

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

In Re:)	
)	Chapter 11
WOODBIDGE GROUP OF)	Case No. 17-12560 (KJC)
COMPANIES, LLC, et al.,)	
)	
Debtors.)	Hearing Date: January 10, 2018 at 1:00 pm (ET)
)	Objection Deadline: January 3, 2018

RESPONSE AND LIMITED OBJECTION OF THE RICHARDSON COMPANY TO THE DEBTORS’ MOTION FOR INTERIM AND FINAL ORDERS (I) PURSUANT TO 11 U.S.C. §§ 105, 361, 362, 363, 364, 507, AND 552 AUTHORIZING THE DEBTORS TO (A) OBTAIN POSTPETITION SECURED FINANCING, (B) USE CASH COLLATERAL, (C) GRANT ADEQUATE PROTECTION TO PREPETITION SECURED PARTIES; (II) MODIFYING THE AUTOMATIC STAY; (III) SCHEDULING A FINAL HEARING PURSUANT TO BANKRUPTCY RULES 4001(b) AND 4001(c); AND (IV) GRANTING RELATED RELIEF [RE D.I. NO. 22]

NOW COMES, The Richardson Company (“Richardson”) by and through undersigned counsel and in support of its limited objection (the “Objection”) to the Debtors’ Motion to Obtain Post-Petition Financing (the “DIP Motion”) states as follows:

1. Richardson is a family partnership that was organized in Tennessee as part of the estate planning of Betty and L.B. Richardson, who were married for over 50 years. Mr. Richardson passed away in 1999; Mrs. Betty Richardson is now age 89 and requires full time care in a memory care facility. Her financial support is social security and the modest income generated by Richardson. Richardson invested \$300,000.00 in Woodbridge Mortgage Investment Fund 4, LLC (“Woodbridge Mortgage 4”) one of the Debtors in this consolidated Chapter 11 case on or about November 6, 2017. This \$300,000.00 was a substantial portion of the assets of Richardson, and came from the sale of the family farm.

2. It was represented that Richardson’s \$300,000.00 investment represented a proportional share of a mortgage lien Woodbridge Mortgage 4 held (and then assigned to

Richardson) against a waterfront commercial building located on Huron Street in Brooklyn, New York (the “Huron Street Property”).

3. The \$300,000.00 that Richardson invested represents a significant portion of Mrs. Richardson’s financial security, which is needed to provide her the means to reside in a facility where she can obtain memory care assistance in the State of Tennessee. The investment to Woodbridge was intended to provide a greater rate of return than what an institutional bank might yield, but, because on a short-term basis and because supposedly secured by valuable real estate, would still afford liquidity and safety.

4. On or about December 4, 2017 (the “Petition Date”), Woodbridge Mortgage 4 and certain of its affiliated debtors (collectively, the “Debtors”) filed for relief under Chapter 11 of the Bankruptcy Code. This was less than 30 days after Richardson made the \$300,000 investment, though, from recent filings, it seems that Woodbridge was contemplating bankruptcy reorganization months earlier.

5. The purported reason for the bankruptcy filing was that the S.E.C. had determined that the investments that Woodbridge Mortgage 4 and other affiliated debtor solicited and procured from investors such as Richardson were securities and, as such, the Debtors were required to comply with all applicable securities laws which the Debtors had failed to do.

6. Among the various first day motions that were filed on the Petition Date, the Debtors filed the DIP Motion. The DIP Motion sets forth the manner in which the Debtors operated and sets forth the Debtors’ position regarding the rights of investors such as Richardson. None of the disclosures and assertions contained in the DIP Motion were disclosed to Richardson when Woodbridge Mortgage 4 was soliciting and procuring the \$300,000.00 investment that Mrs. Richardson requires to support herself.

7. The Debtors' disclosures and assertions set forth in the DIP Motion should have been disclosed to Richardson prior to procuring the \$300,000 investment from Richardson by Woodbridge Mortgage 4. The failure to make the appropriate disclosures to Richardson reflects that Woodbridge Mortgage 4, its affiliates and its officers and directors, including Robert Shapiro may have engaged in securities fraud and elder abuse under Tennessee law.

8. While it was represented to Richardson, once it tendered its \$300,000.00 investment, that Woodbridge Mortgage 4 was not accepting any additional investments for the Huron Street Property and that the Huron Street Property investment was "sold out", Richardson has been unable to confirm whether Woodbridge Mortgage 4 closed on the mortgage loan for the Huron Street Property.

9. Due to the potentially fraudulent nature in which the investment from Richardson was solicited and procured, Richardson asserts that its \$300,000.00 investment is held by the Debtors in a constructive trust. Richardson reserves all rights to assert other claims including but not limited to potential claims that its \$300,000 investment was held in a resulting trust or some other type of equitable trust. To the extent that Woodbridge Mortgage 4 did not close on the mortgage for the Huron Street Property, the cash that Woodbridge Mortgage 4 obtained is subject to Richardson's trust fund claim. To the extent that Woodbridge Mortgage 4 did close on the mortgage for the Huron Street Property but had yet to assign a proportional share in the mortgage, its interest in the mortgage is subject to Richardson's trust fund claim.

10. Property rights in the bankruptcy context are analyzed and determined by state law. *See Travelers Casualty & Surety Co. of America v. Pacific Gas & Electric Co.*, 549 U.S. 443 (2007). At this very preliminary stage in this proceeding, without in any way prejudicing its rights to assert additional claims, Richardson does assert a constructive trust with respect to its

investment which appears to have been solicited and procured at a time when the Debtors were aware that the S.E.C. had determined that they were violating securities laws and when they were contemplating bankruptcy.

11. Richardson objects to any efforts by the Debtors and any DIP lender to obtain a lien against property (real or personal) that the Debtors are holding in trust for the benefit of Richardson. Richardson objects to any efforts to impair the property against which it asserts a trust fund claim and benefit the prepetition lender and notes that there has been an inadequate period of time to investigate whether any prepetition lender was in any way complicit in the Debtors' potentially fraudulent activities. Richardson objects to a DIP budget that provides financial remuneration to Robert Shapiro to the extent that it in any way impairs the property against which Richardson asserts a claim.

WHEREFORE, Richardson requests that the DIP Motion be denied unless and until an appropriate carve out is made to protect Richardson's trust fund claim and that Richardson be granted such other relief as is just and proper.

Dated: January 3, 2018

GELLERT SCALI BUSENKELL & BROWN, LLC

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CERTIFICATE OF SERVICE

I hereby certify that on January 3, 2018, I cause to be served a true and correct copy of the foregoing *Response and Limited Objection of The Richardson Company* via the Court's CM/ECF system and via first Class U.S. Mail, postage prepaid upon the following parties listed below.

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