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Playboy Mansion Undervalued by Hefner, Shareholder Says in Suit

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By Steven Church

Feb. 12 (Bloomberg) -- The 29-room Playboy Mansion, Playboy Enterprises Inc. founder Hugh Hefner's corporate throne, is worth \$54 million, or 45 times what the publisher claimed on its books, according to a shareholder lawsuit.

Hefner, 84, and Playboy Enterprises are hiding the true value of the company's assets in an effort to take it private without paying a fair price for the minority stake that Hefner doesn't own, according to an amended complaint filed Feb. 4 in Delaware Chancery Court in Wilmington.

The information sent to minority shareholders describing the deal "seems designed to intentionally mislead, or at a minimum, confuse Playboy's public shareholders," lawyers for the shareholders, Charles A. Germershausen and Feivel Gottlieb, said in the complaint.

The lawsuit, originally filed in July, is one of at least two from shareholders challenging Hefner's takeover attempt. Hefner has offered \$6.15 for each share he doesn't own, according to the lawsuit. Through two classes of stock, Hefner controls 69.5 percent of Playboy's voting power. The Playboy Mansion, located in Los Angeles, also serves as a movie studio.

Abi O'Donnell, a company spokeswoman, declined to comment on the lawsuit.

The shareholders are seeking an injunction to prevent Playboy from closing the proposed buyout, which the board approved last month after a special committee of directors negotiated with other bidders, including FriendFinder Networks Inc., owner of Penthouse adult magazine.

Special Committee

The special committee also negotiated with entities associated with Plainfield Asset Management LLC, the complaint alleges.

Shareholders claim that at least two members of the special committee were controlled by Hefner and didn't do enough to get a higher price.

Playboy's agreement is with Icon Acquisition Holdings LP, a limited partnership controlled by Hefner. Icon has received commitments from Rizvi Traverse Management LLC and Jefferies & Co. to finance the transaction.

The \$54 million appraisal was made by Raine Securities LLC in October after the special committee was contacted by the shareholders, according to the complaint. Playboy said in its annual report for 2009 that the mansion was worth as much as \$1.2 million, slightly more than \$1.05 million Hefner paid for the property in 1971.

Highest Price

At that time, the price was the highest ever for a property of its kind in Los Angeles, according to Playboy.com. Hefner added a pool, gymnasium, tennis courts and studios. The site is now owned by Playboy Enterprises, which leases the property back to Hefner.

The \$54 million appraisal may be accurate, according to Syd Leibovitch, president of Bel Air-based Rodeo Realty Inc.

"It could be worth \$50 million," Leibovitch said yesterday in a phone interview. "It's a huge lot. It's about 17,000 square feet of living area in the main house and all together 20,000 square feet. In my wildest dreams I couldn't image it being any lower than \$40 million."

The highest sale price in 2010 for a home in the greater Los Angeles area was \$50 million, according to Leibovitch.

"That \$50 million house was just a mile and a half from the Playboy Mansion, and the Playboy Mansion is better," he said.

'Very High End'

Sales of homes valued at \$2 million to \$5 million have been slow in the last year, Leibovitch said.

"It's not that slow at the very high end," he said. "There seems to be a bigger gap than we've had in a long time between people doing very well and people not doing well."

In Los Angeles County, there were 6,161 sales of homes priced at more than \$1 million last year, according to research by San Diego-based DataQuick Information Systems Inc. That was a 17.6 percent increase from 5,239 in 2009, while still only half of the 12,214 homes sold in that price range in 2005, the peak year for the region.

The Playboy Mansion hosts parties and other events throughout the year, bringing in an undisclosed amount of revenue to Playboy.

“This is what God would have done if he’d had the money,” actor Peter O’Toole once said of the property.

The Delaware case is *Germershausen v. Hefner*, 5632, Delaware Chancery Court (Wilmington). The Chicago case is *Braun v. Playboy Enterprises Inc.*, 10CH30121, Chancery Division, Cook County Circuit Court (Chicago).

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