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Bankers Trust Says Derivatives Boosted First-Quarter Profit; Mead Was Hurt

WSJ
4/21/94

By STEVEN LIPIN
And GABRIELLA STERN
Staff Reporters of THE WALL STREET JOURNAL

NEW YORK—**Bankers Trust New York** Corp. disclosed that it got most of its first-quarter profit from the sale of derivative products to clients, even as **Mead** Corp. became the third company in recent weeks to disclose losses as a result of derivatives purchased from the big bank.

Yesterday, Mead, based in Dayton, Ohio, said it will take a one-time pretax charge of $12.1 million in its first quarter to close out a "unique leveraged interest-rate swap" contract with the bank. After taxes, the charge was $7.4 million, or 12 cents a share.

Bankers Trust said 70% of its first-quarter earnings, or about $114 million, came from the sale of derivative instruments to clients. Typically, about 36% of its bottom line comes from derivative sales. At the same time, the company said it said it incurred losses totaling $49 million trading financial instruments for its own account.

Bankers Trust, which announced first-quarter earnings of $164 million, or $1.90 a share, on Tuesday, provided the additional information to Wall Street analysts because of the tumultuous quarter.

Tom Schwartz, a Mead spokesman, said the $12.1 million pretax charge reflects losses from several swaps, though "the bulk" came from a leveraged swap. Mead has hedged its debt "as part of our ongoing financial management," he said. "It's a routine part of how we do business. Over the last number of years, we've lowered our interest costs through doing that."

However, Mr. Schwartz added, "this particular leveraged interest rate transactions with Bankers Trust is a one-time event. We won't be doing those kinds again." Mead posted 8% higher net income of $27.6 million, or 46 cents a share, after the charge, for the period ended March 31.

Mead's announcement came soon after two other Ohio companies posted losses from similar transactions with Bankers Trust. Last week, **Procter & Gamble** Co., based in Cincinnati, announced a $157 million pretax charge in its fiscal third quarter to close out two leveraged interest-rate swap contracts that were hurt by rising interest rates in the U.S. and Germany. On Tuesday, **Gibson Greetings** Inc., also based in Cincinnati, said it incurred an additional charge against earnings of $16.7 million for the first quarter as a result of "unauthorized" interest-rate swaps. The greeting-card and wrapping-paper maker previously announced a $3 million loss on derivatives. Both companies have threatened legal action against Bankers Trust.

Timothy Yates, the chief financial officer of Bankers Trust, wouldn't comment on any individual transactions, but he said that "a tremendous majority of our clients use derivatives to hedge risk," while a very small minority have taken losses.

"We believe there will be a slowdown as client policies and procedures tighten, but in the long-term we see that as good," Mr. Yates said.

Mr. Yates added that the pickup in Bankers Turst's derivative sales was attributable to an increased demand from banks and investors, particularly in Europe. He said the bank's trading losses came from a rise in interest rates in many European countries.

"We had long positions and we were wrong," Mr. Yates said. "We closed out our positions and reduced our level of activity." But at a time when regulators are increasingly concerned about banks trading activities, Mr. Yates said "our risk controls worked well. We knew what our positions were and marked them to market constantly."

Jury Says Monsanto To Pay $81.4 Million In a Superfund Case

By a WALL STREET JOURNAL *Staff Reporter*

HOUSTON — A federal jury here decided **Monsanto** Co. should pay $81.4 million in damages to **International Tech-**

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