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8 UNITED STATES BANKRUPTCY COURT
9 CENTRAL DISTRICT OF CALIFORNIA
10 SAN FERNANDO VALLEY DIVISION

11 In re

12 MERUELO MADDUX PROPERTIES, INC., et
13 al.,

14 Debtor.

Case No. 1: -KT

Chapter 11

CHARLESTOWN CAPITAL ADVISORS,
LLC'S AND HARTLAND ASSET
MANAGEMENT CORPORATION'S
OBJECTION TO DEBTORS' SECOND
AMENDED DISCLOSURE STATEMENT

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16 **Hearing**
Date: June 14, 2010
17 Time: 9:30 a.m.
Place: Courtroom 301
21041 Burbank Blvd.
18 Woodland Hills, CA 91367
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1 Charlestown Capital Advisors, LLC and Hartland Asset Management Corporation, equity
2 holders of Debtor Meruelo Maddux Properties, Inc., object to the Debtors' proposed "Second
3 Amended Disclosure Statement" on the ground that it does not contain adequate information within
4 the meaning of 11 U.S.C. Section 1125. The Second Amended Disclosure Statement suffers from
5 the unfortunate defect of being entirely too long while, at the same time, containing virtually no
6 material information of use to creditors.

- 7 1. The proposed disclosure statement contains dozens of pages of property descriptions and
8 a lengthy explanation of Mr. Meruelo's expertise in valuing property rather than a
9 simple statement that the Debtors have not obtained independent valuations, that all
10 valuations contained in the disclosure statement are management's own valuations, that
11 those valuations are inconsistent with all other known valuations, and that the Debtors'
12 projected valuations have repeatedly proved optimistic as compared to actual sale prices
13 obtained during the bankruptcy case.
- 14 2. The proposed disclosure statement contains inaccurate and misleading information
15 regarding Net Operating Losses, suggesting that management entrenchment (in the form
16 of guaranteed fifty majority ownership) is necessary to prevent a change of control.
- 17 3. The projections are inaccurate and misleading.
- 18 4. The liquidation analysis is inaccurate and misleading.
- 19 5. The proposed disclosure statement does not adequately explain that the company is
20 being taken private and, accordingly, will lose access to the public markets for capital.
- 21 6. The Debtors' Second Amended Plan is a return to their initial plan in that the
22 opportunity to contribute "new value" is restricted to management. The Disclosure
23 Statement explains that this structure was necessary because of objections from the SEC.
24 It does not explain, however, that those objections related to the discriminatory nature of
25 the proposal, not to the concept of a rights offering generally.
- 26 7. The proposed disclosure statement does not adequately identify the party that will be
27 purchasing the reorganized company.
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- 2 8. The proposed disclosure statement does not explain how the New Equity amount was
- 3 calculated and/or negotiated.
- 4 9. A hypothetical reasonable investor cannot properly evaluate the plan in general or New
- 5 Equity proposal in particular because the disclosure statement does not explain how the
- 6 rights offering structure was developed and how the purchase price was determined.
- 7 Without these simple disclosures, a hypothetical investor does not know whether the
- 8 rights offering is the product of an appropriate marketing effort and an arms-length
- 9 negotiation or if it is simply a sweetheart deal “negotiated” by and among insiders for
- 10 their own benefit. In a case such as this, proper disclosure of the process will allow
- 11 creditors to evaluate the substance.

12 Under the circumstances, the Debtors’ disclosure statement should contain a disclaimer (in

13 bold and in large font) such as the following:

14 **The proposed plan will permit the Debtors’ management to take**

15 **the Debtors’ private for a purchase price no more than \$10**

16 **million. Neither the Debtors nor the Debtors’ management have**

17 **attempted to market the company to other purchasers or**

18 **investors. They have not retained investment bankers or other**

19 **relevant professionals, and all valuations of the Debtors’ assets**

20 **are based on management’s “opinion.” Accordingly, the \$10**

21 **million purchase price is not based on independent expert**

22 **valuations nor by any market test. Rather, the \$10 million price**

23 **is based solely on management’s own financial capacity, i.e., it**

24 **represents the amount that management is capable and willing to**

25 **pay. As compared to the Debtors’ proposed plan, the sale of the**

26 **Debtors’ assets to outside investors would likely result in**

27 **substantially increased payments to creditors and equity holders.**

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This objection does not address other significant defects in the proposed disclosure statement. By omitting other grounds for objection, Charlestown Capital Advisors, LLC and Hartland Asset Management Corporation do not intend to imply that the proposed disclosure statement is otherwise adequate, and they join in the objections filed by secured creditors, East West Bank, PNL Pomona LP, Legendary Investors and Berkadia Commercial Mortgage.

Moreover, Charlestown Capital Advisors, LLC and Hartland Asset Management Corporation reserve the right to object to plan confirmation at the appropriate time.

Dated: May 17, 2010

LESNICK PRINCE LLP

By: /s/ Christopher E. Prince
Christopher E. Prince
Attorneys for
Charlestown Capital Advisors, LLC

In re: MERUELO MADDUX PROPERTIES, INC. Debtor(s).	CHAPTER 11 CASE NUMBER 1:09-bk-13356-KT
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NOTE: When using this form to indicate service of a proposed order, **DO NOT** list any person or entity in Category I. Proposed orders do not generate an NEF because only orders that have been entered are placed on the CM/ECF docket.

PROOF OF SERVICE OF DOCUMENT

I am over the age of 18 and not a party to this bankruptcy case or adversary proceeding. My business address is:

185 Pier Avenue, Suite 103, Santa Monica, CA 90405

The foregoing document described CHARLESTOWN CAPITAL ADVISORS, LLC'S AND HARTLAND ASSET MANAGEMENT CORPORATION'S OBJECTION TO DEBTORS' SECOND AMENDED DISCLOSURE STATEMENT will be served or was served **(a)** on the judge in chambers in the form and manner required by LBR 5005-2(d); and **(b)** in the manner indicated below:

I. TO BE SERVED BY THE COURT VIA NOTICE OF ELECTRONIC FILING ("NEF") – Pursuant to controlling General Order(s) and Local Bankruptcy Rule(s) ("LBR"), the foregoing document will be served by the court via NEF and hyperlink to the document. On May 17, 2010, I checked the CM/ECF docket for this bankruptcy case or adversary proceeding and determined that the following person(s) are on the Electronic Mail Notice List to receive NEF transmission at the email address(es) indicated below:

See attached list

II. SERVED BY U.S. MAIL OR OVERNIGHT MAIL (indicate method for each person or entity served): On March 12, 2010, I served the following person(s) and/or entity(ies) at the last known address(es) in this bankruptcy case or adversary proceeding by placing a true and correct copy thereof in a sealed envelope in the United States Mail, first class, postage prepaid, and/or with an overnight mail service addressed as follows. *Listing the judge here constitutes a declaration that mailing to the judge will be completed no later than 24 hours after the document is filed.*

See attached list

III. SERVED BY PERSONAL DELIVERY, FACSIMILE TRANSMISSION OR EMAIL (indicate method for each person or entity served): Pursuant to F.R.Civ.P. 5 and/or controlling LBR, on November 19, 2009 I served the following person(s) and/or entity(ies) by personal delivery, or (for those who consented in writing to such service method), by facsimile transmission and/or email as follows. *Listing the judge here constitutes a declaration that personal delivery on the judge will be completed no later than 24 hours after the document is filed.*

Service information continued on attached page

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

<u>May 17, 2010</u> <i>Date</i>	<u>Christopher E. Prince</u> <i>Type Name</i>	<u>/s/ Christopher E. Prince</u> <i>Signature</i>
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