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## Court overturns \$1.6 billion ruling against Morgan Stanley

The Associated Press

Morgan Stanley (MS) on Wednesday won a reversal of a \$1.6 billion verdict handed to billionaire Ron Perelman, who said it misled him in a deal to sell Coleman to Sunbeam.

The Florida Court of Appeal in West Palm Beach ruled that the New York-based investment bank was punished unfairly for destroying e-mails involved in the transaction. The latest decision will be appealed in a case that could end up in the Florida Supreme Court.

Perelman, chairman of cosmetics giant Revlon, accused Morgan Stanley of conspiring with client Sunbeam to mislead him about Sunbeam's financial health. Because of this, he sold camping-supplies maker Coleman to Sunbeam in 1988, partly in exchange for Sunbeam stock — months before Sunbeam restated earnings and ahead of its 2001 bankruptcy.

After the 2-1 vote, Judge Carole Taylor wrote in her opinion that because there was no proof at trial on the correct measure of damages, the final judgment for compensatory damages should be reversed.

The original verdict on behalf of Perelman was seen as a major slam against Morgan Stanley's management, especially then-CEO Philip Purcell. Coupled with lackluster earnings and a sagging stock price, a shareholder revolt forced him out in June 2005 and he was replaced by John Mack.

Morgan Stanley's new regime immediately hired new lawyers to appeal the verdict. The company could free up \$360 million it set aside to pay off a legal settlement. "This is clearly a victory," Morgan Stanley Chief Financial Officer David Sidwell said in a conference call with analysts after the company reported first-quarter results.

In a statement, Perelman said he was disappointed by the ruling but believes he ultimately will prevail.

In the 2005 trial, Perelman said he relied on Morgan Stanley's statements — and was fooled into a deal that allotted him Sunbeam shares as part of the sale.

Morgan Stanley maintained there was no criminal intent in destroying e-mails related to the deal because it was not known at the time they were written that the information was inaccurate. But the trial judge found Morgan Stanley to be at fault for not turning over the e-mails and instructed a jury to assume the firm was guilty of defrauding Perelman and Coleman.

Jurors awarded Perelman \$604 million in damages and \$850 million in punitive damages. Later, \$123 million in interest was added.

In the verdict's reversal, judges Taylor and George Shahoo said Morgan Stanley was entitled to win because "no legally cognizable damage was shown as a result of the alleged fraud." However, Judge Gary Farmer's dissent said compensatory damages should be left in place although the case should be retried on punitive damages.

The verdict came the same day Morgan Stanley reported a profit of \$2.7 billion, or \$2.51 per share, up 69% from \$1.6 billion, or \$1.48, a year earlier. Revenue jumped 29% to \$11 billion. Analysts had expected \$1.88 a share profit on revenue of \$9.4 billion, Thomson Financial says. The double-dose of good news lifted Morgan Stanley shares \$5.22, or 6.9%, to \$81.33.

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