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S.F. firm scores \$23 million settlement in securities case

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Online real estate company Homestore Inc. has agreed to pay \$23 million to settle a securities fraud suit by former shareholders of iPlace Inc., a company Homestore purchased last year.

The shareholders claimed that as a result of accounting problems at Homestore, the company did not pay a fair price for iPlace.

Homestore, of Westlake Village, agreed in August 2001 to purchase iPlace for \$150 million, approximately \$72 million of which was to be paid in cash and the remainder in stock valued at \$78 million at the time the deal was closed. However, the shareholders said, after the sale Homestore discovered internal accounting problems and restated its earnings. As a result, the company's stock price dropped and the purchase price declined.

"Homestore induced us to sell a company by relying on stock that was im-

properly valued," said Micah Jacobs, of Jacobs & Ferraro, who represented the former minority shareholders of iPlace.

iPlace had consisted of three merged units. After acquiring the company, Homestore returned one of the units to its original owners and announced plans to sell the others to Experian Holdings Inc. for \$130 million in cash. MemberWorks Inc., the former majority shareholder of iPlace, filed suit in federal court in Connecticut to block the sale. Jacobs' clients — majority investors in one of the iPlace units — intervened in the suit, which was subsequently transferred to federal court in Los Angeles.

While the court allowed Homestore to sell iPlace, it ordered the company to place \$58 million of the \$130 million in proceeds into a constructive trust pending the outcome of litigation.

MemberWorks, which is represented by New York's Greenberg Traurig, is to receive about \$19 million from the \$23 million settlement, and iPlace's minority shareholders will receive \$4 million.

Homestore's attorney, Robert Vanderet, a partner at Los Angeles' O'Melveny & Myers, could not be reached for comment.

"We determined that an expedited settlement of this case was in the interest of Homestore's customers, employees and shareholders," Homestore CEO Mike Long said in a release.

Homestore's legal problems are not over, however. The Securities and Exchange Commission is investigating Homestore's accounting practices. And the California State Teachers' Retirement System filed a shareholder class action against the company in federal court in Los Angeles. The suit claims Homestore falsely inflated its revenue statements through so-called round-trip barter transactions with third parties. Bruce Simon, a partner at Cotchett, Pitre, Simon & McCarthy, represents the pension fund.

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