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Golden State Stock Saw Heavy Trading

Banking: Word of a takeover may have gotten out before the announcement was made, some say.

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May 23 2002

Unusually heavy trading in the stock of Golden State Bancorp Inc. in the days before the announcement of Citigroup Inc.'s \$5.8-billion acquisition of the San Francisco thrift suggests some investors were betting a takeover was coming, analysts said Wednesday.

The analysts said they first shrugged off the heavier-than-usual volume and even told investors not to take it seriously after it began to be reported Friday. But it now appears that word of the deal got out before the acquisition was announced Tuesday, said analyst Paul J. Miller at Friedman, Billings, Ramsey & Co.

A spokeswoman for the Securities and Exchange Commission said the agency "keeps an eye out" for such trading surges, but doesn't comment on individual cases. It is illegal to trade on material, non-public information about a stock. Shares of Golden State, owner of California Federal Bank, began a big run-up, on heavy volume, on Friday.

News reports that afternoon that investors were snapping up Golden State options apparently fueled further purchases. The stock, which closed Thursday at \$33.51, had risen to \$36.50 on heavy trading by the time the deal was announced after the close of trading Tuesday.

Trading volume, meanwhile, was running from two to four times Golden State's normal activity, according to Bloomberg News data.

Michael Painchaud at Market Profile Theorems, which tracks trading by insiders, said there was no indication that Golden State's controlling shareholders, Ronald Perelman and Gerald Ford, or anyone else at the company had unfairly benefited by their knowledge of a deal. Indeed, in the last year Golden State insiders have been sellers of the stock, not buyers, Painchaud said.

Janis Tarter, a spokeswoman for Golden State, said the company was aware of the stock activity but has "no idea what caused it." Citigroup declined to comment.

On Wednesday, Golden State shares closed at \$39.34, up \$2.84, while Citigroup lost 26 cents to close at

\$45, both on the New York Stock Exchange. The merger is expected to be completed late this year, with Citigroup's cash and stock offer worth \$39.95 a share at Wednesday's closing share price.

Analysts also said the takeover, which would give Citigroup the fourth-largest deposit base in California, was a case of the New York banking giant making a second-choice acquisition because the first choice wasn't available.

The No. 1 option, according to analysts, was UnionBanCal Corp., a commercial bank with \$35 billion in assets and extensive business-banking activities.

They say Union Bank fits better with Citigroup, the nation's largest and most diversified financial institution, than does CalFed. Despite some commercial business and real estate lending, CalFed remains basically a savings and loan, taking consumer deposits and issuing CDs, investing mainly in mortgages and mortgage securities.

Miller and others said that despite strong interest in Union Bank from institutions wanting entry to the California banking market, the Bank of Tokyo-Mitsubishi hasn't been ready to let go of its majority share in the San Francisco-based bank--at least not at a desirable price.

The Japanese bank, with \$600 billion in assets, has suffered along with the rest of Japan's battered banking industry but is in better shape than most.

"I think Citi talked to Union and to others [in the California market] but had to walk away," said analyst Mark Agah at RBC Capital Markets.

Citigroup, which has expanded its private banking operations recently in California to serve the personal needs of affluent small-business owners, has made no secret of its interest in financing their companies as well.

"Citi said they want a retail franchise," which they get by buying Golden State and its 352 branches, Miller said. "But what they really want is both a retail and a commercial platform."

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