Republic of the Philippines
Supreme Court
Manila

FIRST DIVISION

BPI FAMILY SAVINGS BANK, INC., Petitioner,	**G.R. No. 205469** Present:
- versus -	SERENO, *C.J.*, Chairperson, LEONARDO-DE CASTRO, BERSAMIN, PEREZ, and PERLAS-BERNABE, *JJ.*
ST. MICHAEL MEDICAL CENTER, INC., Respondent.	Promulgated: MAR 25 2015

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DECISION

PERLAS-BERNABE, *J.*:

Before the Court is a petition for review on *certiorari*[1] assailing the Decision[2] dated August 30, 2012 and the Resolution[3] dated January 18, 2013 of the Court of Appeals (CA) in CA-G.R. SP No. 121004 which affirmed the approval of the Rehabilitation Plan of respondent St. Michael Medical Center, Inc. (SMMCI) by the Regional Trial Court of Imus, Cavite, Branch 21 (RTC) through its Order[4] dated August 4, 2011 in SEC Case No. 086-10.

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1 *Rollo*, pp. 41-59.
2 Id. at 64-89. Penned by Associate Justice Mariflor P. Punzalan Castillo with Associate Justices Amy C. Lazaro-Javier and Leoncia R. Dimagiba concurring.
3 Id. at 90-96.
4 Id. at 240-258. Penned by Executive Judge Norberto J. Quisumbing, Jr.

The Facts

Spouses Virgilio and Yolanda Rodil (Sps. Rodil) are the owners and sole proprietors of St. Michael Diagnostic and Skin Care Laboratory Services and Hospital (St. Michael Hospital), a 5-storey secondary level hospital built on their property located in Molino 2, Bacoor, Cavite. With a vision to upgrade St. Michael Hospital into a modern, well-equipped and full service tertiary 11-storey hospital, Sps. Rodil purchased two (2) parcels of land adjoining their existing property and, on May 22, 2003, incorporated SMMCI, with which entity they planned to eventually consolidate St. Michael Hospital's operations. SMMCI had an initial capital of ₱2,000,000.00 which was later increased to ₱53,500,000.00, 94.49% of which outstanding capital stock, or ₱50,553,000.00, was subscribed and paid by Sps. Rodil.[5]

In May 2004, construction of a new hospital building on the adjoining properties commenced, with Sps. Rodil contributing personal funds as initial capital for the project which was estimated to cost at least ₱100,000,000.00.[6] To finance the costs of construction, SMMCI applied for a loan with petitioner BPI Family Savings Bank, Inc. (BPI Family) which gave a credit line of up to ₱35,000,000.00,[7] secured by a Real Estate Mortgage[8] (mortgage) over three (3) parcels of land[9] belonging to Sps. Rodil, on a portion of which stands the hospital building being constructed. SMMCI was able to draw the aggregate amount of ₱23,700,000.00,[10] with interest at the rate of 10.25% per annum (p.a.) and a late payment charge of 3% per month accruing on the overdue amount, for which Sps. Rodil, who agreed to be co-borrowers on the loan, executed and signed a Promissory Note.[11]

In the meantime, after suffering financial losses due to problems with the first building contractor,[12] Sps. Rodil temporarily deferred the original construction plans for the 11-storey hospital building and, instead, engaged the services of another contractor for the completion of the remaining structural works of the unfinished building up to the 5th floor. In this regard, they spent an additional ₱25,000,000.00, or a total of ₱55,000,000.00 for the construction. The lack of funds for the finishing works of the 3rd, 4th and 5th floors, however, kept the new building from becoming completely

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5 Id. at 65-66.
6 Id. at 66.
7 Id. at 101.
8 Id. at 145-149.
9 Transfer Certificate of Title (TCT) No. T-1010611, TCT No. T-944976, and TCT No. T-1019947; id. at 138-143.
10 Id. at 101.
11 See Promissory Note (PN) Number 19408-6011803 000-99 dated November 30, 2006; id. at 144. The Court notes, however, that it is merely a renewal of PN # 19408-6011189.
12 Respondent alleged that the first contractor (*i.e.*, M. Brucal Builders; id. at 249) pilfered or diverted the construction materials to its other projects. Hence, since it failed to restore the missing materials, its services were terminated, and CCG Construction took over six (6) months later as the new contractor; id. at 66 and 100.

functional and, in turn, hampered the plans for the physical transfer of St. Michael Hospital's operations to SMMCI. Nevertheless, using hospital-generated revenues, Sps. Rodil were still able to purchase new equipment and machinery for St. Michael Hospital valued in excess of ₱20,000,000.00.[13]

Although the finishing works were later resumed and some of the hospital operations were eventually transferred to the completed first two floors of the new building, as of May 2006, SMMCI was still neither operational nor earning revenues. Hence, it was only able to pay the interest on its BPI Family loan, or the amount of ₱3,000,000.00 over a two-year period, from the income of St. Michael Hospital.[14]

On September 25, 2009, BPI Family demanded immediate payment of the entire loan obligation[15] and, soon after, filed a petition for extrajudicial foreclosure[16] of the real properties covered by the mortgage. The auction sale was scheduled on December 11, 2009, which was postponed to February 15, 2010 with the conformity of BPI Family.[17]

On August 11, 2010, SMMCI filed a Petition for Corporate Rehabilitation[18] (Rehabilitation Petition), docketed as SEC Case No. 086-10, before the RTC, with prayer for the issuance of a Stay Order as it foresaw the impossibility of meeting its obligation to BPI Family, its purported sole creditor.[19]

In the said petition, SMMCI claimed that it had to defer the construction of the projected 11-storey hospital building due to the problems it had with its first contractor as well as the rise of the cost of construction materials. As of date, only two (2) floors of the new building are functional, in which some of the operations of St. Michael had already been transferred.[20]

Also, it was alleged that more than ₱66,000,000.00 had been spent for the construction of the existing structure (in excess of its proportionate share of the original estimated cost for the entire project), said amount having come from the personal funds of Sps. Rodil and/or income generated by St. Michael Hospital, aside from the drawings from the credit line with BPI Family. At the same time, Sps. Rodil continued to shoulder the costs of equipment and machinery amounting to ₱20,000,000.00, in order to build up the hospital's medical capabilities.

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13 See id. at 66-69.
14 See id. at 68-69 and 103-105.
15 Id. at 69 and 150.
16 Dated October 8, 2009. Id. at 151-152.
17 See id. at 69-70. See also Agreement to Postpone Sale dated December 8, 2009; id. at 154.
18 Dated August 8, 2010. Id. at 97-116.
19 Id. at 106.
20 See id. at 100-104.

However, since SMMCI was neither operational nor earning revenues, it could only pay interest on the BPI Family loan, using St. Michael Hospital's income, over a two-year period.[21]

Further, it was averred that while St. Michael Hospital – whose operations were to be eventually absorbed by SMMCI – was operating profitably, it was saddled with the burden of paying the loan obligation of SMMCI and Sps. Rodil to BPI Family, which it cannot service together with its current obligations to other persons and/or entities. The situation became even more difficult when the bank called the entire loan obligation which, as of November 16, 2009, amounted to ₱52,784,589.34 (net of unapplied payment), consisting of: (*a*) the principal of ₱23,700,000.00; (*b*) accrued interest of ₱7,048,152.74; and (*c*) late payment charges amounting to ₱23,510,400.00. While several persons approached Sps. Rodil signifying their interest to invest in the corporation, they needed enough time to complete their audit and due diligence of the company,[22] hence, the Rehabilitation Petition.

In its proposed Rehabilitation Plan,[23] SMMCI merely sought for BPI Family (*a*) to defer foreclosing on the mortgage and (*b*) to agree to a moratorium of at least two (2) years during which SMMCI – either through St. Michael Hospital or its successor – will retire all other obligations. After which, SMMCI can then start servicing its loan obligation to the bank under a mutually acceptable restructuring agreement.[24] SMMCI declared that it intends to conclude pending negotiations for investments offered by a group of medical doctors whose capital infusion shall be used (*a*) to complete the finishing requirements for the 3rd and 5th floors of the new building; (*b*) to renovate the old 5-storey building where St. Michael Hospital operates; and (*c*) to pay, in whole or in part, the bank loan with the view of finally integrating St. Michael Hospital with SMMCI.[25]

The Proceedings Before the RTC

Finding the Rehabilitation Petition to be sufficient in form and substance, the RTC issued a Stay Order[26] on August 16, 2010. After the initial hearing on October 5, 2010, and the filing of comments to the said petition,[27] the same was referred to the court-appointed Rehabilitation Receiver, Dr. Uriel S. Halum (Dr. Halum), who submitted in due time his

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21 See id. at 104-105.
22 See id. at 105-106.
23 Id. at 190-192.
24 Id. at 191.
25 See id. at 192.
26 Id. at 213-219.
27 Other than BPI Family, South East Star Enterprises and Lakeside Pharmaceuticals Phils., Inc. filed their respective comments to the Rehabilitation Petition; id. at 245.

Report and Recommendations[28] (Receiver's Report) to the RTC on February 17, 2011.[29]

In the said report, Dr. Halum gave credence to the feasibility study conducted by Mrs. Nenita Alibangbang (Mrs. Alibangbang), a certified public accountant and Dean of the College of Accountancy at the University of Perpetual Help Dalta, who was commissioned in 2008 to do a study on the viability of the project, finding that the same was feasible given that St. Michael Hospital, whose operations SMMCI will eventually absorb, registered outstanding revenue performance for the last seven years of its operation with an average growth rate of 42.21% annually.[30] Accordingly, Dr. Halum found that SMMCI may be rehabilitated because it is a viable option but, nevertheless, opined that it will take more than what it had proposed to successfully bring the company back to good financial health considering the finding that its obligation actually extends beyond the bank, and also includes accounts payable due to suppliers and informal lenders.[31] Thus, he made the following recommendations:

> 1. The two-year moratorium period to pay the bank is not enough. The Court should seriously consider extending it by another three years or a total of five (5) years, at least. The bank, whose loan is secured by mortgages on three prime parcels of land with improvements should discuss restructuring the loan with the creditors with the end in view of stretching the term and allowing for more flexible rate.
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> 2. Obligations to other creditors such as the suppliers and lenders can be serviced at once. Given the performance of the hospital, the undersigned reasonably believes that these obligations can be settled in next three (3) years. These accounts can be paid proportionately provided that [SMMCI] should be allowed to re-structure these accounts to allow for longer and more convenient payment terms.
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> 3. [SMMCI] should be allowed to spend for the improvement of the building but not necessarily continuing with the planned 11-storey building. It should make do with what it has but should be permitted to spend reasonable part of the hospital's revenues to improve the facilities. For instance, we recommend that the fifth floor of the building should be finished to provide for an intensive care unit or ICU with equipments (*sic*) and required facilities. [SMMCI] should also consider spending (*sic*) an elevator to make access to and from the higher floors convenient to patients, doctors, nurses and guests. Incidentally, these improvements should be programmed for the next two to three years. Given the budgetary constraints of the hospital, doing all these improvements all at once would be impossible.

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28 Id. at 249-256.
29 See id. at 70-73 and 245-246.
30 Id. at 254.
31 Id. at 255.

> 4. Finally, [SMMCI] should provide for details on its statements regarding the prospective investors. It (*sic*) true, or in case it happens, then this fresh capital should be used partly to pay the bank and the rest to improve the hospital to make it more competitive with the nearby medical service providers.[32]

On May 26, 2011, the RTC issued an order requiring the counsels of the creditors/oppositors to file their comments to the Receiver's Report within ten (10) days from notice, but only counsel for South East Star Enterprises complied.[33]

The RTC Ruling

In an Order[34] dated August 4, 2011, the RTC approved the Rehabilitation Plan with the modifications recommended by the Rehabilitation Receiver and thus, ordered: (*a*) a five-year moratorium on SMMCI's bank loan; (*b*) a restructuring and payment of obligations to other creditors such as suppliers and lenders; (*c*) a programmed spending of a reasonable part of the hospital's revenues for the finishing of the 5th floor and the improvement of hospital facilities in the next two or three years; and (*d*) use of fresh capital from prospective investors to partly pay SMMCI's bank loan and improve St. Michael Hospital's competitiveness.[35]

It cited the following considerations which had justified its approval: (1) the Rehabilitation Plan is endorsed by the Rehabilitation Receiver subject to certain recommendations; (2) the plan ensures preservation of assets and orderly payment of debts; (3) the plan provides for recovery rates on operating mode as opposed to liquidation values; (4) it contains details for a business plan which will restore profitability and solvency of petitioner; (5) the projected cash flow can support the continuous operation of the debtor as a going concern; (6) the plan did not ask for a waiver of the principal; (7) the plan preserves the security of the secured creditor; (8) the plan has provisions to ensure that future income will inure to the benefit of the creditors; and (9) the rehabilitation of the debtor benefits its employees, creditors, stockholders and, in a large sense, the general public as it will generate employment and is a potential source of revenue for the government.[36]

Aggrieved, BPI Family elevated the matter before the CA, mainly arguing that the approval of the Rehabilitation Plan violated its rights as an unpaid creditor/mortgagee and that the same was submitted without prior consultation with creditors.[37]

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[32] Id. at 255-256.
[33] Id.
[34] Id. at 240-258.
[35] Id. at 257.
[36] Id. at 257-258.
[37] See id. at 75-76.

The CA Ruling

In a Decision[38] dated August 30, 2012, the CA affirmed the RTC's approval of the Rehabilitation Plan.[39]

It found that: (*a*) the rehabilitation of SMMCI is feasible considering the outstanding revenue performance of St. Michael Hospital, which it shall absorb, showing its gross profit exceeding its operating expenses and the large probability of increased profitability due to the favorable economic conditions of the locality; (*b*) the approval of the Rehabilitation Plan did not amount to an impairment of contract since there was no directive for the release of the mortgaged properties to which BPI Family is entitled to as a secured creditor but only a suspension of the provisions of the loan agreements; (*c*) it is not mandatory for the validity of the Rehabilitation Plan that the Rehabilitation Receiver should consult with the creditors; and (*d*) the approval of the Rehabilitation Plan was not made arbitrarily since it was done only after a review of the pleadings filed and the report submitted by the Rehabilitation Receiver, and its approval was anchored on valid considerations.[40]

Dissatisfied, BPI Family moved for reconsideration which was denied in a Resolution[41] dated January 18, 2013, hence, this petition.

The Issue Before the Court

The essential issue in this case is whether or not the CA correctly affirmed SMMCI's Rehabilitation Plan as approved by the RTC.

The Court's Ruling

The petition is meritorious.

I.

Restoration is the central idea behind the remedy of corporate rehabilitation. In common parlance, to "restore" means "to bring back to or put back into a former or original state."[42] Case law explains that corporate 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 being to enable the**

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38 Id. at 64-89.
39 Id. at 89.
40 See id. at 81-87.
41 Id. at 90-96.
42 <http://www.merriam-webster.com/dictionary/restore> (visited March 17, 2015).

company to gain a new lease on life and allow its creditors to be paid their claims out of its earnings.[43] Consistent therewith is the term's statutory definition under Republic Act No. 10142,[44] otherwise known as the "Financial Rehabilitation and Insolvency Act of 2010" (FRIA), which provides:

> Section 4. *Definition of Terms.* – As used in this Act, the term:
>
> x x x x
>
> (gg) *Rehabilitation* shall refer to the **restoration of the debtor to a condition 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 debtor continues as a going concern than if it is immediately liquidated.
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> x x x x (Emphasis supplied)

In other words, <u>**rehabilitation assumes that the corporation has been operational but for some reasons like economic crisis or mismanagement had become distressed or insolvent**</u>, *i.e.*, that it is generally unable to pay its debts as they fall due in the ordinary course of business or has liability that are greater than its assets.[45] Thus, the basic issues in rehabilitation proceedings concern the viability and desirability of continuing the business operations of the distressed corporation,[46] all with a view of effectively restoring it to a state of solvency or to its former healthy financial condition through the adoption of a rehabilitation plan.

In this case, it cannot be said that the petitioning corporation, SMMCI, had been in a position of successful operation and solvency at the time the Rehabilitation Petition was filed on August 11, 2010. While it had indeed "commenced business" through the preparatory act of opening a credit line with BPI Family to finance the construction of a new hospital building for its future operations, SMMCI itself admits that it has not formally operated nor earned any income since its incorporation. This simply means that there exists no viable business concern to be restored. Perforce, the remedy of corporate rehabilitation is improper, thus rendering the dispositions of the courts *a quo* infirm.

II.

In fact, for the same reasons, the Court observes that SMMCI could

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43 *Town and Country Enterprises, Inc. v. Quisumbing, Jr.*, G.R. No. 173610, October 1, 2012, 682 SCRA 128, 136.

44 Entitled "AN ACT PROVIDING FOR THE REHABILITATION OR LIQUIDATION OF FINANCIALLY DISTRESSED ENTERPRISES AND INDIVIDUALS."

45 See Section 4 (p) of the FRIA.

46 See Section 31 of the FRIA.

not have even complied with the form and substance of a proper rehabilitation petition, and submit its accompanying documents, among others, the required financial statements of a going concern. Section 2, Rule 4 of the 2008 Rules of Procedure on Corporate Rehabilitation[47] (Rules), which were in force at the time SMMCI's rehabilitation petition was filed on August 11, 2010, pertinently provides:

> SEC. 2. *Contents of Petition*. -
>
> x x x x
>
> (b) The petition shall be accompanied by the following documents:
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> (1) An audited financial statement of the debtor at the end of its last fiscal year;
>
> (2) Interim financial statements as of the end of the month prior to the filing of the petition;
>
> x x x x

Note that this defect is not negated by the submission of the financial documents pertaining to St. Michael Hospital, which is a separate and distinct entity from SMMCI. While the CA gave considerable weight to St. Michael Hospital's supposed "profitability," as explicated in its own financial statements, as well as the feasibility study conducted by Mrs. Alibangbang,[48] in affirming the RTC, it has unwittingly lost sight of the essential fact that SMMCI stands as the sole petitioning debtor in this case; as such, its rehabilitation should have been primarily examined from the lens of its own financial history. While SMMCI claims that it would absorb St. Michael Hospital's operations, there was dearth of evidence to show that a merger was already agreed upon between them. Accordingly, St. Michael Hospital's financials cannot be utilized as basis to determine the feasibility of SMMCI's rehabilitation.

Note further that while it appears that Sps. Rodil effectively owned and exercised control over the two entities, such fact does not, by and of itself, warrant their singular treatment for to do so would only confuse the objective of the proceedings which is to ascertain whether the petitioning corporation, and not any other entity related thereto (except if joining as a co-petitioning debtor), may be rehabilitated. Neither is the proceeding the proper forum to pierce the corporate fictions of both entities for it involves no creditor claiming to be a victim of fraud, an essential requisite for the application of such doctrine.[49]

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[47] A.M. No. 00-8-10-SC dated December 2, 2008 which took effect on January 16, 2009.

[48] See *rollo*, pp. 81-84.

[49] Case law has laid down the following elements for the applicability of the piercing doctrine:

> 1. Control, not mere majority or complete stock control, but complete domination, not only of finances but of policy and business practice in respect to

In fine, the petition should not have been given due course, nor should a Stay Order have been issued.

III.

To compound its error, the CA even disregarded the fact that SMMCI's Rehabilitation Plan, an indispensable requisite in corporate rehabilitation proceedings, failed to comply with the fundamental requisites outlined in Section 18, Rule 3 of the Rules, particularly, that of a material financial commitment to support the rehabilitation and an accompanying liquidation analysis, all of the petitioning debtor:

> **SEC. 18.** *Rehabilitation Plan.* - The rehabilitation plan <u>shall</u> 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 such as, but not limited, to the non-impairment of their security liens or interests; (c) **the material financial commitments to support the rehabilitation plan**; (d) the means for the execution of the rehabilitation plan, which may include debt to equity conversion, restructuring of the debts, dacion en pago or sale exchange or any disposition of assets or of the interest of shareholders, partners or members; (e) **a liquidation analysis setting out for each creditor that the present value of payments it would receive under the plan is more than that which it would receive if the assets of the debtor were sold by a liquidator within a six-month period from the estimated date of filing of the petition**; and (f) such other relevant information to enable a reasonable investor to make an informed decision on the feasibility of the rehabilitation plan. (Emphases supplied)

> the transaction attacked so that the corporate entity as to this transaction had at the time no separate mind, will or existence of its own;
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> 2. Such control must have been used by the defendant to commit fraud or wrong, to perpetuate the violation of a statutory or other positive legal duty, or dishonest and unjust act in contravention of the plaintiff's legal rights; and
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> 3. The aforesaid control and breach of duty must proximately cause the injury or unjust loss complained of.
>
> The absence of any one of the foregoing elements prevents [the application of the doctrine of piercing the corporate veil]. x x x.
>
> In relation to the second element, to disregard the separate juridical personality of a corporation, the wrongdoing or unjust act in contravention of a plaintiff's legal rights must be clearly and convincingly established; it cannot be presumed. Without a demonstration that any of the evils sought to be prevented by the doctrine is present, it does not apply. (*Yamamoto v. Nishino Leather Industries, Inc.*, 574 Phil. 587, 593-594 [2008]; citations omitted.)

<u>A. Lack of Material Financial Commitment to Support the Rehabilitation Plan.</u>

A material financial commitment becomes significant in gauging the resolve, determination, earnestness and good faith of the distressed corporation in financing the proposed rehabilitation plan. This commitment may include the **voluntary undertakings** of the stockholders or the would-be investors of the debtor-corporation indicating their readiness, willingness and ability to contribute funds or property **<u>to guarantee the continued successful operation of the debtor corporation during the period of rehabilitation</u>**.[50]

In this case, aside from the harped on merger of St. Michael Hospital with SMMCI, the only proposed source of revenue the Rehabilitation Plan suggests is the capital which would come from SMMCI's potential investors, which negotiations are merely pending. Evidently, both propositions commonly border on the **speculative** and, hence, hardly fit the description of a material financial commitment which would inspire confidence that the rehabilitation would turn out to be successful. In fact, the Rehabilitation Receiver himself recognizes the ambiguity of the proposition when he recommended that:

> [T]he petitioner should provide for details on its statements regarding the prospective investors. If true or in case it happens, then this fresh capital should be used partly to pay the bank and the rest, to improve the hospital to make it more competitive with the nearby medical service providers.[51]

In the same manner, the fact that St. Michael Hospital had previously made payments for the benefit of SMMCI is not enough assurance that the arrangement would prospectively apply in the event that rehabilitation is granted. As case law intimates, nothing short of legally binding investment commitment/s from third parties is required to qualify as a material financial commitment.[52] However, no such binding investment was presented in this case.

<u>B. Lack of Liquidation Analysis.</u>

SMMCI likewise failed to include any liquidation analysis in its Rehabilitation Plan. The Court observes that as of November 16, 2009, or about 9 months prior to the filing of the petition for rehabilitation, the loan with BPI Family had already amounted to ₱52,784,589.34, with interest at 10.25% p.a. or a daily interest of about ₱6,655.48 and late payment charge

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[50] See *Philippine Bank of Communications v. Basic Polyprinters and Packaging Corporation*, G.R. No. 187581, October 20, 2014.

[51] *Rollo*, pp. 256-257.

[52] See *San Jose Timber Corporation v. Securities and Exchange Commission*, G.R. No. 162196, February 27, 2012, 667 SCRA 13, 30.

of 36% p.a.[53] However, with no SMMCI financial statement on record, it is unclear to the Court what assets it possesses in order to determine the values to be derived if liquidation has to be had thereby. Accordingly, this prevents the Court from **ascertaining if the petitioning debtor's creditors can recover by way of the present value of payments projected in the plan, more if the debtor continues as a going concern than if it is immediately liquidated**, a crucial factor in a corporate rehabilitation case. Again, the financial records of St. Michael Hospital, being a separate and distinct entity whose merger with SMMCI only exists in the realm of probability, cannot be taken as a substitute to fulfill the requirement. What remains pertinent are the financial statements of SMMCI for it solely stands as the debtor to be rehabilitated, or liquidated in this case.

At any rate, records disclose that St. Michael Hospital's current cash operating position[54] is just enough to meet its own maturing obligations.[55] While it has substantial total assets, a large portion thereof is comprised of fixed assets, while its current assets[56] consist mostly of inventory.[57] Still, the total liquidation assets and the estimated liquidation return to the creditors, as well as the fair market value vis-à-vis the forced liquidation value of the fixed assets that would guide the Court in assessing the feasibility of the Rehabilitation Plan were not shown.

C. Effect of Non-Compliance.

The failure of the Rehabilitation Plan to state any material financial commitment to support rehabilitation, as well as to include a liquidation analysis, translates to the conclusion that the RTC's stated considerations for

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53 See Statement of Account as of November 16, 2009; *rollo*, p. 155.

54 A company's cash position refers specifically to its level of cash compared to its pending expenses and liabilities. x x x. In general, a stable cash position means the company can easily meet its current liabilities with the cash or liquid assets it has on hand. Current liabilities are debts with payments due within the next 12 months. (Kokemuller, Neil, "Cash Flow vs. Cash Position," Chron, <http://smallbusiness.chron.com/cash-flow-vs-cash-position-51149.html> [visited March 17, 2015].)

55 According to SMMCI, it has not defaulted on its obligations to pay for its medical supplies and medical equipments/machineries, and its obligations to informal lenders (in the amounts of ₱158,000.00, ₱45,000.00 and ₱698,000.00, respectively, or an aggregate amount of ₱901,000.00). It has a net monthly income of ₱612,802.00 for the last three (3) months prior to the filing of the rehabilitation petition, and apparently expects to convert its receivables into cash. (See *rollo*, pp. 107-109, 161-162, and 200-201.)

56 A current asset is any asset reasonably expected to be sold, consumed, or exhausted through the normal operations of a business within the current fiscal year or operating cycle (whichever period is longer). (<http://en.wikipedia.org/wiki/Current_asset> [visited March 17, 2015].)

57 See St. Michael Hospital's Balance Sheet for the Year Ending December 31, 2009; *rollo*, p. 158.

		As of 12/31/09
Cash on hand & In Bank	₱ 644,786.39	
Accounts receivable-HMO/Philhealth/Patients	1,559,070.34	
Advances to Officers	550,779.95	
Merchandise Inventory-End	5,831,431.39	
Total Current assets		₱ 8,586,068.07
Net fixed assets		109,743,811.21
Total assets		128,528,879.28
Accounts Payable, Trade and other Payable		6,965,019.69

approval, *i.e.*, that (*a*) the plan provides for recovery rates on operating mode as opposed to liquidation values; (*b*) it contains details for a business plan which will restore profitability and solvency on petitioner; (*c*) the projected cash flow can support the continuous operation of the debtor as a going concern; and (*d*) the plan has provisions to ensure that future income will inure to the benefit of the creditors,[58] are actually **unsubstantiated**, and hence, insufficient to decree SMMCI's rehabilitation. It is well to emphasize that the remedy of rehabilitation should be denied to corporations that do not qualify under the Rules. Neither should it be allowed to corporations whose sole purpose is to delay the enforcement of any of the rights of the creditors, which is rendered obvious by: (*a*) the absence of a sound and workable business plan; (*b*) baseless and unexplained assumptions, targets, and goals; and (*c*) speculative capital infusion or complete lack thereof for the execution of the business plan.[59] Unfortunately, these negative indicators have all surfaced to the fore, much to SMMCI's chagrin.

IV.

While the Court recognizes the financial predicaments of upstart corporations under the prevailing economic climate, it must nonetheless remain forthright in limiting the remedy of rehabilitation only to meritorious cases. As above-mentioned, the purpose of rehabilitation proceedings is not only to enable the company to gain a new lease on life but also to allow creditors to be paid their claims from its earnings, when so rehabilitated. Hence, the remedy must be accorded only after a judicious regard of all stakeholders' interests; it is not a one-sided tool that may be graciously invoked to escape every position of distress.

In this case, not only has the petitioning debtor failed to show that it has formally began its operations which would warrant restoration, but also it has failed to show compliance with the key requirements under the Rules, the purpose of which are vital in determining the propriety of rehabilitation. Thus, for all the reasons hereinabove explained, the Court is constrained to rule in favor of BPI Family and hereby dismiss SMMCI's Rehabilitation Petition. With this pronouncement, it is now unnecessary to delve on the other ancillary issues raised herein.

WHEREFORE, the petition is **GRANTED**. The Decision dated August 30, 2012 and the Resolution dated January 18, 2013 of the Court of Appeals in CA-G.R. SP No. 121004 upholding the Order dated August 4, 2011 of the Regional Trial Court of Imus, Cavite, Branch 21 approving the Rehabilitation Plan of respondent St. Michael Medical Center, Inc. (SMMCI) are hereby **REVERSED** and **SET ASIDE**. Accordingly, SMMCI's Petition for Corporate Rehabilitation is **DISMISSED**.

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[58] Id. at 86.

[59] *Wonder Book Corporation v. Philippine Bank of Communications*, G.R. No. 187316, July 16, 2012, 676 SCRA 489, 501.

SO ORDERED.

ESTELA M. PERLAS-BERNABE
Associate Justice

WE CONCUR:

MARIA LOURDES P. A. SERENO
Chief Justice
Chairperson

TERESITA J. LEONARDO-DE CASTRO
Associate Justice

LUCAS P. BERSAMIN
Associate Justice

JOSE PORTUGAL PEREZ
Associate Justice

CERTIFICATION

Pursuant to Section 13, Article VIII of the Constitution, 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