

**UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF TEXAS  
DALLAS DIVISION**

BILL MELMS, Individually and On )  
Behalf of All Others Similarly Situated, )

*Plaintiff,* )

v. )

Civil Action No. 3:07-CV-1961-N

HOME SOLUTIONS OF AMERICA, )  
INC., FRANK FRADELLA, JEFFREY )  
M. MATTICH AND BRIAN MARSHALL, )

*Defendants.* )

**AMENDED CLASS ACTION COMPLAINT**

Plaintiff Bill Melms and Lead Plaintiffs Jon Johannesson, Charles Moore, Doris Moore, Bill Denton, Mark Maidenburg, and Peter Black (collectively, “Plaintiffs”), by their undersigned counsel, on behalf of themselves and all other persons similarly situated, for their Amended Class Action Complaint allege the following upon personal knowledge as to their own acts, and upon information and belief as to all other matters, based upon an investigation by their attorneys that included a review of press releases, filing with the Securities and Exchange Commission (the “SEC”), and investor conference call transcripts of Home Solutions of America, Inc. (“HSOA” or the “Company”), and reports by the media and securities analysts about the Company.

**I. NATURE OF THE ACTION**

1. This is a securities class action on behalf of all persons who purchased the common stock (“Shares”) of HSOA from May 10, 2007 through and including February 15, 2008 (the “Class Period”), against HSOA and its officers and/or directors for violations of

Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the “Exchange Act”).

## **II. JURISDICTION AND VENUE**

2. The claims alleged herein arise under Sections 10(b) and 20(a) of the Exchange Act, 15 U.S.C. §§ 78j(b) and 78t, and Rule 10b-5, 17 C.F.R. § 240.10b-5 promulgated thereunder.

3. The jurisdiction of this Court is based on Section 27 of the Exchange Act, 15 U.S.C. § 78aa and 28 U.S.C. § 1331.

4. Venue is proper in this judicial district pursuant to Section 27 of the Exchange Act as Defendant HSOA has its principal executive office in this Judicial District, and many of the acts and transactions alleged herein, including the preparation and dissemination of materially false and misleading information, occurred in this District.

5. In connection with the acts, transactions and conduct alleged herein, Defendants used the means and instrumentalities of interstate commerce, including the United States mails, interstate telephone communications and the facilities of a national securities exchange and market.

## **III. THE PARTIES**

6. Plaintiffs purchased Shares of HSOA common stock during the Class Period at artificially inflated prices, as set forth in the attached certifications, and have suffered losses as a result of Defendants’ conduct as alleged herein.

7. Defendant HSOA is a Delaware corporation with its principal executive offices located at 1500 Dragon Street, Suite B, Dallas TX 75207.

8. Defendant Frank Fradella (“Fradella”) was, at all times relevant to the allegations of this complaint, the Chairman, President, and Chief Executive Officer of HSOA. Fradella

personally participated in providing false and misleading information to investors through press releases and during conference calls during the Class Period.

9. Defendant Jeffrey M. Mattich (“Mattich”) was, at all times relevant to the allegations of this complaint, the Chief Financial Officer of HSOA. Mattich personally participated in providing false and misleading information to investors during conference calls during the Class Period.

10. Defendant Brian Marshall (“Marshall”) was, at all times relevant to the allegations of this complaint, an Executive Vice President and a Director of HSOA, as well as the President of HSOA’s wholly-owned subsidiary, Fireline Restoration, Inc. (“Fireline”).

11. It is appropriate to treat Defendants Fradella, Mattich and Marshall (the “Individual Defendants”) as a group for pleading purposes and to presume that the false, misleading and incomplete information conveyed in HSOA’s public filings, press releases and other publications as alleged herein are the collective actions of the Individual Defendants. Each of the Individual Defendants, by virtue of his high-level position with HSOA, directly participated in the management of the Company, and was directly involved in the day-to-day operations of HSOA at the highest level. Each of the Individual Defendants was involved in disseminating the materially false and misleading statements and information alleged herein. Accordingly, each of the Individual Defendants is responsible for the accuracy of the public reports, releases, and statements detailed herein and is therefore primarily liable for the representations contained therein.

12. As officers, directors, and controlling persons of a publicly held company whose common stock was, and is, registered with the SEC, traded on the National Association of Securities Dealers Automated Quotation System (“NASDAQ”) National Market, and governed

by the provisions of the federal securities laws, the Individual Defendants each had a duty to disseminate accurate and truthful information promptly with respect to HSOA's financial condition and performance, growth, operations, financial statements, business, earnings, management, and present and future business prospects so that the market price of HSOA's shares would be based upon truthful and accurate information. The Individual Defendants' misrepresentations and omissions during the Class Period violated these specific requirements and obligations.

13. The Individual Defendants, because of their positions of control and authority as officers and controlling persons of HSOA, were able to and did control the content of the various SEC filings, press releases and other public statements pertaining to HSOA during the Class Period.

14. Each of the Individual Defendants was privy to confidential proprietary information concerning HSOA and its business, operations, prospects, growth, finances, and financial condition as alleged herein. Each of the Individual Defendants was aware of or recklessly disregarded that materially false or misleading statements were being issued regarding HSOA, and approved or ratified these statements in violation of the federal securities laws. The Individual Defendants caused, allowed and/or participated in the wrongdoing complained of herein in order to continue and prolong a distorted and misleading appearance of HSOA's continued profitability and financial condition and prospects.

#### **IV. SUBSTANTIVE ALLEGATIONS**

##### **A. BACKGROUND**

15. At all times relevant to the allegations of this Complaint, the Company has represented that it is a provider of restoration, construction and interior services for commercial

and residential properties.

16. On July 31, 2006, HSOA acquired Fireline, a provider of recovery and restoration services throughout Florida, Louisiana and Mississippi, pursuant to a purchase agreement entered into among HSOA, Fireline and Fireline's owner, Defendant Marshall.

17. Following HSOA's acquisition of Fireline, Mr. Marshall continued to serve as the President of Fireline and joined HSOA's board of directors.

**B. DEFENDANTS' MATERIALLY FALSE AND MISLEADING STATEMENTS**

18. During the Class Period, Defendants made a series of material misrepresentations concerning the Company's business and financial results. As more particularly alleged below, these material misrepresentations concerned: (i) the amount of reported revenues; and (ii) contracts purportedly awarded to the Company.

**1. False or Misleading Statements About Revenue**

19. After the market closed on May 9, 2007, HSOA issued a press release (the "May 9 Press Release") concerning its financial results for the first quarter ended March 31, 2007.

20. HSOA also had a conference call with analysts and investors after the market closed on May 9, 2007 (the "May 9 Conference Call"), to discuss its first quarter 2007 results, at which Defendants Fradella and Mattich spoke on behalf of HSOA.

21. On May 10, 2007, HSOA filed its quarterly financial report on Form 10-Q for the quarter ending March 31, 2007 with the SEC (the "May 10 10Q"). The May 10 10-Q was signed by Defendants Fradella and Mattich, both of whom stated under oath that the "Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report."

22. The May 9 Press Release and the May 10 10-Q reported, *inter alia*, that HSOA had revenue of \$39.931 million, including \$30.7 million in revenue from its Restoration and Construction Services Division (which includes Fireline). Defendant Mattich also provided this same information during the May 9 Conference Call.

23. After the market closed on August 9, 2007, HSOA hosted a conference call for investors (the “August 9 Conference Call”) to discuss the Company’s results for the second quarter ended June 30, 2007. Defendants Fradella, Mattich and Marshall spoke on behalf of the Company during the Conference Call.

24. On August 15, 2007, HSOA filed its quarterly financial report on Form 10-Q for the second quarter of 2007 with the SEC (the “August 15 10Q”). The August 15 10Q was signed by Defendants Fradella and Mattich, both of whom stated under oath that the “Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.”

25. The August 15 10Q reported, *inter alia*, that HSOA had total revenues of \$50.96 million, including \$45.328 million in revenue from its Restoration and Construction Services Division (which includes Fireline). Defendant Mattich provided the same information during the August 9 Conference Call.

26. The amounts reported as revenue by Defendants in the May 9 Press Release, the May 9 Conference Call, the May 10 10Q Report, the August 9 Conference Call and the August 15 10Q were materially false and misleading because, *inter alia* and as detailed elsewhere herein, (i) a material portion of the reported revenue was attributable to revenue from “related party” transactions, a fact which was not disclosed, in violation of Generally Accepted

Accounting Principles (“GAAP”); and (ii) the Company improperly accelerated recognition of revenue from related party transactions.

## **2. False or Misleading Statements About The New York Projects**

27. On the morning of May 18, 2007, HSOA issued a press release (the “May 18 Press Release”) announcing that Fireline had entered into an agreement with Blue Diamond Construction, Inc., a New York-based construction management firm, to construct 339 residential condominiums and 160,000 square feet of mixed use retail space located in the boroughs of Brooklyn, Manhattan and Queens, New York (the “Brooklyn Project,” the “Manhattan Project,” the “Queens Project;” collectively, the “New York Projects”). The May 18 Press Release represented that the value of the contracts to HSOA was \$100 million dollars, and stated that the contracts “are collectively the largest in the Company’s history.”

28. The May 18 Press Release quoted Defendant Marshall as being “excited to provide construction services on these high profile mixed-use residential and commercial projects,” and touting the deals as reflecting “the ability of Home Solutions to provide a large, highly skilled dedicated labor force” and also reflecting HSOA’s “diversification efforts, begun last year, to generate a more predictable revenue base.”

29. Defendants provided more facts about the New York Projects in a press release dated June 6, 2007 (the “June 6 Press Release”), which again represented that the value of the contracts was more than \$100 million. The June 6 Press Release characterized the Fireline-Blue Diamond agreement as a “contract” for development and construction of three projects involving residential and mixed used space, located “on the Upper East Side of Manhattan . . . the Williamsburg section of Brooklyn and . . . the Whitestone section of Queens.” The Press Release included quotations by Defendant Fradella representing that, while details on the

contracts could not yet be publicly reported due to confidentiality provisions, “we are certainly willing to provide copies of these contracts to any regulatory agency.” Fradella was further quoted as stating “that over the coming weeks, as additional details on these contracts and other corporate developments are announced, that investors will recognize the progress the Company has made and value it accordingly.”

30. The New York Projects were also discussed during the August 9 Conference Call with investors hosted by Defendants Fradella, Mattich, and Marshall, Defendant Marshall represented that work on the New York Projects was already “underway.” One of the participants in the August 9 Conference Call inquired as to who the “\$100 million New York contract” was “officially signed with.” Defendants Marshall and Fradella both refused to provide an answer at that time, again due to confidentiality provisions.

31. The May 18 Press Release, the June 6 Press Release and the August 9 Conference Call were materially false and misleading because, *inter alia* and as detailed elsewhere herein: (i) Fireline did not have an agreement with Blue Diamond Construction to perform construction with respect to the Manhattan Project; and (ii) only the Brooklyn Project, which was worth only \$15.9 million, was not subject to substantial undisclosed financial and other contingencies.

### **3. False or Misleading Statements About The Florida Project**

32. On the morning of May 31, 2007, HSOA issued a press release (the “May 31 Press Release”) that represented that Fireline had been awarded a contract (the “Florida Contract”) valued at approximately \$100 million “to provide construction management, general contracting and development services for a 600,000 plus square foot retail center and corporate office site located in Hillsborough County, Florida.” The May 31 Press Release further represented that the project in question was being developed by “a Tampa Bay-based real estate

development firm” which was not identified.

33. The May 31 Press Release quoted Defendant Marshall as being “pleased to have been selected for another major construction management project,” which he described, referencing the New York Projects, as “the second major construction project we have been selected for this month.” Marshall was also quoted in the May 31 Press Release as stating that “these contracts demonstrate that our efforts to diversify our mix of business to a more stable and predictable revenue base are yielding results.”

34. The Florida Project was also discussed in the June 6 Press Release, which confirmed the existence of the contract and reiterated its value was approximately \$100 million. Defendant Fradella was quoted in the June 6 Press Release as indicating that HSOA was willing to provide a copy of the contract to a regulatory agency if necessary, though the details could not be published at the time due to confidentiality provisions.

35. The May 31 and June 6 Press Releases were materially false or misleading because, *inter alia* and as detailed elsewhere herein, they failed to disclose that the party that had reportedly awarded the contract to HSOA was a “related party” to HSOA. Specifically, the parent of the unnamed “Tampa Bay-based real estate development firm” was 50 percent owned by a company which was itself 50 percent owned by Defendant Marshall, the president of Fireline.

**C. THE IMPACT OF DEFENDANTS’ FALSE AND MISLEADING STATEMENTS ON THE PRICE OF HSOA SHARES**

36. As more particularly alleged below, Defendants’ false and misleading statements caused the price of HSOA stock to become artificially inflated during the Class Period, reaching a high of over \$8.00 per share. By the end of the Class Period, less than a year later, the price of HSOA stock was \$0.44 per share – a decline of approximately 95 percent. The artificial

inflation in the price of HSOA's stock was removed through a series of disclosures and adverse news stories.

37. In response to the May 9 Press Release, the May 9 Conference Call, and the May 10 10Q, the price of HSOA's stock increased from \$5.25 per share at the close of trading on May 9, 2007 to \$5.70 at the close of trading on May 10, 2007, an increase of approximately nine percent.

38. In response to the May 18, 2007 Press Release, the price of HSOA's stock increased from \$6.00 per share at the close of trading on May 17, 2007 to \$6.56 at the close of trading on May 18, 2007, an increase of approximately nine percent.

39. In response to the May 31 Press Release, the price of HSOA's stock rose from \$6.97 per share at the close of the market on May 30, 2007, to \$7.48 per share at the close of the market on May 31. The stock continued to rise dramatically over the next two trading days, closing at \$7.89 per share on June 1, 2007 and \$8.09 per share on June 4, 2007, representing an increase of over 16 percent since May 31.

40. On June 4, 2007, a website entitled *Citron Reports* posted an article raising questions about the Florida and New York Projects and HSOA's ability to perform such contracts, concluding that the alleged contracts were "fictional."

41. As a result of the publication of the June 4 Article in *Citron Reports*, HSOA's stock price dropped from \$8.09 per share at the close of the market on June 4, 2007 to \$7.04 per share at the close of the market on June 5, 2007, a drop of approximately 13 percent. HSOA's June 6 Press Release, intended to reassure investors about the solidity of the New York and Florida Projects, slowed but did not halt the stock's slide. HSOA's stock price was \$6.77 per share at the close of the market on June 6, 2007.

42. After the close of the market on August 15, 2007 HSOA filed its 10Q Report for the Second Quarter of 2007. In addition to the false and misleading report of record revenue as described above, the August 15 10Q disclosed the following material adverse facts:

(i) The Florida project announced in the May 31 Press Release was a “related party transaction;”

(ii) In July 2007 HSOA had “received informal inquiries from the SEC and Nasdaq with respect to prior disclosure and related issues;” and,

(iii) HSOA management had requested that the Company’s audit committee perform an investigation into related party transactions and disclosures.

43. In response to the August 15 10Q, the price of HSOA’s stock went from \$4.70 per share at the close of the market on August 15, 2007 to \$4.05 per share at the close of the market on August 16, 2007, and to \$3.10 per share by the close of the market on August 17, 2007, a two-day drop of roughly 34 percent.

44. Before the market opened on August 23, 2007, HSOA issued a press release (the “August 23 Press Release”) in which it identified the other parties involved in the Florida Project, and detailed Defendant Marshall’s significant ownership interest in both companies. On the same date, the New York Post published an article which quoted Jeff Vicente, a contractor for HSOA subsidiary Fireline, as saying that he had not seen Fireline “construct anything that their management has not owned or had a stake in.” Citing examples, Vicente listed several specific Fireline projects which he had worked on, including Fireline’s new headquarters in Tampa, Florida (owned by Marshall), a Fireline warehouse, and the personal residence of Tom Davis, one of HSOA’s Vice Presidents. The New York Post article also noted that Fireline was working on a project called the “Villas of Tampiana,” owned by Marshall.

45. As a result of the information disclosed by the company and the information published in the New York Post, the price of HSOA's stock declined from \$3.44 per share at the close of the market on August 22, 2007 to \$3.27 per share at the close of the market on August 23, 2007, and to \$3.10 per share by the close of the market on August 24, 2007, a two-day drop of almost 10 percent.

46. In the afternoon of September 6, 2007, HSOA issued a press release (the "September 6 Press Release") stating that total revenue from the New York Projects would be approximately \$140 million, and announcing that construction was already underway on the \$15.6 million Brooklyn Project. However, the September 6 Press Release also indicated that the much larger Queens Project (\$85 million) did not yet have "necessary zoning and engineering approvals," and contained language suggesting that the contract for the \$38 million Manhattan Project had not yet been finalized.

47. In response to the September 6 Press Release, the price of HSOA stock declined from \$3.19 per share at the close of the market on September 5, 2007 to \$3.01 per share at the close of the market on September 7, 2007.

48. On the morning of September 27, 2007, HSOA conducted a conference call "to update the investor community" (the "September 27 Conference Call"). A transcript of the September 27 Conference Call was filed with the SEC on Form 8-K on September 27, 2007. Defendants Fradella, Mattich and Marshall spoke during the September 27 Conference Call. In response to a series of questions from Neil Cassidy of Morgan Stanley, Defendants were forced to admit that HSOA did not have a contract for the Manhattan Project:

**Neil Cassidy:** . . . The Upper East Side project, you guys on May 18th announced that you had a contract to build condos on the Upper East Side of New York City. On September 6th your press release said you're in advanced stages of negotiation. Do you have a contract or you don't have a contract for the Upper

East Side?

**Brian [Marshall]:** ... . Unfortunately, we are, we are in the process of the development stages and possible expansion stages of that contract and unfortunately that's been some of our delay based on our NDA and exposure to the market without giving too much information. We gave more information on the project today. As is, we can build based exactly on what I explained in the script earlier but we are pursuing some other options that may or may not increase our revenue in that area.

**Neil Cassidy:** But Brian, do you have a contract to build?

**Brian:** Yes we have, yes we have a contract.

**Neil Cassidy:** For the Upper East Side buildings. You're going to build that ground-up building is what you guys filed in your 8-K.

**Male:** Are you talking about our White Stone project?

**Neil Cassidy:** No, New York City, the Upper East Side. You, in your press release you very clearly – I'll give you your wording. Your wording is "advanced stages of negotiation with the project owner."

**Male:** OK and you're talking about the 40 million project that we have secured a \$40 million bond on, is that right?

**Neil Cassidy:** You secured a bond but it doesn't sound like you definitely have the job because you're saying you don't have the job yet and the, you just reiterated that on the call. If you want you can play it back.

**Male:** Yes, let me be clear on it. OK, I was speaking to you about White Stone; I apologize. On the \$40 million project from what I said in the script that we have a bond in place and we are working and negotiating with the owner to secure a contract on that project.

**Neil Cassidy:** So you do not have a contract on the Upper East Side.

**Male:** We do not have a finalized contract on the Upper East Side.

**Neil Cassidy:** OK, why did you guys file an 8-K saying you did have a contract on the Upper East Side? And in your, read your May 28th press release, even the corrected version of it. You clearly say you have a contract to build on the Upper East Side.

**Male:** I think in the 8-K Neil, if you remember the \$100 million, what the company had was actually a compilation of three different sites.

**Neil Cassidy:** But you don't have three different sites; you have two.

49. As a result, the Company's share price dropped from \$3.80 per share at the close of the market on September 26, 2007 to \$3.44 per share at the close of the market on September 27, 2007, a drop of approximately 9.5 percent.

50. After the market closed on November 7, 2007, HSOA announced that it was delaying the filing of its 10-Q Report for the quarter ended September 30, 2007, in part due to the related party transactions being reviewed by the Audit Committee of the Company's Board of Directors. HSOA's stock price, which was at \$2.35 per share at the close of the market on November 7, 2007, dropped to \$2.24 per share by the close of the market on November 8, 2007, a drop of approximately five percent.

51. On November 14, 2007, after the market closed, HSOA announced that it was delaying the filing of its third quarter 10-Q Report for a second time, again due to "related party transactions." HSOA's stock price, which was at \$1.98 per share at the close of the market on November 14, 2007, dropped to \$1.57 per share by the close of the market on November 15, 2007, a drop of approximately 21 percent.

52. After the market closed for the Thanksgiving holiday on November 21, 2007, HSOA announced that it had received a NASDAQ Staff Determination indicating that its failure to timely file its Form 10-Q for the quarter ended September 30, 2007 with the SEC amounted to a failure to comply with a requirement under NASDAQ's Marketplace Rule 4310(c)(14) for continued listing. HSOA reported that it had requested a hearing before a NASDAQ Listing Qualifications Panel to appeal the Staff Determination and that a hearing had been scheduled for January 10, 2008. HSOA's stock price, which was at \$1.26 per share at the close of the market on November 21, 2007, dropped to \$1.03 per share by the close of the market on November 23,

2007, a drop of approximately 18 percent.

53. After the market closed on December 14, 2007, HSOA admitted that the May 10 10Q and August 15 10Q were unreliable in a filing with the SEC on form 8-K:

The Audit Committee and management of Home Solutions of America, Inc. (the “Company”) have concluded that due to the effects of reporting errors described below, they believe the Company’s previously issued financial statements for the first two quarters of 2007 should not be relied upon.

On December 7, 2007, the Audit Committee of the Company received a letter from KMJ Corbin & Company LLP (“KMJ Corbin”), the Company’s independent registered public accounting firm, stating that they have concluded that the Company’s previously issued quarterly consolidated financial statements for the periods ended March 31, 2007 and June 30, 2007, included in the Company’s quarterly reports on Form 10-Q for such periods, should no longer be relied upon.

Specifically, in the letter and in subsequent conversations with Company management, KMJ Corbin noted that:

....

- In connection with contracts with related parties, the Company incorrectly accrued construction costs prior to such costs being incurred. Such cost accruals improperly accelerated revenue recognition on the related contracts; and

The Audit Committee has discussed the matters raised by KMJ Corbin with representatives of that firm.

The Company intends to file restated financial statements for the periods ended March 31, 2007 and June 30, 2007 in future filings with the Securities and Exchange Commission. The Company is evaluating the effects of these matters on its internal control over financial reporting and disclosure controls and procedures.

54. In response to the December 14, 2007 SEC filing, HSOA’s stock price fell even further, dropping from \$1.05 at the close of trading on December 14 to 98 cents per share at the close of trading on the next trading day (December 17, 2007), a drop of approximately seven percent.

55. After the close of the market on Friday, January 4, 2008, HSOA announced that it

had withdrawn its appeal to remain listed on the NASDAQ and as a result it would be delisted from the NASDAQ effective with the opening of trading on January 7, 2008. HSOA has since been trading on the Pink Sheets Electronic Quotation System. HSOA's share price, which had closed the trading day on January 4, 2008 at \$0.95 per share, dropped to \$0.73 by the close of the next trading day (Monday, January 7, 2008), a decline of 23 percent.

56. On the morning of January 14, 2008, HSOA filed with the SEC on Form 8-K an announcement that it had fired Scott Sewell, a member of its Board of Directors and the president of one of its subsidiaries, Home Solutions Restoration of Louisiana, Inc.. Attached as an exhibit to the filing was a letter from Mr. Sewell to the Board of Directors dated January 7, 2008, accusing defendants Fradella, Marshall and Mattich of improper accounting and business practices. Mr. Sewell's letter specifically included the following allegations of impropriety concerning related-party transactions:

In the last two months, I received oral reports from an investigation by a law firm engaged by the Company to the effect that certain Company management engaged in significant undisclosed related party transactions, that work reported to have been done by the Company may not actually have occurred, that phantom receivables were reported in the Company's SEC filings and used in the corporate bank line of credit borrowing base, that false documents were presented to auditors to substantiate those receivables, and that false public statements and press releases had been made. When I asked for a copy of the report in writing so I could study it, follow up and comply with my fiduciary duties as a director, my request inexplicably was denied.

57. HSOA's stock declined following the release of Mr. Sewell's letter from \$0.76 per share at the close of the market on Friday, January 11, 2008 to \$0.62 per share at the close of the market on Monday, January 14, 2008, a decline of 18 percent.

58. After the market closed on Friday, February 15, 2008, HSOA issued a press release (the "February 15 Press Release") disclosing more details about the Company's prior

false and misleading statements concerning related party transactions and the Florida and New York projects. The February 15 Press Release read in pertinent part:

As previously reported, the Company's Audit Committee has been conducting an internal investigation with respect to certain related party transactions, revenue recognition issues, and other matters. As a result of the Audit Committee's investigation, which has not yet concluded, the *Company has determined that a substantial number of its press releases in fiscal year 2006 and 2007 cannot be relied upon*. In particular, the Company is aware of the following issues with respect to its press releases in 2006 and 2007:

1. Certain press releases announced construction or development contracts between the Company's Fireline Restoration, Inc. ("Fireline") subsidiary and a party owned in whole or in part by Brian Marshall, President of Fireline and an officer and director of the Company, without disclosing the related-party nature of the contracts.
2. Certain press releases announced construction or development contracts without disclosing material contingencies that may hinder the Company in recognizing the full value of the contracts.
3. Contract values originally stated in certain press releases by Fireline or Home Solutions Restoration of Louisiana, Inc. have decreased.
4. Certain press releases announced construction or development projects that were ultimately not awarded to the Company or that are, as of the end of 2007, no longer viable.

As a result of the foregoing:

\* Fireline contracts, which represent approximately \$175 million, or 51%, of the Company's previously announced backlog, are being reviewed by the Company. The review is necessary because they are "related party contracts" and furthermore may not be financially viable. Among these Fireline contracts is the previously announced \$100 million Southshore Ventures project in Tampa, Florida. In addition, the Company's ability to perform under two previously announced contracts in New York representing approximately \$120 million, or approximately 35%, of the Company's previously announced backlog, are being reviewed in light of substantial financing and other contingencies that could impact their viability. If such contingencies are not resolved, these contracts will be withdrawn from the backlog. A third previously announced New York project, with an estimated value of approximately \$15.9 million, is in progress and expected to be completed in 2008. As of December 31, 2007, the Company's current backlog is \$141 million, of which \$41 million is anticipated to be executed in 2008. This backlog figure does not include revenue for the

Company's operations at PW Stephens or the Interior Services segment.

\* Approximately \$9.2 million in accounts receivable, as of June 30, 2007, were from entities either wholly or partially owned by Brian Marshall, former Vice President of the Company and President of Fireline. A portion of these receivables will be reserved as doubtful accounts while another portion of these receivables and their corresponding revenues will be reversed via the Company's restatement of its March 31, 2007 and June 30, 2007 Form 10-Q's. Accordingly, the Company will take pre-tax charges of approximately \$3.4 million in the six month period ended June 30, 2007 to reflect this determination. The Company intends to pursue collection of all remaining accounts receivable pertaining to these contracts.

\* Further details will be provided in the Company's quarterly report for the third quarter of 2007, which the Company expects to file in the near future.

The Company further announced that Brian Marshall has resigned as Vice president of Home Solutions of America and President of Fireline (which the Company acquired in July 2006). He will continue as a member of the Board of Directors until the expiration of his term at the time of the Company's annual meeting later this year. The Company has recently terminated for cause the employment of Scott Sewell, formerly Chairman of Home Solutions Restoration of Louisiana, Inc. (which the Company acquired in October, 2006).

The Company is cooperating with an investigation by the SEC and responding to subpoenas respecting certain books and records. The Company intends to fully cooperate with this and other regulatory agency requests. The internal Audit Committee investigation is ongoing and information obtained through this process will be provided to the regulators.

The Company also announced that it has hired the firm of Alvarez & Marsal, a leading professional services firm, to assist it in considering strategic alternatives and to help it streamline operations. In this regard, the Company has already significantly reduced its infrastructure and operating expenses through work force reductions. It will reorganize its structure to include four operating regions: New York (Construction Services), Tampa (combining Interior Services and Restoration), New Orleans (Construction Services), and Huntington Beach, California (Environmental Services). The Company is also considering relocating its corporate headquarters to New Orleans.

....

On November 9, 2007, the Company filed, on Form 12b-25, a Notification of Late Filing of the Quarterly Report. On November 14, 2007, the Company announced that it would further delay the filing of the quarterly report past the extended filing deadline. In addition, on December 14, 2007, the Company announced that it and its auditors had concluded that the Company's financial

statements for the first two quarters of 2007 need to be restated and should no longer be relied upon. The Company is working diligently to file all required reports as soon as possible. [Emphasis added.]

59. The February 15 Press Release caused the price of the Company's stock to drop even further, from \$0.52 per share at the close of the market on February 15, 2008, to \$0.44 per share at the close of the market on the next trading day (February 19, 2008), a decline of 15 percent.

## V. CLASS ACTION ALLEGATIONS

60. Plaintiffs bring this action as a class action pursuant to Federal Rules of Civil Procedure 23(a) and (b)(3) on behalf of a class consisting of all persons who purchased HSOA common stock during the period from May 10, 2007 through and including February 15, 2008, and who suffered losses by the violations set forth herein (the "Class"). Excluded from the Class are the Company, its officers and directors, employees, affiliates, legal representatives, heirs, predecessors, successors and assigns, and any entity in which the Company has a controlling interest or of which the Company is a parent or subsidiary.

61. The members of the Class are located in geographically diverse areas and are so numerous that joinder of all members is impractical. The Company has over 47 million shares of stock outstanding. While the exact number of Class members is unknown to Plaintiff at this time, and can only be ascertained through appropriate discovery, Plaintiff believes there are, at a minimum, thousands of members of the Class.

62. Common questions of law and fact exist as to all members of the Class and predominate over any questions affecting solely individual members of the Class. Among the questions of law and fact common to the Class are:

- a. Whether Defendants engaged in acts or conduct in violation of the federal

securities laws as alleged herein;

b. Whether Defendants acted knowingly or recklessly in making materially false and misleading statements during the Class Period;

c. Whether the market price of the Company's common stock during the Class Period was artificially inflated because of Defendants' conduct complained of herein; and

d. Whether members of the Class have sustained damages and, if so, the proper measure of damages.

63. Plaintiffs' claims are typical of the claims of the members of the Class because Plaintiffs and members of the Class sustained damages arising out of Defendants' wrongful conduct in violation of federal law as complained of herein.

64. Plaintiffs will fairly and adequately protect the interests of the members of the Class and have retained counsel competent and experienced in class and securities litigation. Plaintiffs have no interests antagonistic to or in conflict with those of the Class.

65. A class action is superior to other available methods for the fair and efficient adjudication of this controversy since joinder of all members of the Class is impractical. Furthermore, because the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for the Class members individually to redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

## **VI. APPLICABILITY ON THE FRAUD ON THE MARKET PRESUMPTION**

66. Plaintiffs will rely, in part, upon the presumption of reliance established by the fraud-on-the-market doctrine in that:

a. Defendants made public misrepresentations or failed to disclose material

facts during the Class Period;

b. the omissions and misrepresentations were material;

c. the stock of the Company traded in an efficient market, as it traded at a high weekly volume, was followed and reported on by securities analysts, was eligible to file SEC registration form S-3, and there are empirical facts showing a cause and effect relationship between unexpected corporate events or financial news and an immediate response in the stock price;

d. the misrepresentations and omissions alleged would tend to mislead a reasonable investor concerning HSOA's business and/or financial condition; and

e. Plaintiffs and members of the Class purchased their HSOA stock at prices that were artificially inflated due to Defendants' material misrepresentations and omissions.

67. Based upon the foregoing, Plaintiffs and the members of the Class are entitled to a presumption of reliance upon the integrity of the market.

## VII. COUNTS

### COUNT 1

#### **For Violations of Sections 10(b) and Rule 10b-5 Thereunder (Against All Defendants)**

68. Plaintiffs incorporate by reference and reallege each of the foregoing paragraphs.

69. Plaintiffs repeat and reallege each and every allegation contained above as if fully set forth herein.

70. During the Class Period, Defendants carried out a plan, scheme and course of conduct which was intended to and, throughout the Class Period, did: (i) deceive the investing public, including Plaintiffs and other Class members, as alleged herein; and (ii) cause Plaintiffs and other members of the Class to purchase HSOA securities at artificially inflated prices. In

furtherance of this unlawful scheme, plan and course of conduct, Defendants, and each of them, took the actions set forth herein.

71. Defendants: (a) employed devices, schemes, and artifices to defraud; (b) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements not misleading; and (c) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of the Company's securities in an effort to maintain artificially high market prices for HSOA securities in violation of Section 10(b) of the Exchange Act and Rule 10b-5. All Defendants are sued either as primary participants in the wrongful and illegal conduct charged herein or as controlling persons as alleged below.

72. Defendants, individually and in concert, directly and indirectly, by the use, means or instrumentalities of interstate commerce and/or of the mails, engaged and participated in a continuous course of conduct to conceal adverse material information about the business, operations and future prospects of HSOA as specified herein.

73. Defendants employed devices, schemes, and artifices to defraud, while in possession of material adverse non-public information and engaged in acts, practices, and a course of conduct as alleged herein in an effort to assure investors of HSOA value and performance and continued substantial growth, which included the making of, or the participation in the making of, untrue statements of material facts and omitting to state material facts necessary in order to make the statements made about HSOA and its business operations and future prospects in the light of the circumstances under which they were made, not misleading, as set forth more particularly herein, and engaged in transactions, practices and a course of business which operated as a fraud and deceit upon the purchasers of HSOA securities during the Class Period.

74. Each of the Individual Defendants' primary liability, and controlling person liability, arises from the following facts: (i) the Individual Defendants were high-level executives and/or directors at the Company during the Class Period and members of the Company's management team or had control thereof; (ii) each of these Defendants, by virtue of his responsibilities and activities as a senior officer and/or director of the Company was privy to and participated in the creation, development and reporting of the Company's internal budgets, plans, projections and/or reports; (iii) each of these Defendants enjoyed significant personal contact and familiarity with the other Defendant and was advised of and had access to other members of the Company's management team, internal reports and other data and information about the Company's finances, operations, and sales at all relevant times; and (iv) each of these Defendants was aware of the Company's dissemination of information to the investing public which they knew or recklessly disregarded was materially false and misleading.

75. The Defendants had actual knowledge of the misrepresentations and omissions of material facts set forth herein, or acted with reckless disregard for the truth in that they failed to ascertain and to disclose such facts, even though such facts were available to them. Such Defendants' material misrepresentations and/or omissions were done knowingly or recklessly and for the purpose and effect of concealing HSOA's operating condition and future business prospects from the investing public and supporting the artificially inflated price of its securities. Defendants, if they did not have actual knowledge of the misrepresentations and omissions alleged, were reckless in failing to obtain such knowledge by deliberately refraining from taking those steps necessary to discover whether those statements were false or misleading.

76. As a result of the dissemination of the materially false and misleading information and failure to disclose material facts, as set forth above, the market price of HSOA stock was

artificially inflated during the Class Period. In ignorance of the fact that market prices of HSOA's stock were artificially inflated, and relying directly or indirectly on the materially false and misleading statements made by Defendants, or upon the integrity of the market in which the securities trades, and/or on the absence of material adverse information that was known to or recklessly disregarded by Defendants but not disclosed in public statements by Defendants during the Class Period, Plaintiffs and the other members of the Class purchased HSOA's stock during the Class Period at artificially inflated prices.

77. At the time of said misrepresentations and omissions, Plaintiffs and other members of the Class were ignorant of their falsity, and believed them to be true. Had Plaintiffs and the other members of the Class and the marketplace known the truth regarding the problems that HSOA was experiencing, which were not disclosed by Defendants, Plaintiffs and other members of the Class would not have purchased or otherwise acquired, their HSOA stock, or, if they had acquired such stock during the Class Period, they would not have done so at the artificially inflated prices which they paid.

78. As a direct and proximate result of Defendants' wrongful conduct, Plaintiffs and the other members of the Class suffered losses and damages in connection with their respective purchases of the Company's stock during the Class Period. As alleged above, Defendants' material misrepresentations caused the price of the Company's stock to trade at artificially inflated prices. As set forth above, Defendants' misrepresentations caused losses to be suffered by class members as the artificial inflation in the price of HSOA stock was removed through a series of news reports and disclosures.

79. By virtue of the foregoing, Defendants have violated Section 10(b) of the Exchange Act, and Rule 10b-5 promulgated thereunder.

**COUNT II**  
**Violation Of Section 20(a) Of The Exchange Act**  
**(Against the Individual Defendants)**

80. Plaintiffs repeat and reallege each and every allegation contained above as if fully set forth herein.

81. The Individual Defendants acted as controlling persons of HSOA within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of their high-level positions, and their ownership and contractual rights, participation in and/or awareness of the Company's operations and/or intimate knowledge of the false financial statements filed by the Company with the SEC and disseminated to the investing public, the Individual Defendants had the power to influence and control and did influence and control, directly or indirectly, the decision-making of the Company, including the content and dissemination of the various statements which Plaintiff contends are materially false and misleading. The Individual Defendants were provided with or had unlimited access to copies of the Company's reports, press releases, public filings and other statements alleged by Plaintiff to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

82. In particular, each of these Individual Defendants had direct and supervisory involvement in the day-to-day operations of the Company and, therefore, is presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

83. As set forth above, HSOA and the Individual Defendants each violated Section 10(b) and Rule 10b-5 by their acts and omissions as alleged in this Complaint. By virtue of their positions as controlling persons, the Individual Defendants are liable pursuant to Section

20(a) of the Exchange Act. As a direct and proximate result of Defendants' wrongful conduct, Plaintiff and other members of the Class suffered damages in connection with their purchases of the Company's securities during the Class Period.

#### **IX. DEMAND FOR JURY TRIAL**

84. Plaintiffs demand a trial by jury on all issues.

#### **X. RELIEF REQUESTED**

**WHEREFORE**, Plaintiffs pray for relief and judgment, as follows:

- A. Determining that this action is a proper class action, certifying one or more Plaintiffs as class representatives under Rule 23 of the Federal Rules of Civil Procedure;
- B. Awarding compensatory damages in favor of Plaintiffs and the other Class members against all Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;
- C. Awarding Plaintiffs and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and
- D. Such other and further relief as the Court may deem just and proper.

Dated: May 29, 2008

**CLAXTON & HILL, PLLC**

s/Roger F. Claxton

Roger F. Claxton  
State Bar No. 04329000  
10000 N. Central Expressway  
Suite 725  
Dallas, Texas 75231  
214-969-9029  
Fax: 214-953-0583

Jeffrey S. Nobel  
Mark P. Kindall  
**SCHATZ NOBEL IZARD, P.C.**  
20 Church Street, Suite 1700  
Hartford, CT 06103  
860-493-6292  
Fax: 860-493-6290

Ronen Sarraf  
Joseph Gentile  
**SARRAF GENTILE LLP**  
11 Hanover Square  
New York, NY 10005  
212-868-3610  
Fax: 212-918-7967

*Counsel for Plaintiffs*

**CERTIFICATE OF SERVICE**

I hereby certify that on this 29th day of May, 2008, I electronically filed the foregoing document with the clerk of court for the U.S. District Court, Northern District of Texas, using the electronic case filing system of the court. The electronic case filing system sent a “Notice of Electronic Filing” to the following attorneys of record who have consented in writing to accept this notice as service of this document by electronic means:

Timothy G. Ackermann (tackermann@morganlewis.com)  
MORGAN LEWIS & BOCKIUS, LLP  
1717 Main Street, Suite 3200  
Dallas, Texas 75201

Andrew M. Schatz (aschatz@snilaw.com)  
Jeffrey S. Nobel (jnobel@snilaw.com)  
Mark Kindall (mkindall@snilaw.com)  
Nancy A. Kulesa (nkulesa@snilaw.com)  
SCHATZ NOBEL IZARD P.C.  
20 Church Street, Suite 1700  
Hartford, Connecticut 06103

Ronen Sarraf (Ronen@sarrafgentile.com)  
**SARRAF GENTILE LLP**  
11 Hanover Square  
New York, NY 10005

s/ Roger F. Claxton  
\_\_\_\_\_  
Roger F. Claxton