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Attorneys for FNBN-CMLCON I, LLC,
a Delaware limited liability company

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

In re:

MERUELO MADDUX PROPERTIES, INC.,
et al.,

Debtors-in-Possession.

Affects All Debtors

Case No. 1:09-bk-13356-KT
Chapter 11
(Jointly Administered)

**OBJECTION OF FNBN-CMLCON I,
LLC TO DEBTORS' FIRST AMENDED
DISCLOSURE STATEMENT**

Date: March 19, 2010
Time: 9:30 a.m.
Ctrm: "301"
21041 Burbank Blvd.
Woodland Hills, CA 91367
Judge: Hon. Kathleen Thompson

FNBN-CMLCON I, LLC ("FNBN"), through counsel, objects to the *Debtors' First Amended Disclosure Statement* [Docket No. 1134] (the "**Amended Disclosure Statement**") for

1 the reason that the Amended Disclosure Statement does not provide accurate information so that
2 FNBN can make an informed decision about how to vote on the Debtor’s *First Amended Joint*
3 *Chapter 11 Amended Plan of Meruelo Maddux Properties, Inc., et al.* [Docket No. 1133] (the
4 “**Amended Plan**”). In further support of this objection, FNBN represents as follows:

5 1. By this reference, FNBN incorporates the factual statements and exhibits set forth
6 in its Objection to Debtor’s Disclosure Statement [Docket No. 947]. In essence, FNBN holds two
7 claims against Meruelo Maddux Properties—2951 Lenwood Road, LLC (“**MMP 2951 Lenwood**
8 **Road**”) and two claims against Meruelo Maddux Properties, Inc. (“**MMPI**”).

9 2. FNBN holds a secured claim against MMP 2951 Lenwood Road that is secured
10 with all of that Debtor’s real and personal property. As of the petition date, this secured claim
11 was in the amount of \$9,121,869.48 (the “**Lenwood Secured Claim**”). MMPI unconditionally
12 guaranteed payment of the Lenwood Secured Claim.

13 3. In addition, MMP 2951 Lenwood Road and MMPI *jointly* borrowed \$7,350,000
14 from FNBN’s predecessor in interest. This debt is a joint and several *unsecured* obligation of
15 *both* MMP 2951 Lenwood Road and of MMPI. As of the Petition Date, the unpaid balance of
16 this obligation was \$6,277,869.13.

17 4. MMP 2951 Lenwood Road has not been substantively consolidated with MMPI,
18 or with any other affiliated debtor entities. The Amended Plan does not propose substantive
19 consolidation. Instead, the Amended Plan proposes a de facto partial substantive consolidation of
20 these and all other affiliated debtor entities by consolidating revenues and expenses from all such
21 entities, and using revenues, from wherever the same become available, to pay expenses wherever
22 the same become due. Only by doing so, are the Debtor’s able to project sufficient future
23 revenues to pay anticipated future obligations to creditors.

24 5. Whether the Bankruptcy Code permits such a plan is a legal question that the court
25 must address at confirmation. But, it is beyond question, that, so long as the Debtor entities
26 remain separate legal entities, and so long as their jointly *administered* bankruptcy cases remain
27 as *separate Chapter 11 cases*, such a plan cannot be confirmed unless the creditors in *each*
28 *separate case* receive adequate disclosures about *each separate debtor*, and, *in each separate*

1 *case*, the court applies the applicable confirmation standards of § 1129. It is in this regard, that
2 the Amended Disclosure Statement is inadequate.

3 6. The Amended Disclosure Statement is lacking the following critical information to
4 enable FNBN to make an informed judgment about how to vote in each separate case:

5
6 (a) There is no financial statement, projection or analysis in each separate case
7 that identifies the separate assets, liabilities, revenues and expenses in each separate debtor *as a*
8 *stand alone entity* and then compares that information with what the Debtors are proposing under
9 their joint plan;

10 (b) There is no liquidation analysis in each separate case;

11 (c) There is no liquidation analysis with regard to the Amended Plan;

12 (d) There is no discussion or analysis in either each separate case, or under the
13 Amended Plan, of what would happen if the court does not confirm the joint plan in one or more
14 of the separate debtor cases, i.e. if the court does not confirm the joint Amended Plan in a case
15 where revenues from that case are essential to fund the joint Amended Plan, or if the cash in the
16 separate case from a sold asset cannot be used to fund the joint Amended Plan, and no discussion
17 of any alternatives;

18 (e) There is an improper and incorrect classification of the joint obligation of
19 MMPI to FNBN, which distorts the voting in the MMPI case. The FNBN unsecured claim,
20 which is a *joint and several* obligation of *both* MMPI and MMP 2951 Lenwood Road is only
21 classified as a general unsecured claim of MMP 2951 Lenwood Road. Compare Exhibit H.5 at
22 pages 39 – 41, with Exhibit H.5 at page 51. In fact, the MMPI unsecured obligation to FNBN is a
23 separate unsecured obligation of MMPI. This debt, however, is not even listed as a contingent
24 obligation of MMPI to FNBN. See, Exhibit H.6 at page 55, which lists only the *secured*
25 obligation as a contingent liability of MMPI;

26 (f) The Amended Disclosure Statement does not explain the basis for the
27 Debtors' proposed interest rate on the Lenwood Secured Claim of "4.0% per annum" of the basis
28 for the proposed interest rate of "1.0% per annum" on unsecured claims;

(g) The Debtors apparently seek to preserve claims under Section 506(c) of the
Bankruptcy Code with respect to the Lenwood Secured Claim, but they do not disclose the nature
or amount of any such claims. As a result, it is impossible for FNBN to assess the impact, if any,
of such a potential statutory claim on the payments that the Debtors otherwise are proposing
under the Amended Plan. At this point in the case, the Debtors should know whether then intend
to assert a claim against FNBN under Section 506(c), and, if so, the nature and amount of any
such claim; and

(h) The Amended Disclosure Statement and Amended Plan propose to
discharge and release FNBN's separate unsecured claims against MMPI, except to the extent of
any deficiency resulting after a foreclosure of the Lenwood Secured Claim. This renders the legal

1 distinction between the MMPI Guaranty Claim and the MMPI Unsecured Claim meaningless. It
2 also means that, if there is no equity in MMP 2951 Lenwood Road after payment of the Lenwood
3 Secured Claim, then *both* the Lenwood Unsecured Claim *and* the MMPI Unsecured Claim would
4 be discharged, *even if there were sufficient assets in MMPI to pay the MMPI Unsecured Claim in*
5 *full*. Thus, for FNBN to make an informed decision about how to vote as an unsecured creditor of
6 *both* MMP 2951 Lenwood Road and MMPI, it must have a full disclosure of the separate assets
7 and liabilities of both MMPI and of MMP 2951 Lenwood Road. The Amended Disclosure
8 Statement does not provide any such disclosure.

CONCLUSION

9 While the Amended Disclosure Statement is an improvement over the prior Disclosure
10 Statement, it is still inadequate for purposes of § 1125 in light of the Amended Plan. Therefore,
11 unless the same is further amended to provide the information identified above, it should not be
12 approved.

13 DATED: March 12, 2010.

SNELL & WILMER

/s/ David E. Leta

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