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RENCO METALS: Trustee Sues Brokers, Auditors, Lawyers & Others

Lee E. Buchwald, of Buchwald Capital Advisors LLC, serving as the Trustee for Renco Metals, Inc. and its wholly owned subsidiary, Magnesium Corporation of America, filed a 42-count, 160-page lawsuit in Federal Court last week against:

- * The Renco Group, Inc., which owns 100% of the outstanding stock of Metals;
- * Sabel Industries, Inc., an indirect wholly owned subsidiary of Renco Group;
- * K. Sabel Holdings, Inc., which acquired all of the stock of Sabel Industries from Renco Metals.
- * KPMG Peat Marwick, LLP, Renco Metal's auditors from 1993 to 1999;
- * Donaldson, Lufkin & Jenrette Securities Corporation (now a subsidiary of Credit Suisse Group) which underwrote Renco Metals' 1996 \$150 million High Yield Bond Offering;
- * Houlihan Lokey Howard & Zukin, which served as financial advisor to Renco Metals at various times and provided a solvency opinion;
- * Cadwalader, Wickersham & Taft, L.L.P., which represented Renco Metals, Renco Group and Mr. Rennert, Renco Group's Shareholder;
- * Ira Leon Rennert, who controls the Rennert Trusts which own Renco Group and who has been Chairman of the Board, Chief Executive Officer and a Director of Group since 1975; the Sole Director of Metals since its inception in 1993; and the Sole Director of MagCorp since 1989.
- * Roger L. Fay, a Renco Group Director, Vice President of Renco Group since 1983, Vice President of Finance for Renco Metals since its inception; and Vice President of MagCorp since 1989.
- * Justin W. D'Atri, Esq., who serves or served as a Director and the Secretary of Renco Group since its inception, Secretary of Renco Metals since its inception; Secretary of Magnesium Corporation of America since its inception; a Director and Secretary of Sabel Industries; and has ties to the Rennert Trusts;
- * Michael C. Ryan, Esq., a Calwalader member who served as an

Assistant Secretary of Renco Group, Assistant Secretary of Metals; Assistant Secretary of MagCorp; and Assistant Secretary of Sabel Industries;

- * Dennis A. Sadlowski, Esq. who serves or served as the Vice President of Legal Affairs for Renco Group; Assistant Secretary of Renco Metals; Assistant Secretary of MagCorp; and Assistant Secretary of Sabel Industries;
- * Michael H. Legge, who served as the President and Chief Executive Officer of MagCorp beginning January 1, 1993;
- * Ron L. Thayer, who served as Vice President of Operations of MagCorp between 1993 and 2001, and serves or served as the Chief Operating Officer beginning in 2001;
- * Todd R. Ogaard, who served as Vice President of Finance of MagCorp from 1995 until his departure in 2003;
- * Lee R. Brown, who has served as Vice President of Human Resources of MagCorp from 1989 until 1999, and served as Vice President of Public and Governmental Affairs beginning in 1999.
- * Howard I. Kaplan, who served as Vice President of Sales and Marketing for MagCorp from 1993 until 1998;
- * Keith Sabel, a Director of Sabel Industries and who has served as its President and Chief Executive Officer since 1990 and who is a Director and Chief Executive Officer of Sabel Holdings, which acquired all of the stock of Sabel Industries from Renco Metals in December 2000; and
- * Unidentified Trustees of Rennert Trusts.

The lawsuit alleges that in 1996 Renco Metals and MagCorp engaged in a series of transactions through which Rennert, Metals and other Defendants caused Metals to incur \$150 million in debt offered to the public, and simultaneously caused Metals to pay approximately \$90,000,000 to Group in the form of dividends and stock redemptions. Additionally, Group obligated MagCorp to make nearly \$5.3 million in bonus compensation payments to the MagCorp Officer Defendants. These transfers rendered Metals and MagCorp insolvent, yet Group and its shareholders, Rennert and the Rennert Trusts, benefited enormously, as did the MagCorp Officer Defendants who received the bonuses: Defendants Legge, Thayer, Ogaard, Brown and Kaplan. Millions more leaked out from the estates, the lawsuit explains.

A full-text copy of the 160-page complaint is available at no charge at:

<http://bankrupt.com/misc/RencoComplaint.pdf>

Mr. Buchwald complains that the financial statements and SEC filings KPMG prepared were grossly misleading and fraudulent with

regard to the true extent of MagCorp's environmental liabilities and KPMG breached its engagement letter by failing to make specific inquiries of management about the representations embodied in the financial statements and the effectiveness of the internal control structure.

Houlihan, Mr. Buchwald complains, rendered a flawed Solvency Opinion because it failed address the obvious fact that the proposed transactions actually contemplated that Renco Metals would be left with negative equity, a fact that even the June 28, 1996 Prospectus disclosed.

DLJ, Mr. Buchwald says, failed to perform the type of due diligence and financial analysis necessary to understand and appreciate Renco's environmental liabilities and should have known the public offering would cause the company's financial condition to crumble. "DLJ's silence and complicity allowed Group, Rennert and the Director and Officer Defendants to cause Metals to take on an additional \$75 million in indebtedness while simultaneously transferring in excess of \$88.8 million to Group and the MagCorp Officer Defendants," the lawsuit says.

Cadwalader, the lawsuit continues, breached its "fiduciary and professional duties to Metals to act in Metals' best interest and to advise Metals in a competent professional manner as to the risks and consequences of these transactions." In providing advice and counsel, Cadwalader knew or should have known at the time:

- (1) that Cadwalader had actual non-waivable conflicts of interest in connection with the 1996 Offering and related dividend and stock redemption transfers;
- (2) that the \$75.7M Dividend and the redemption of the preferred stock were not in the best interest of Metals and would harm Metals financially;
- (3) that MagCorp's environmental liabilities were understated on the consolidated financial statement of Metals and its subsidiaries;
- (4) that the disclosures in the Prospectus relating to the environmental liabilities were inadequate and misleading so as to mislead prospective investors in the New Notes; and
- (5) that Group had intentionally timed the 1996 Offering and remitted transfers so as to coincide with the temporary upswing in Magnesium prices to give the false prospect of MagCorp's future success.

The \$75.7 million Dividend, the Stock Redemption Transaction and \$5.3 million of NWAA payments to the MagCorp Officer Defendants in 1996 are all fraudulent conveyances and should be repaid to the Debtors' Estates, Leo R. Beus, Esq., Timothy J. Paris, Esq., and Mitzi L. Torri, Esq., at BEUS GILBERT PLLC, tell the Court. Beus Gilbert serves as Proposed Litigation Counsel to Mr. Buchwald.

The other defendants' misdeeds resulted in damages that a jury will be asked to quantify. The Complaint asks for treble damages as allowed pursuant to statutory and common law, all costs and accrued interest.

RENCO STEEL: Fails to Make Interest Payment on 10-7/8% Sr. Notes

Renco Steel Holdings, Inc., did not make the required payment of interest, due on August 1, 2003, on its 10-7/8% Senior Secured Notes due 2005. As of the date hereof, no decision has been made as to whether or not the aforementioned interest shall be paid prior to the expiration of the 30-day grace period provided for in the indenture governing the Renco Steel Notes. Approximately \$16 million aggregate principal amount of Renco Steel Notes are held by persons or entities not affiliated with The Renco Group, Inc., Renco Steel's parent.

Renco Steel is a holding company whose only material assets consist of the common stock of WCI Steel, Inc. WCI's prior failure to pay the interest, due on June 1, 2003, on its 10% Senior Secured Notes due 2004 prior to the expiration of the 30-day grace period provided for in the indenture governing the WCI Notes, constituted an event of default under the indenture governing the Renco Steel Notes. This event of default continues as of the date hereof.