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10 **UNITED STATES BANKRUPTCY COURT**  
11 **CENTRAL DISTRICT OF CALIFORNIA**  
12 **SAN FERNANDO VALLEY DIVISION**

13 In re

14 MERUELO MADDUX  
15 PROPERTIES, INC., et al.,

16 Debtor

**Case No. 1:09-BK-13356-KT**

Chapter 11

**TAYLOR INTERNATIONAL FUND,  
LTD'S OBJECTION TO DEBTOR'S  
SECOND AMENDED DISCLOSURE  
STATEMENT**

Date of Hearing: June 14, 2010

Time of Hearing: 9:30 a.m

Place of Hearing: 21410 Burbank Blvd.

Courtroom 301

Woodland Hills, CA

Honorable Kathleen Thompson

1           **TO THE HONORABLE KATHLEEN THOMPSON, UNITED STATES**  
2           **BANKRUPTCY COURT JUDGE AND ALL INTERESTED PARTIES:**

3           Taylor International Fund, Ltd. (“Taylor Fund”), shareholder of the Debtor  
4           Meruelo Maddux Properties, Inc., hereby files this objection (this “Objection”) to  
5           the Debtor’s proposed Second Amended Disclosure Statement (the “Disclosure  
6           Statement”) because it does not contain “adequate information” within the meaning  
7           of 11 U.S.C. Section 1125 as discussed herein.

8           **I. Disclosure Statement Deficiencies**

9           The purpose of a disclosure statement is to serve as a single source of  
10          information from which a reasonable investor in the debtor’s future can reasonably  
11          discern how the debtor proposes to effectuate its plan of reorganization (the  
12          “Plan”). The Disclosure Statement deficiencies include the following:

13          1.    Value of Debtor. The Disclosure Statement does not adequately  
14          disclose the true value of the Debtor’s estate. Richard Meruelo, the Debtor’s CEO,  
15          has stated that the Debtor owns unencumbered property worth at least  
16          \$80,000,000. The Court has already found that a majority of the encumbered  
17          properties are adequately protected. Recent sales comparables indicate that the real  
18          estate market continues to improve. Publicly traded real estate companies with  
19          substantial holdings in Southern California have seen share prices increase  
20          substantially since the Debtor filed for bankruptcy protection last year. Thomas  
21          Properties Group, Inc (NASDAQ ticker symbol TPGI) is an excellent comparable  
22          for the Debtor and is frequently used as such by the investment community. TPGI  
23          has seen its share price rise from \$1.12 per share in March 2009, the same month  
24          the Debtor filed for bankruptcy protection, to a current price of \$4.20 per share.  
25          Yet the Disclosure Statement does not adequately disclose the fact that Debtor’s  
26          equity value has also increased substantially during the course of the bankruptcy.  
27          At a minimum, the Disclosure Statement fails to adequately disclose why the estate  
28          would not be better off keeping the positive cash flow properties, giving back the

1 negative cash flow properties, and selling the unencumbered properties to pay its  
2 unsecured creditors.

3 2. Misappropriation of Equity. The Disclosure Statement does not  
4 adequately disclose that insiders Richard Meruelo and John Maddux (“Insiders”)  
5 are misappropriating the equity interests of the Debtor in violation of their fiduciary  
6 duties to public shareholders or that Insiders are being released from those fiduciary  
7 obligations.

8 3. Private Placement. Although the Disclosure Statement does disclose  
9 that Insiders will purchase at least 50.01% of the shares offered in the private  
10 placement, the Disclosure Statement does not adequately disclose which other  
11 investors, if any, will be offered the opportunity to purchase the remaining 49.99%.  
12 Moreover, the Disclosure Statement does not disclose the fact that other non-Insider  
13 investors are willing to purchase the new equity shares at a price in excess of  
14 \$10,000,000.

15 4. Amount of Offering. The Disclosure Statement does not adequately  
16 disclose how the Debtor arrived at the determination that \$10,000,000 of New  
17 Equity is the exact amount of capital necessary for the Debtor to effectuate the Plan.  
18 The cash flow analysis presented by the Debtor in Exhibit “E” on page 16 of the  
19 Exhibits to the Second Amended Disclosure Statement shows that the Debtor will  
20 have an annual ending cash balance after the effective date as follows:

21	Year 1	\$14,121,000
22	Year 2	\$6,953,000
23	Year 3	\$9,284,000
24	Year 4	\$12,389,000
25	Year 5	\$12,973,000
26	Year 6	\$11,993,000
27	Year 7	\$10,227,000

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1 It is unclear from the Debtor's own numbers why the Debtor needs exactly  
2 \$10,000,000 of additional capital when its cash balance never drops below  
3 \$6,953,000. Would \$4,000,000 of additional capital be sufficient to effectuate the  
4 Plan? This issue is not adequately discussed in the Disclosure Statement.

5 5. Insider Compensation. The Disclosure Statement does not adequately  
6 disclose management compensation or terms of employment contracts if the Plan is  
7 confirmed. Although it is possible to see how overpaid Insiders were in the past,  
8 without more information, it is impossible to know if they will continue to redirect  
9 the Debtor's cash flow to themselves via salaries and bonuses.

10 6. Net Operating Loss. The Disclosure Statement does not adequately  
11 disclose the viability and perpetuation of the Debtor's most important asset, its  
12 federal income tax net operating loss ("NOL") under provisions of Title 26. U.S.C  
13 §382. Specifically, the Disclosure Statement gives no explanation as to how much  
14 the NOL will be diminished by eliminating all public shareholders except Insiders.

15 7. Insider Management. The Disclosure Statement does not adequately  
16 disclose the fact that Insiders' continued management of the Debtor violates Section  
17 1129(a)(5) because it is not consistent with the interests of equity holders nor is it  
18 consistent with public policy.

19 8. Liquidation Analysis. Sections 1129(a)(7)(A)(ii) and 1129(b)(2)(C)(i)  
20 require that each holder of an impaired class of interests receive an amount not less  
21 than what that holder would receive if the Debtor were liquidated. Here, the  
22 Disclosure Statement does not adequately disclose the fact that equity holders  
23 would be better off if the Debtor were liquidated under Chapter 7. In fact, the  
24 liquidation analysis set forth in the Disclosure Statement is both false and  
25 misleading. The reality is that Insiders are wiping out all existing shareholders and  
26 simply stealing the equity in a solvent company in violation of their fiduciary duties  
27 to shareholders.

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1           9.     Joinder of Objections. In the interest of economy, Taylor Fund joins  
2 in the objections of other shareholders, including those of Charlestown Capital  
3 Advisors, LLC and Hartland Asset Management Corporation.

4           10.    Other Grounds of Objection. By omitting other grounds for objection,  
5 Taylor Fund does not intend to imply that the Disclosure Statement is otherwise  
6 adequate and Taylor Fund reserves the right to object to the Plan and its  
7 confirmation at the appropriate time.

## 8           **II. Reasonable Investor Standard**

9           To date, the Debtor has argued that “adequate disclosure” to public  
10 shareholders is unnecessary since the public shareholders’ interests are eliminated  
11 entirely via the Plan and therefore they will be deemed to reject the Plan. Thus, the  
12 Debtor argues, there is no need to adequately disclose to the public shareholders  
13 how poorly and improperly they are being treated under the Plan. Ironically, by  
14 making this argument, the Debtor does not deny the “misappropriation” or the lack  
15 of its disclosure. Instead, the Debtor attempts to “game” the legal system by  
16 making erudite legal arguments that fly in the face of any moral or ethical  
17 standards.

18           In its attempts to game the system, the Debtor fails to consider the fact that  
19 the standard of adequate disclosure relates to what a “hypothetical” reasonable  
20 investor would need to make an informed decision. Nothing in the Code relieves  
21 the Debtor of meeting this burden merely because one class of interest holders, in  
22 this case the public shareholders, are eliminated.

## 23           **III. The Plan is Unconfirmable as a Matter of Law**

24           It is well-established that a disclosure statement that is facially defective (i.e.,  
25 one that proposes a plan that is unconfirmable as a matter of law) cannot be  
26 approved as containing “adequate information” within the meaning of Section 1125  
27 of the Bankruptcy Code. *See, e.g., In re Curtis Ctr. L.P.*, 195 B.R. 631 (Bankr.  
28 E.D. Pa. 1996) (“A disclosure statement should be disapproved where the plan it

1 describes is patently unconfirmable."). Courts have consistently recognized that  
2 when a plan contains a fundamental defect that causes the plan to be unconfirmable  
3 on its face, that defect should be heard as an objection to the disclosure statement,  
4 rather than at the plan confirmation, because it would be a waste of time and estate  
5 resources to solicit votes for an unconfirmable plan. *See, e.g., In re Beyond.com*,  
6 289 B.R. 138, 140 (Bankr. N.D. Cal. 2003) (approval of a disclosure statement  
7 should be denied if plan is clearly unconfirmable.)

8 The Plan is unconfirmable as a matter of law for at least the following  
9 reasons:

10 1. New Value. The Plan is unconfirmable as a matter of law because it  
11 fails to conform with the requirements of a new value plan within the meaning of  
12 *Bank of America v. 203 N. LaSalle St. Partnership*, 526 U.S. 434 (1999). As a  
13 result, the Debtor must either allow public participation in the "new value" or  
14 permit others to propose competing plans.

15 2. Liquidation. The Plan is unconfirmable as a matter of law because it  
16 fails to conform with the requirements of Sections 1129(a)(7)(A)(ii) and  
17 1129(b)(2)(C)(i) that require that each holder of an impaired class of interests  
18 receive an amount not less than what that holder would receive if the Debtor were  
19 liquidated. Here, it is obvious that equity holders would be better off if the estate  
20 were liquidated. On page 175 of the Second Amended Disclosure Statement, even  
21 the Debtor admits that there is equity of approximately \$300,000,000 in the estate.  
22 Moreover, Richard Meruelo, the Debtor's CEO, has stated under oath that the  
23 Debtor owns unencumbered property worth at least \$80,000,000. The obvious  
24 reality is that this Plan permits Insiders to misappropriate the equity of a solvent  
25 company in violation of Insiders fiduciary duties to shareholders.

26 3. Bad Faith. The Plan is unconfirmable as a matter of law because it is  
27 not interposed in good faith under the requirements of 11 U.S.C. Section 1129(a)(3)  
28 and has been proposed solely for the purposes of benefiting Insiders. In order for

1 the Debtor to meet the “good faith” threshold this Court must find that there is a  
2 reasonable likelihood that the plan, as proposed, will achieve a result consistent  
3 with the objective and purposes of the Code. Surely the misappropriation of \$300  
4 million in equity interests, along with the blatant violation of fiduciary duties, is not  
5 a result consistent with the objective and purposes of this Code.

6 4. Unfair Discrimination. The Plan is unconfirmable as a matter of law  
7 under 11 U.S.C. Section 1129(b) because the Plan “unfairly discriminates” among  
8 equal holders of equity interests. Although the Bankruptcy Code does not  
9 expressly define “unfair discrimination”, generally the term is interpreted to  
10 prohibit disparate treatment of similarly situated interest holders under a proposed  
11 plan unless there is a reasonable basis for doing so. *See, e.g., 203 N. LaSalle St.*  
12 *Ltd. Partnership*, 190 B.R. at 585-86 (“[A]ny discrimination must be supported by  
13 a legally acceptable rationale.”). Here, the Debtor has not provided any legally  
14 acceptable rationale why the Insiders are permitted to participate in the private  
15 offering to the detriment of other shareholders.

16 5. Insider Management violates Public Policy. The Plan is unconfirmable  
17 as a matter of law under Section 1129(a)(5)(ii) because Insiders’ continued  
18 involvement in the management of Debtor is not consistent with the interests of  
19 equity holders nor is it consistent with public policy. The Insiders have already  
20 proven their incompetence by eviscerating hundreds of millions of dollars in  
21 shareholder value while at the same time paying themselves millions of dollars.  
22 Insiders took the Debtor public with a share price of \$10/share. The stock now  
23 trades around \$0.07/share. Insiders have destroyed more than 99% of shareholder  
24 value. Moreover, Insiders have never led the Debtor to profitability. Even worse,  
25 Insiders have burned every significant lending relationship in Southern California,  
26 making themselves pariahs within the industry. Add to this the fact that Insiders  
27 are blatantly breaching their fiduciary duties by attempting to misappropriate the  
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1 equity of Debtor and it is obvious that Insiders continued management role violates  
2 public policy and should not be permitted.

3 **IV. Conclusion**

4 For all of the above-stated reasons, Taylor Fund respectfully requests that  
5 approval of the Disclosure Statement be denied.

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Respectfully submitted,

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DATED: May 17, 2010

/s/ Dean M. Steinbeck .

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Dean M. Steinbeck

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Bonfante, Steinbeck & Associates

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Attorneys for Taylor International Fund, Ltd.

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In re: MERUELO MADDUX PROPERTIES, INC., et al.  Debtor(s).	CHAPTER: 11 CASE NUMBER: 1:09-BK-13356-KT
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### 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:

9190 OLYMPIC BLVD., #400, BEVERLY HILLS, CALIFORNIA 90212

A true and correct copy of the foregoing document described as TAYLOR INTERNATIONAL FUND, LTD'S OBJECTION TO DEBTOR'S 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 5/17/10 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 addressed indicated below:

Service information continued on attached page

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On 5/17/10 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 follow. 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.

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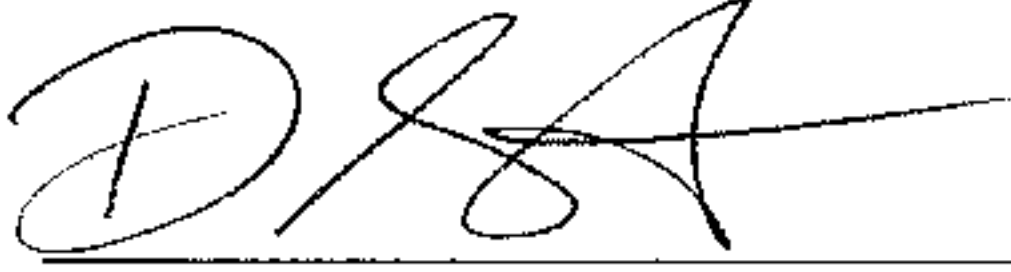
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I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

5/17/10  
Date

DEAN M. STEINBECK  
Type Name

  
Signature

This form is mandatory. It has been approved for use by the United States Bankruptcy Court for the Central District of California.

In re: MERUELO MADDUX PROPERTIES, INC. et al.

CHAPTER: 11

Debtor(s).

CASE NUMBER: 1:09-BK-13356-KT

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In re: MERUELO MADDUX PROPERTIES, INC., et al.  Debtor(s).	CHAPTER: 11 CASE NUMBER: 1:09-BK-13356-KT
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