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LAW

Asbestos Victims Claim Buy-Out Of Jim Walter Was Fraud Scheme

Suit Says KKR Pact in '88 Was Designed to Shield Firm From Litigation

By WAYNE E. GREEN
Staff Reporter of THE WALL STREET JOURNAL

A group of asbestos victims filed suit alleging that the $2.44 billion leveraged buyout of Jim Walter Co. was a fraudulent scheme designed largely to shield the company from mounting asbestos litigation.

The suit, filed in state court in Beaumont, Texas, names as defendants executives of Jim Walter and an investment group led by Kohlberg Kravis Roberts & Co. The KKR group, which includes Drexel Burnham Lambert Inc., completed the buy-out in January 1988.

According to the lawsuit, the defendants devised the buy-out as a way to redistribute Jim Walter's assets into different companies in an attempt to protect the assets from asbestos claims piling up against Celotex Corp., a Jim Walter unit that made asbestos products.

File

The suit asks the court to declare the defendants responsible for some 80,000 claims alleging health damage or death from exposure to asbestos products made by Celotex. It contends the claims could exceed $3 billion. In addition, the plaintiffs are seeking an injunction to stop the sale of Jim Walter assets by Hillsborough Holdings Corp., a new concern organized by the KKR group in connection with the Jim Walter buy-out.

In a leveraged buy-out, a group of investors acquires a company in a transaction financed largely by borrowing. Ultimately, the debt is paid with funds generated by the acquired company's operations or sale of its assets.

A spokesman for Hillsborough Holdings said the lawsuit is similar to one filed in Texas by a different set of asbestos victims last January. That pending suit didn't specifically name KKR or Drexel, he said, but the allegations regarding the buy-out were essentially the same. Both the Hillsborough spokesman and a spokesman for KKR said the accusations were without merit and would be fought. A Drexel spokesman said he hadn't seen the current complaint and couldn't comment.

The plaintiffs in the latest lawsuit include two individuals who say they have health problems from exposure to asbestos. A third plaintiff is suing for the estate of a person who died, the suit alleges, from problems caused by exposure. The plaintiffs are asking the court to certify the suit as a class action on behalf of the people involved in 80,000 claims of personal injury or wrongful death against Celotex or

yer who most recently defended former House Speaker Jim Wright against eithics charges in Congressional hearings. A partner in the firm of Susman Godfrey, he also has defended Nelson Bunker Hunt and Herbert Hunt in their highly publicized battles with major bank lenders several years ago. And he has won several big damage awards for plaintiffs in antitrust cases.

Mr. Susman said he feels the lawsuit "will prove to be a landmark case."

Companies that made asbestos, a mineral once widely used in piping and insulation, have been battling damage litigation for years through a variety of legal strategies. Manville Corp. tried to avoid mounting suits by filing for protection from creditors under Chapter 11 of the U.S. Bankruptcy Code, a controversial move that froze pending suits until a plan for reorganizing the company was worked out.

Lone Star Unit to Fight Suit

GREENWICH, Conn.—Lone Star Transportation Co., a unit of Lone Star Industries Inc., said it will vigorously defend itself against a lawsuit brought by CSX Corp.

In the suit, filed in federal court in Maryland, a unit of CSX, the Richmond, Va., transportation company, charged that concrete ties that Lone Star sold to CSX several years ago were aging prematurely. The suit requested damages of $7.5 million.

Lone Star, a maker of cement and other construction materials, said it believes that if it loses the suit, its insurance coverage is adequate to protect it from any material loss.

Federal Election Agency Clears Gore's Use of Loans

By a WALL STREET JOURNAL *Staff Reporter*

WASHINGTON—The Federal Election Commission found nothing wrong with Sen. Albert Gore's use of largely uncollateralized bank loans totaling $1.6 million for his unsuccessful 1988 presidential campaign.

The Tennessee Democrat's borrowings were questioned at the time by officials in the presidential campaign of Rep. Richard Gephardt (D., Mo.). The loans helped finance Sen. Gore's victories in five so-called Super Tuesday primaries in March 1988. Federal election law requires that bank loans to candidates be made only "on a basis which assures repayment," but Sen. Gore borrowed mainly on the strength of projected contributions.

The FEC sued the 1984 presidential campaign of Sen. John Glenn (D., Ohio) after he was unable to repay bank loans,