id. at 108.

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This Court held that the admiralty proceeding was appropriately suspended under Rule 4, Section 6 of the Interim Rules, there being no exemptions or distinctions in the law on what kinds of claims are covered by suspension:

The justification for the suspension of actions or claims, without distinction, pending rehabilitation proceedings is to enable the management committee or rehabilitation receiver to effectively exercise its/his powers free from any judicial or extra-judicial interference that might unduly hinder or prevent the “rescue” of the debtor company. To allow such other actions to continue would only add to the burden of the management committee or rehabilitation receiver, whose time, effort and resources would be wasted in defending claims against the corporation instead of being directed toward its restructuring and rehabilitation.<sup>66</sup> (Citations omitted)

Likewise, in *Abrera v. Hon. Barza*,<sup>67</sup> College Assurance Plan Philippines, Inc. (CAP) sold pre-need educational plans, which guaranteed the payment of tuition and other standard school fees.<sup>68</sup> CAP suffered financial difficulties and failed to meet its obligations under the plans.<sup>69</sup> The CAP planholders then filed an action for specific performance and/or annulment of contract against CAP, its directors, and its officers.<sup>70</sup>

CAP filed a petition for rehabilitation, which the trial court deemed sufficient in form and substance.<sup>71</sup> The trial court also issued a stay order.<sup>72</sup>

Questioning the stay order and the petition for rehabilitation, the CAP planholders argued that CAP was a pre-need corporation and that a trust relationship existed between the corporation and the planholders.<sup>73</sup> They argued that because they did not have a debtor-creditor relationship with CAP, CAP could not apply for rehabilitation, and the stay order could not apply to the action for specific performance.<sup>74</sup>

This Court held that CAP, a pre-need corporation already in default of its obligations to the planholders, could file for rehabilitation:

Under the Interim rules, “debtor” shall mean “**any corporation**, partnership, or association, **whether supervised or regulated by the Securities and Exchange Commission or other government agencies**,

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<sup>66</sup> Id. at 112.

<sup>67</sup> 615 Phil. 595 (2014) [Per J. Peralta, Third Division].

<sup>68</sup> Id. at 612.

<sup>69</sup> Id.

<sup>70</sup> Id.

<sup>71</sup> Id. at 613.

<sup>72</sup> Id.

<sup>73</sup> Id. at 614.

<sup>74</sup> Id.

on whose behalf a petition for rehabilitation has been filed under these Rules.”

The Interim Rules does not distinguish whether a pre-need corporation like CAP cannot file a petition for rehabilitation before the RTC. Courts are not authorized to distinguish where the Interim Rules makes no distinction.

Moreover, under the Interim Rules, “**claim**” shall include “**all claims or demands of whatever nature or character against a debtor** or its property, whether for money or otherwise.” “Creditor” shall mean “any holder of a claim.”

Hence, the claim of petitioners for payment of tuition fees from CAP is included in the definition of “claims” under the Interim Rules.<sup>75</sup> (Emphasis in the original, citations omitted)

In *Express Investments III Private Ltd. and Export Development Canada v. Bayan Telecommunications, Inc.*,<sup>76</sup> Bayan Telecommunications, Inc. (Bayantel) defaulted on its obligations to its creditors and reached a total of ₱35.928 billion in unpaid principal and interest.<sup>77</sup> One of its bank creditors filed a petition for rehabilitation.<sup>78</sup> The trial court gave due course to the petition.<sup>79</sup>

This Court allowed Bayantel to undergo rehabilitation proceedings despite Bayantel’s status as a debtor corporation already in default.<sup>80</sup>

The definition of “claim” and the nature of stay orders contemplate situations where debtor corporations already in default may be under rehabilitation. Rule 4, Section 1 does not limit who may file a petition for rehabilitation.

### I.C

The plain meaning doctrine cannot apply to Rule 4, Section 1 of the Interim Rules. In *Social Weather Stations, Inc. and Pulse Asia v. Commission on Elections*:<sup>81</sup>

First, verba legis or the so-called plain-meaning rule applies only when the law is completely clear, such that there is absolutely no room for

<sup>75</sup> Id. at 621.

<sup>76</sup> 700 Phil. 225 (2012) [Per J. Villarama, First Division].

<sup>77</sup> Id. at 236.

<sup>78</sup> Id. at 237.

<sup>79</sup> Id. at 239–240.

<sup>80</sup> Id. at 289.

<sup>81</sup> G.R. No. 208062, April 27, 2015  
<<http://sc.judiciary.gov.ph/pdf/web/viewer.html?file=/jurisprudence/2015/april2015/208062.pdf>> [Per J. Leonen, En Banc].

interpretation. Its application is premised on a situation where the words of the legislature are clear that its intention, insofar as the facts of a case demand from the point of view of a contemporary interpretative community, is neither vague nor ambiguous. This is a matter of judicial appreciation. It cannot apply merely on a party's contention of supposed clarity and lack of room for interpretation.

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Second, statutory construction cannot lend itself to pedantic rigor that foments absurdity. The dangers of inordinate insistence on literal interpretation are commonsensical and need not be belabored. These dangers are by no means endemic to legal interpretation. Even in everyday conversations, misplaced literal interpretations are fodder for humor. A fixation on technical rules of grammar is no less innocuous. A pompously doctrinaire approach to text can stifle, rather than facilitate, the legislative wisdom that unbridled textualism purports to bolster.

Third, the assumption that there is, in all cases, a universal plain language is erroneous. In reality, universality and uniformity of meaning is a rarity. A contrary belief wrongly assumes that language is static.<sup>82</sup> (Citations omitted)

The context of the words of the statute should be considered to clarify inherent ambiguities. Thus, in *Chavez v. Judicial and Bar Council*:<sup>83</sup>

Under the maxim *noscitur a sociis*, where a particular word or phrase is ambiguous in itself or is equally susceptible of various meanings, its correct construction may be made clear and specific by considering the company of words in which it is founded or which it is associated. This is because a word or phrase in a statute is always used in association with other words or phrases, and its meaning may, thus, be modified or restricted by the latter. *The particular words, clauses and phrases should not be studied as detached and isolated expressions, but the whole and every part of the statute must be considered in fixing the meaning of any of its parts and in order to produce a harmonious whole.* A statute must be so construed as to harmonize and give effect to all its provisions whenever possible. In short, every meaning to be given to each word or phrase must be ascertained from the context of the body of the statute since a word or phrase in a statute is always used in association with other words or phrases and its meaning may be modified or restricted by the latter.<sup>84</sup> (Emphasis supplied, citations omitted)

Where a literal meaning would lead to absurdity,<sup>85</sup> contradiction, or injustice,<sup>86</sup> or otherwise defeat the clear purpose of the lawmakers,<sup>87</sup> the

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<sup>82</sup> Id. at 25–26.

<sup>83</sup> 691 Phil. 173 (2012) [Per J. Mendoza, En Banc].

<sup>84</sup> Id. at 200.

<sup>85</sup> *Secretary of Justice, et al. v. Koruga*, 604 Phil. 405, 416 (2009) [Per J. Austria-Martinez, Third Division].

<sup>86</sup> Id.

<sup>87</sup> *Ursua v. Court of Appeals*, 326 Phil. 157, 163 (1996) [Per J. Bellosillo, First Division].

spirit and reason of the statute may be examined to determine the true intention of the provision.<sup>88</sup>

In this case, the phrase “any debtor who foresees the impossibility of meeting its debts when they respectively fall due” in Rule 4, Section 1 of the Interim Rules need not refer to a specific period or point in time when the debts mature. It may refer to the debtor corporation’s general realization that it will not be able to fulfill its obligations—a realization that may come before default.

Construing the phrase “when they respectively fall due” to mean that the debtor must already be in default defeats the clear purpose of the lawmakers. It unjustly limits rehabilitation to corporations with matured obligations.

## II

This Court is not a trier of facts.<sup>89</sup> The factual findings of the lower courts are accorded great weight and respect.<sup>90</sup> This is especially so in corporate rehabilitation proceedings, to which commercial courts are designated on account of their expertise and specialized knowledge.<sup>91</sup>

The Court of Appeals affirmed the Regional Trial Court’s findings that the Petition for rehabilitation was sufficient and that the rehabilitation plan was reasonable. Petitioner seeks to overturn these findings. It argues that the Petition was insufficient for its failure to include maturity dates in the attached inventory; that the Regional Trial Court failed to determine whether petitioner’s opposition was manifestly unreasonable; and that the rehabilitation plan was not feasible as it lacked materially significant financial commitments.<sup>92</sup>

These are questions of fact. The resolution of these issues entails a review of the sufficiency and weight of the evidence presented by the parties, including the inventory attached to the Petition, as well as the other financial documents for the rehabilitation.

*Pascual v. Burgos*<sup>93</sup> reiterates that only questions of law should be

<sup>88</sup> Id. at 201–202.

<sup>89</sup> *Pascual v. Burgos*, G.R. No. 171722, January 11, 2016 <<http://sc.judiciary.gov.ph/pdf/web/viewer.html?file=/jurisprudence/2016/january2016/171722.pdf>> 10 [Per J. Leonen, Second Division].

<sup>90</sup> Id.

<sup>91</sup> *Bank of the Philippine Islands v. Sarabia Manor Hotel Corporation*, 715 Phil. 420, 435 (2013) [Per J. Perlas-Bernabe, Second Division].

<sup>92</sup> *Rollo*, pp. 467–497.

<sup>93</sup> G.R. No. 171722, January 11, 2016

raised in petitions for certiorari under Rule 45:

The Rules of Court require that only questions of law should be raised in petitions filed under Rule 45. This court is not a trier of facts. It will not entertain questions of fact as the factual findings of the appellate courts are “final, binding[,] or conclusive on the parties and upon this [c]ourt” when supported by substantial evidence. Factual findings of the appellate courts will not be reviewed nor disturbed on appeal to this court.

However, these rules do admit exceptions. Over time, the exceptions to these rules have expanded. At present, there are 10 recognized exceptions that were first listed in *Medina v. Mayor Asistio, Jr.*:

(1) When the conclusion is a finding grounded entirely on speculation, surmises or conjectures; (2) When the inference made is manifestly mistaken, absurd or impossible; (3) Where there is a grave abuse of discretion; (4) When the judgment is based on a misapprehension of facts; (5) When the findings of fact are conflicting; (6) When the Court of Appeals, in making its findings, went beyond the issues of the case and the same is contrary to the admissions of both appellant and appellee; (7) The findings of the Court of Appeals are contrary to those of the trial court; (8) When the findings of fact are conclusions without citation of specific evidence on which they are based; (9) When the facts set forth in the petition as well as in the petitioner’s main and reply briefs are not disputed by the respondents; and (10) The finding of fact of the Court of Appeals is premised on the supposed absence of evidence and is contradicted by the evidence on record.

These exceptions similarly apply in petitions for review filed before this court involving civil, labor, tax, or criminal cases.

A question of fact requires this court to review the truthfulness or falsity of the allegations of the parties. This review includes assessment of the “probative value of the evidence presented.” There is also a question of fact when the issue presented before this court is the correctness of the lower courts’ appreciation of the evidence presented by the parties.<sup>94</sup> (Citations omitted)

Absent any of the exceptions enumerated in *Pascual*, this Court will neither review nor disturb the lower courts’ findings of fact on appeal.

Petitioner contends that the Court of Appeals’ findings are misapprehensions of the facts of the case, and that these findings are conclusions without citations of their specific factual bases. It claims that the Court of Appeals ignored respondent’s failure to attach the maturity

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<<http://sc.judiciary.gov.ph/pdf/web/viewer.html?file=/jurisprudence/2016/january2016/171722.pdf>>  
[Per J. Leonen, Second Division].

<sup>94</sup> Id. at 10–12.

dates<sup>95</sup> and merely relied on respondent's self-serving assertions.<sup>96</sup> It also argues that the Court of Appeals failed to refute petitioner's observations on the defects of respondent's rehabilitation plan.<sup>97</sup>

Petitioner fails to convince. The Court of Appeals had legal and factual bases for approving the Petition for rehabilitation.

The Interim Rules does not specify that courts must make a *written* declaration that a creditor's opposition is manifestly unreasonable. The Regional Trial Court Orders gave petitioner every opportunity to make its opposition and stance clear. In issuing the December 21, 2007 Order and approving the rehabilitation plan, the Regional Trial Court found the opposition unreasonable.

Rule 4, Section 5 of the Interim Rules outlines the requisites of a rehabilitation plan:

RULE 4  
*Debtor-Initiated Rehabilitation*

. . . .

SECTION 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.

The Regional Trial Court, as affirmed by the Court of Appeals, deemed the Petition for rehabilitation sufficient. In its June 27, 2007 Order, it found that all the documents required under Rule 4, Section 2 of the Interim Rules were attached to the Petition.<sup>98</sup>

The Court of Appeals did not disregard the maturity dates. The Petition annexed a table of accounts receivable showing obligations that had

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<sup>95</sup> *Rollo*, p. 487.

<sup>96</sup> *Id.* at 490.

<sup>97</sup> *Id.* at 495.

<sup>98</sup> *Id.* at 259–262.



already matured. Respondent likewise admitted in the Petition<sup>99</sup> that it could not comply with its obligations to petitioner.

Petitioner argues that the Regional Trial Court failed to rule on its Opposition and declare it manifestly unreasonable. It claims that this failure renders respondent's Petition for rehabilitation insufficient. This argument lacks credence.

Both the Court of Appeals and the Regional Trial Court found that the Rehabilitation Receiver carefully considered the feasibility of the rehabilitation plan, and that no serious objection and counter proposal were presented by petitioner.<sup>100</sup>

*Philippine Bank of Communications* illustrates what may be deemed as insufficient financial commitments:

The commitment to add ₱10,000,000.00 working capital appeared to be doubtful considering that the insurance claim from which said working capital would be sourced had already been written off by Basic Polyprinters's affiliate, Wonder Book Corporation. *A claim that has been written off is considered a bad debt or a worthless asset, and cannot be deemed a material financial commitment for purposes of rehabilitation. . .*

We also declared in *Wonder Book Corporation v. Philippine Bank of Communications (Wonder Book)* that *the conversion of all deposits for future subscriptions to common stock and the treatment of all payables to officers and stockholders as trade payables was hardly constituting material financial commitments*. Such "conversion" of cash advances to trade payables was, in fact, a mere re-classification of the liability entry and had no effect on the shareholders' deficit. . . .

....

We observe, too, that Basic Polyprinters's *proposal to enter into the dacion en pago to create a source of "fresh capital" was not feasible because the object thereof would not be its own property but one belonging to its affiliate, TOL Realty and Development Corporation, a corporation also undergoing rehabilitation*. Moreover, the negotiations (for the return of books and magazines from Basic Polyprinters's trade creditors) did not partake of a voluntary undertaking because no actual financial commitments had been made thereon.

....

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<sup>99</sup> Id. at 22-59.

<sup>100</sup> Id. at 70.

Due to the rehabilitation plan being an indispensable requirement in the corporate rehabilitation proceedings, Basic Polyprinters was expected to exert a conscious effort in formulating the same, for such plan would spell the future not only for itself but also for its creditors and the public in general. The contents and execution of the rehabilitation plan could not be taken lightly.<sup>101</sup> (Emphasis supplied, citations omitted)

Petitioner's contention hinges on the sufficiency of respondent's material financial commitments, which becomes significant in determining its resolve, earnestness, and good faith.<sup>102</sup>

Respondent intends to source its funds from internal operations. That the funds are internally generated does not render the funds insufficient. This arrangement is still a material, voluntary, and significant financial commitment, in line with respondent's rehabilitation plan.

Both the Court of Appeals and the Regional Trial Court found the Rehabilitation Receiver's assurance that the cashflow from respondent's committed sources to be sufficient, thus:

From the foregoing, the undersigned deems the expected sources of cashflow to support the proposed Rehabilitation Plan of the Petitioner as realistic. The funds requirement to jumpstart the Rehabilitation Plan is minimal and easily obtained by the Petitioner's management; while the income to be realized from the development of a condominium project is also feasible. Finally, the present management of the Petitioner appears to be capable of revitalizing and operating the Company and to generate the expected cashflow to support its repayment program.<sup>103</sup>

Based on his assessment, the Rehabilitation Receiver noted that the funds required to finance the first year of the rehabilitation plan would be much less than that the amount stated in the Petition.<sup>104</sup> Respondent put forth in detail its financial commitments.

Respondent, as a debtor corporation, may file for rehabilitation despite having defaulted on its obligations to petitioner. As its Petition for rehabilitation was sufficient and its rehabilitation plan was feasible, respondent's rehabilitation should proceed.

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<sup>101</sup> *Philippine Bank of Communications v. Basic Polyprinters and Packaging Corporation*, 745 Phil. 651, 663–664 (2014) [Per J. Bersamin, First Division].

<sup>102</sup> *Id.* at 665.

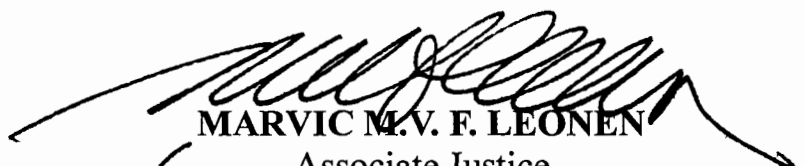
<sup>103</sup> *Rollo*, p. 72.

<sup>104</sup> *Id.* at 71.

**WHEREFORE**, the Petition is **DENIED**. The June 13, 2008 Decision and August 20, 2008 Resolution of the Court of Appeals in CA-G.R. SP No. 102147 are **AFFIRMED**.


**SO ORDERED.**

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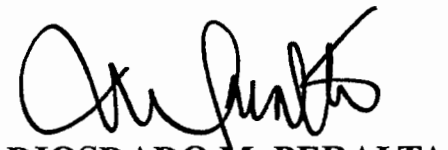


**MARVIC M.V. F. LEONEN**  
Associate Justice

WE CONCUR:




**ANTONIO T. CARPIO**  
Associate Justice  
Chairperson



**DIOSDADO M. PERALTA**  
Associate Justice




**JOSE CANTRAL MENDOZA**  
Associate Justice



**FRANCIS H. JARDELEZA**  
Associate Justice

**ATTESTATION**

I attest 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. CARPIO**  
Associate Justice  
Chairperson, Second Division

**CERTIFICATION**

Pursuant to Section 13, Article VIII of the Constitution and the Division Chairperson's Attestation, 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.



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