For Plantation attorney, Florida's mortgage meltdown spelled big opportunity — then trouble

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Two announcements last week appear to have doomed Plantation foreclosure attorney David J. Stern's ambitions to become a national player in the repossession of homes lost by Americans during the economic downturn.

It was only a little over a year ago that Stern jumped at the opportunity to push his business and wealth to a whole new level. The underlying plan was to take the legal and financial model that had made Stern rich and successful, and reproduce it in other states.

In January 2010, the Plantation-based lawyer consummated a deal under which he took a key piece of his law firm's operations public, with Wall Street backers agreeing to buy him out for a staggering $145 million, plus reams of stock in the newly minted corporation.

The last hopes for that grand venture appear to have vanished.

First, Stern's law firm — which once handled one out of every five foreclosures in Florida — announced Monday it was ceasing repossession operations at the end of March. The following day, DJSP Enterprises, the publicly traded company Stern created to process mortgage-related paperwork for his law practice, said it would delist its stock from the Nasdaq exchange, even as its share price fell to 15 cents.

What happened? An extensive review of regulatory filings and other paperwork by the Sun Sentinel reveals key episodes in the story of how a little-known local attorney rose so fast in the obscure area of foreclosure law, then plummeted as swiftly as the value of Florida real estate.

The collapse of Stern's law firm has left tens of thousands of foreclosure cases in South Florida in limbo. Stern's firm is struggling to withdraw from approximately 100,000 cases from Pensacola to Key West, according to a recent letter he sent to chief judges around the state.

Stern catered to executives from the biggest banks in the country and government-backed mortgage lenders, Fannie Mae and Freddie Mac, to win their lucrative business and keep it.

His fortunes soared as the economy soured and homeowner loan defaults hit record highs.
Stern, who declined through his attorney to be interviewed for this story, built a mega operation of 1,200 back-office workers who pushed through hundreds of thousands of pieces of paper each year to process and create the legal documents that underpin foreclosure filings in court.

In the end, the 50-year-old lawyer may have become a victim of his own hard-driving ambition — brought down by the very foreclosure machine he created.

**Going public**

To take his firm's back-office operation public, Stern found willing backers on Wall Street to buy him out.

He scored a big initial payoff — $58.5 million — on Jan. 15, 2010, the day the going-public deal closed, and DJSP Enterprises began trading on the Nasdaq exchange around $9 per share.

It was a lucrative deal, even for a man who traveled by Lear jet, drove Ferraris and Porsches, lounged on Italian yachts, lived in a $15 million mansion on the Intracoastal in Fort Lauderdale and vacationed in a $7 million Colorado chalet.

But within months of the new company going public, news reports of problems with the way Stern's law firm and DJSP were handling foreclosure paperwork began to surface. Regulators with the SEC took notice of the foreclosure paperwork questions as they reviewed the company's financial filings.

Then the Florida Attorney General's Office announced in August that Stern's law firm was one of several under investigation for fraudulent legal documents. Stern's major bank clients, including Fannie Mae and Freddie Mac, yanked their cases away.

Those developments crippled both Stern's law firm and DJSP, which was also hit with a shareholder lawsuit alleging securities fraud. DJSP employees were laid off by the hundreds, and the price of DJSP's stock entered freefall. A besieged Stern pledged in a September earnings conference call to right the ship.

"We're deeply committed to making DJSP a stronger, more efficient and profitable company," Stern said, according to a transcript of the call.

The commitment, so far, hasn't been enough. DJSP quit paying rent on its offices at 900 S. Pine Island Road, and has warned it may cease operations. There are only 50 or so employees left — the latest wave of layoffs came Feb. 15, when 96 workers lost their jobs. Stockholders in DJSP have watched millions of dollars in the value of their shares evaporate. The corporation also has missed deadlines for repaying creditors.

In the past few months, Stern has listed more than $40 million in luxury assets for sale, including what is reported to be his $18 million Italian-made yacht. His empire is quickly becoming unraveled.
Skyrocketing revenue

Not much is known about Stern's operations before 2006 because his law firm was a private enterprise. But as part of the process of taking DJSP public, Stern revealed numbers in SEC filings that illuminate how good the foreclosure boom was for him.

As foreclosure filings across Florida began their steep ascent in 2006, his law firm's back-office operations brought in $40.4 million in revenue and $8.6 million in profit, SEC records show. In three years, the law firm's back-office revenues skyrocketed to $260 million, producing $44.5 million in profits in a single year.

Stern turned to Wall Street in 2008 to help him take DJSP public. He worked with advisors who found a company in the British Virgin Islands that had no business operations but had raised $55 million with the original intention of buying an unspecified company in China, according to DJSP filings with the SEC.

Instead, the offshore company purchased Stern's back-office operations in January 2010. The deal was to be for $100 million in cash, with an additional $35 million to go to Stern later, SEC records show. But when financiers putting the deal together couldn't raise enough money, Stern agreed to accept $58.5 million in cash and an additional $87.5 million later, as well as 4 million shares of stock and the rights to acquire another 6 million shares.

If DJSP's stock stayed above $10, the new company could redeem stock warrants it had issued and pay off the huge debt owed to Stern.

The stock went above $10 in early March 2010 and stayed there until mid-May, but the company needed SEC approval to redeem the warrants. That approval didn't come, and government regulators instead kept pressing DJSP for more details about its business plans, its financial numbers and the negotiations before the company became publicly owned.

In April, an article in the Wall Street Journal caught the SEC's attention: the newspaper reported that questionable foreclosure documents were being used by Stern's firm in Florida courts. Federal regulators ordered DJSP to alert investors that the paperwork problems presented a risk factor for stock investors.

When DJSP announced its first quarter earnings on May 27, investment analysts were stunned that company executives lowered the profit target for the year by $15 million, to $34 million. The stock, which had dipped below $10 days before, began to slide further.

"Just last week you were marketing in New York talking about the quarter and reiterating to several clients that everything was fine in your business," one analyst, Jordan Hymowitz of Philadelphia Financial Management of San Francisco, told Stern during an earnings call, according to a call transcript. "I am very troubled ethically and legally that you would go out on a marketing trip and say such things, when clearly a week later you've pre-announced 20 percent lower numbers."
Stern explained in the call that the slowdown in new foreclosure filings handled by his law firm — and hence, DJSP business — was due to a major client undergoing an unexpected technology upgrade.

"These analysts knew perfectly well what they were being told," said Jeffrey Tew, a Miami attorney who represents Stern. "There was no deception there."

'Very bleak'

That is not the view of some stockholders, including Philadelphia Financial. In a lawsuit filed in federal court in Fort Lauderdale, they have accused Stern and DJSP of engaging in a "Big Sell" to mislead investors and keep the share price at that key price of $10 or higher. The suit accuses DJSP of engaging in fraud and deceptive practices, and claims that instead of seeking to grow his business, Stern was trying to dump it.

"Stern was positioning himself to cash out at the peak of the mortgage foreclosure boom," the suit alleges.

Stern and DJSP have filed a motion to have the suit dismissed, asserting that there was no fraud and that the company fully disclosed the risks in investing in its stock. Stern's attorney now says his client's prediction of future earnings were based on what Stern honestly believed at the time.

"You don't say the weatherman made a misleading forecast when he makes a prediction of future events," Tew said. "The company did not violate the securities law in any regard."

DJSP finally did receive approval from the SEC to redeem its warrants in June, but by then it was too late– the company could not redeem them because the stock price had dropped well below $10. At the close of the markets on Friday, DJSP stock was trading for 10 cents.

George Young, a professor of accounting at Florida Atlantic University who has followed the DJSP saga, sees the company as having a "very, very bleak" future.

"All of the fortunes of this company were tied to Stern's office, and it thriving and doing well," Young said.

As of the end of June, DJSP owed Stern nearly $83 million, according to SEC filings. If the company goes into bankruptcy, he will be its largest creditor.