

## **Insider Trading Cited in EADS Case**

*Nicola Clark*

The French financial market regulator filed a formal complaint on Tuesday against European Aeronautic Defense & Space Company, the parent company of Airbus, and more than a dozen current and former executives in connection with an inquiry into accusations of insider trading and other market abuses.

Evidence gathered during an 18-month inquiry was also sent immediately to the Paris prosecutor's office for inclusion in any possible criminal investigation, the regulator, the Autorité des Marchés Financiers, said in a statement. A spokeswoman for the prosecutor's office, Isabelle Montagne, declined to comment, saying officials had not yet received the report.

The regulator said it was initiating sanction proceedings against several individuals for violations of French insider trading rules and against the company for misleading investors by failing to meet market standards on the publication of financial information. It did not identify the officials.

On Tuesday, shares of EADS rose 1.6 percent in Paris morning trading but eased back in afternoon trading. The shares are down about 35 percent over the last 12 months.

The case hinges on whether EADS and Airbus managers were aware of serious problems with the production of the Airbus A380 superjumbo jet when they exercised stock options from November 2005 to March 2006 — months before the plane's difficulties became public in June 2006.

The French regulator did not identify or indicate how many individuals could face sanctions, but a person with knowledge of the complaint said it was directed at 17 people. The regulator said that it would transmit the details of its findings to the company and the individuals concerned in the coming days and that they would have the opportunity to present evidence in their defense.

The EADS chief executive, Louis Gallois, insisted that those accused should be presumed innocent until a final decision is reached.

"EADS will support its managers in their defense," Mr. Gallois said in a statement. "It intends to demonstrate that it has applied standards of excellence when communicating to the market and has acted with full transparency."

The regulator's decision to pursue its insider trading case comes at a sensitive time for EADS, which is in the midst of a major restructuring intended to cut operating costs at its Airbus division. The plane maker, based in Toulouse, France, has also been severely hurt by the sharp rise in the euro versus the dollar — the currency in which its aircraft are priced.

It also comes a month after EADS and its American partner, Northrop Grumman, were awarded a \$35 billion contract to supply the Air Force with 179 aerial refueling tankers — a decision that has sparked a political furor in the United States and which has been formally challenged by its rival, the Boeing Company. The French regulator's inquiry was almost certain to trigger closer scrutiny of the tanker contract in Washington, analysts said.

"It is not going to do EADS and Airbus credibility any good at all that the prosecution issue has been raised against the same senior management that is responsible for delivering the U.S. Air Force tanker program," said Doug McVitie, managing director of Arran Aerospace, a consulting firm in Dinan, France. "This is very bad publicity at a very bad time."

EADS said Tuesday that it considered any financial risk posed by the inquiry to be "not material," though it recognized "that these proceedings may have significant consequences on its image and reputation."

EADS has consistently maintained that share trading by its executives was in line with company regulations and was done with the approval of the compliance department and its chief financial officer, Hans-Peter Ring.

A preliminary report on the case, leaked to the French media in October, indicated that the investigation had focused initially on 21 top managers, including the two co-chief executives of EADS at the time, Noël Forgeard and Thomas Enders. Mr. Enders is now the chief executive of Airbus.

Mr. Forgeard, who was forced to resign in July 2006 amid the insider trading accusations, has consistently denied any wrongdoing. Calls to Mr. Forgeard and to his lawyer, Jean-Alain Michel, were not returned Tuesday.

Other Airbus executives named in the October report included Fabrice Brégier, now the chief operating officer; John Leahy, the head of customer relations; and Tom Williams, the head of aircraft programs.

Spokesmen for EADS and Airbus were not immediately available for comment on whether these executives remained a part of the investigation.

Mr. Enders has maintained his innocence. "I categorically refute the allegations and insinuations in the press," he said in a letter to Airbus employees dated Oct. 5.

According to EADS's internal regulations, directors may exercise their stock options during specified three-week periods each quarter, provided that they do not have any privileged information and subject to approval by the compliance officer.

Such an options period was opened from Nov. 9 to Nov. 29, 2005. During that window, several board members exercised options to sell EADS shares, including Mr. Forgeard, who realized a profit of around 603,000 euros, or about \$947,00 at current exchange rates, according to regulatory filings; Mr. Enders, who made 711,750 euros; Ralph Crosby, chief executive of EADS North America, who pocketed 1.35 million euros; and Jean-Paul Gut, then EADS chief operating officer, who made 667,500 euros.

The next quarter, Mr. Forgeard and several of his children together exercised options worth nearly 10 million euros from March 9 to March 15, 2006, earning more than 2.5 million euros.

It was not until June 2006 that EADS and Airbus acknowledged that deliveries of the A380 would be delayed by six months — sending its shares tumbling 26 percent.

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