

P&G Can Add Racketeering To Its Claims

Widened Derivatives Case Against Bankers Trust Makes Pact More Likely

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A federal judge allowed Procter & Gamble Co. to add civil-racketeering charges to its \$196 million lawsuit against Bankers Trust New York Corp. over derivatives sales, making a settlement more likely in the long-running legal battle.

The judge also unsealed several hundred pages of documents related to the suit, which accuses Bankers Trust of failing to disclose the riskiness of the derivatives investments it sold to P&G. The investments resulted in a \$102 million loss for P&G.

The unsealing cleared the way for Business Week to go to press with its article about the suit, ending a high-profile court battle. But the judge's ruling also added to concerns that the three-week fight will have a chilling impact on freedom of the press (Article on page B2).

Bankers Trust's Risk Rises

If P&G proves that Bankers Trust engaged in racketeering, or a pattern of wrongdoing, the consumer-products company would receive treble damages and be reimbursed for its legal expenses. It wasn't clear whether the actual loss or the \$195 million in damages sought would be tripled in the event of a P&G victory.

The unsealed documents included the names of eight companies other than P&G that had losses from derivatives sold by Bankers Trust. The losses of three of the eight had not been previously disclosed. They include: Sandoz Corp., which the filing says had a \$78.5 million loss; Sequa Corp., which was said to have had a \$7.5 million loss; and Jefferson Smurfit Corp., which had a loss of more than \$2.4 million, according to P&G's filing. A derivative is a financial contract whose value is linked to,

or derived from, some underlying asset such as a stock or bond.

In composite trading on the New York Stock Exchange, Bankers Trust's stock fell 75 cents to \$69.25, while shares in Cincinnati-based P&G rose \$1 to \$78.25.

"This cannot possibly be good for Bankers Trust," said Christoph Kotowski, an analyst with Oppenheimer & Co. "It puts P&G in a much stronger bargaining position in negotiating for a settlement." Request Came Later

P&G, which filed its original complaint a year ago, asked a federal court to add the racketeering charges on Sept. 1 after reviewing thousands of documents. These included transcripts of hundreds of recorded telephone conversations that the company obtained from Bankers Trust during the pretrial discovery process.

The fact that U.S. District Court Judge John Feikens of Detroit agreed to allow the racketeering charges after the discovery

process is particularly damaging to Bankers Trust, according to lawyers not involved in the case.

"Since this comes after the discovery process, the court made a preliminary judgment about the merits of the case," said Neil V. Getnick, a criminal-fraud expert with the New York law firm of Getnick & Getnick. "This is a significant victory for the plaintiff, and a significant defeat for the defendant."

Lawyers not involved in the case predict that the racketeering charges, by increasing the potential damages, will increase the pressure on Bankers Trust to reach a settlement. "The effect of treble damages means that the case is more likely to be settled," said G. Robert Blakey, an attorney who drafted the federal Racketeer-Influenced and Corrupt Organizations legislation.

Although any settlement would obvi-

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ously be negotiated, Mr. Blakey predicted that the amount of the settlement is likely to "very close to the actual damages."

In its lawsuit, P&G said it was "but one of a series of companies lied to, exploited and cheated" by Bankers Trust, and its filings also listed several other companies that have been previously reported to have lost money with Bankers Trust derivatives. The include three companies that are known to have reached settlements with Bankers Trust, Gibson Greetings Inc., Federal Paper Board Co. and Adimlra Rayapratama.

Although Bankers Trust acknowledges that it reached settlements with those companies, it has steadfastly denied wrongdoing in the case of P&G. Doug Kidd, a spokesman for Bankers Trust, called the racketeering charges "another attempt to divert attention from the facts of the

case."

P&G, in a statement issued late yesterday, said it is "extremely pleased" with the judge's decision. The company also said it plans to seek additional evidence for its case, including records from the Federal Reserve Board. Bankers Trust has filed an appeal to the U.S. Supreme Court in its effort to avoid disclosing those documents.

"We believe we have only scratched the surface," P&G said yesterday.

The documents unsealed yesterday include excerpts from a number of phone conversations among Bankers Trust employees that P&G claims support its accusations. In one conversation, an unnamed Bankers Trust salesman said, "I've buried my clients so much that it's going take me four years to trade them out of this loss."

Bankers Trust's Mr. Kidd acknowledged that many of the conversations were "crass, embarrassing and stupid," but he contended that the excerpts included in the filing are "horribly out of context" and he insisted "not one statement attributed to a Bankers Trust employee indicates that P&G did not understand what they were getting into."

Jefferson Smurfit, a St. Louis paper

concern, expressed surprise that its name had turned up in the legal documents. In a statement, the company said, "Until we see how our name was mentioned in the papers, we don't see how we can comment on anything." Sequa, a New York aerospace and chemical concern, did not return calls seeking comment.

Sandoz, the U.S. unit of the Swiss pharmaceutical giant Sandoz Ltd., is based in East Hanover, N.J. The firm didn't return calls seeking comment.

CPAC Placement Completed

LEICESTER, N.Y. — CPAC Inc. said it has completed the private placement of 1.5 million common shares with investors.

Gross proceeds were \$16.5 million. J.E. Sheehan & Co., an investment banking concern in New York, was manager.

CPAC said one million shares were sold to an unnamed limited-liability company that informed CPAC that it acquired the shares for investment purposes.

Net proceeds, not yet available, will be used to reduce debt and to fund future acquisitions and internal growth.

CPAC makes specialty chemicals and environmental-compliance equipment for the imaging industry.