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Verdict to cost First Union \$276 million

Baltimore jury finds bank copied ideas of Catonsville company

Award among biggest in Md.

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SUN STAFF

A Baltimore jury awarded one of the largest legal judgments in Maryland history - \$276 million - to a Catonsville businessman yesterday who said First Union National Bank defrauded his software company and started a \$2.4 billion business venture with his ideas.

The award in Baltimore Circuit Court followed a six-week trial in which lawyers successfully argued that First Union, now Wachovia Corp. and the nation's fourth-largest banking company, double-crossed the software company owner, Scott Steele.

"The worst thing in America is a cheating bank," William H. Murphy Jr., one of Steele's lawyers, told the six-person jury yesterday. "We want a punishment that will hurt them ... a punishment large enough that corporate America will pay attention and say, 'We won't ever do it again.'"

Jurors leaving the courthouse said they were swayed by what they called corporate greed and obvious fraud outlined in the case.

"It was very clear there was fraud involved and that the bank had breached its own contract," said Evelyn McClain, 55, a private school director who served as jury forewoman.

Bank officials said the company is stunned by the size of the award - about \$76 million in compensatory damages and \$200 million in punitive damages - and will seek to get the fraud verdict overturned.

"We are surprised and disappointed by the results of this case," said Mary Eshet, a Wachovia spokeswoman. "We strongly disagree with

the jury's verdict, and we're confident we have strong grounds on which to challenge this decision. We will vigorously pursue all avenues to overturn this verdict, including the appeals process."

The award is among the largest ever in Maryland's courts. Only a handful have been larger, including the state's \$4.4 billion tobacco settlement and a recent \$505 million award in a breach of contract case against the medical firm Roche Diagnostics.

Steele's company, Steele Software Systems Corp., worked under contract for First Union and in 1997 implemented a computerized system that helped the bank significantly speed up its loan approval process. First Union's loan business took off, and the company at one point nominated Steele, 44, for its "Vendor of the Year" award.

But the software and the automated system that Steele designed for First Union later became the key points of contention in the lawsuit. His attorneys say that in 1998, the bank covertly tried to find ways to terminate Steele's contract.

While Steele was still contracting with First Union, the bank formed a new company, called GreenLink, that

employed many of the methods used in Steele's system. The bank also refused to send hundreds of thousands of transactions to Steele's company that he was entitled to process and get paid for, his attorneys said.

"First Union set out on an intentional, malicious scheme to cripple Steele as a competitor by refusing to honor the terms of the contract," said attorney Stephen L. Snyder of the law firm Snyder, Slutkin & Lodowski.

GreenLink had projected that its profits over the next five years would be \$2.4 billion - profit largely attributable to GreenLink's use of Steele's ideas and technology, Snyder said.

Steele's attorneys said the bank cut him out of at least 650,000 bank transactions that his company would have earned \$80 apiece to process.

"This corporation went to great lengths to cheat," Snyder told the jury. "This case should go down in the books as a warning to other companies. ... This is not a defendant that you want to feel sorry for. There's no remorse here. They must receive a blow that stings."

The lawsuit alleged that before it implemented Steele's automated system, First Union relied on a

decentralized, unmanaged and paper-based method of approving and closing loans. Steele's technology, called the Automated Title and Appraisal Processing Service (ATAPS), helped the bank generate more business than competitors not using the system.

In the fall of 1998, while Steele had more than two years left on his contract with First Union, the bank issued a request for proposals to establish its own ATAPS system, the lawsuit said.

"First Union never actually intended to perform its obligations under the contract," said Andrew G. Slutkin, one of the lead attorneys for Steele. "First Union fraudulently induced Steele to enter into the contract to, among other things, learn Steele's ATAPS process so that it could replicate it on its own, to try and prevent Steele's ATAPS system from falling into the hands of competitors and to cripple Steele financially."

Jim Gray, a Baltimore attorney with Venable, Baetjer and Howard who is representing First Union, had urged the jury not to get carried away in granting a monetary award.

"A finding of fraud in this case in and of itself sends a message," Gray told the

jurors. "You have already sent a message [with the \$76 million in compensatory damages]. The message is received. The message is understood."

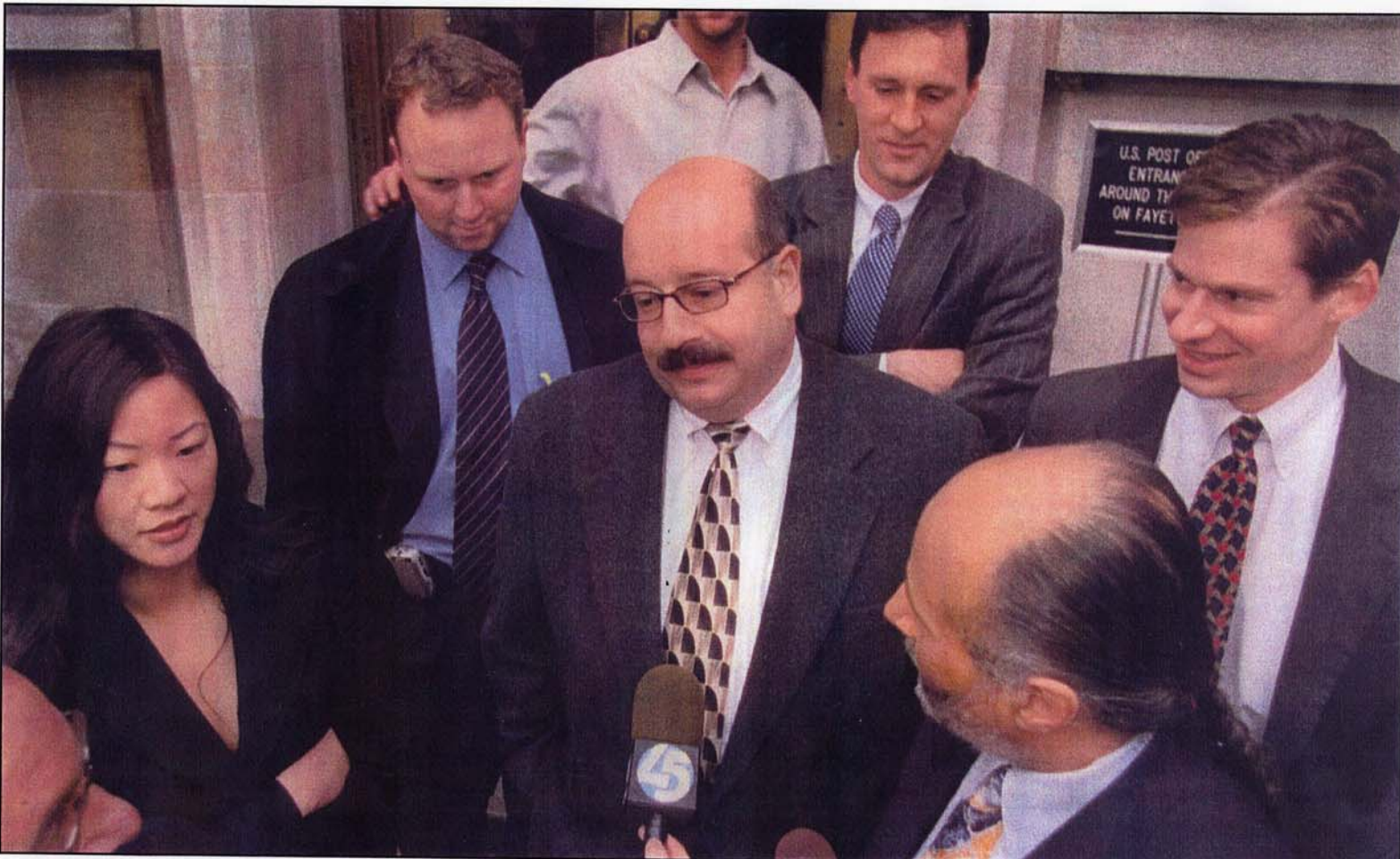
But the jury deliberated for less than 30 minutes before coming back with an award of \$200 million in punitive damages.

Steele, who throughout the conflict with First Union has run a thriving financial services business, said immediately after the verdict: "I feel good."

"I had to do what's right," he said. "You hate to have a dispute with any client. But it was a bad situation, and I had to pursue it the way I did."

First Union is now Wachovia Corp. and is the fourth-largest banking company in the country as measured by assets. Only Citigroup Inc., J.P. Morgan Chase & Co. and Bank of America Corp. are larger. Wachovia, which has its headquarters in Charlotte, N.C., has dozens of Maryland branches.

The new Wachovia was formed late last year when ailing First Union Corp. bought out Wachovia in a deal then valued at \$13 billion. The Wachovia name was retained.



"I feel good": Scott Steele, surrounded by his legal team, comments yesterday after being awarded \$276 million - one of the largest legal judgments in Maryland history - in a lawsuit against First Union.

ELIZABETH MALBY : SUN STAFF