Goldman Sachs Group

Goldman Sachs sued over work on $2.9bn grocery deal

Bank accused of manipulating credit default swaps market and taking excessive fees

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Goldman Sachs was accused on Wednesday of taking $50m in unauthorised fees and structuring a complex financing deal to its own advantage and that of its hedge fund clients, in a dispute over its work on a $2.9bn takeover deal. Goldman vigorously denies all the allegations.

United Natural Foods Inc, a major supplier to grocery chain Whole Foods, filed a lawsuit in New York's Supreme Court accusing Goldman of putting its interests ahead of those of the company when it advised UNFI on its takeover of grocery chain Supervalu last year.

The suit does not specify damages, but a person familiar with the situation said UNFI would seek more than $500m in the case, which also names Goldman's co-adviser on the deal, Merrill Lynch, as a defendant.

Goldman was hired both to advise UNFI and to arrange financing for the deal through a $2.15bn syndicated loan. The deal ran into trouble when both UNFI and Supervalu reported weak earnings soon after the takeover was finalised.

UNFI said it suffered $140m of losses because Goldman railroaded it into increasing the interest rate on the loan, warning that "things would get ugly" if the wholesaler did not agree to pay a higher rate.

In addition, the lawsuit claims that Goldman manipulated the credit default swap market to the benefit of hedge fund clients, as a quid pro quo for their buying some of the loan.

The unusual financing structure restored the value of about $470m of CDS, which insured against default on Supervalu debt and which were held by hedge funds. The debt would have been cancelled under the original terms of the takeover, making the CDS worthless, but the terms were changed to make Supervalu a co-borrower.

UNFI is also suing Goldman for breach of contract, alleging the bank "egregiously misappropriated" $40.5m in marketing fees for the loan that it was not owed, plus another $11.5m in advisory fees that it had "no contractual authority" to receive.

A spokesman for Goldman described UNFI's claims as entirely without merit. "We intend to vigorously defend ourselves against these accusations," she said. Bank of America, parent company of Merrill Lynch, declined to comment.

"While positioning itself as UNFI's trusted advisor on the one hand and its counter-party lender on the other, Goldman Sachs consolidated its command over all aspects of the transaction in order to extract millions in unjustifiable interest, fees, and other damages suffered by the company and its shareholders," Steve Spinner, UNFI's chief executive, said in a statement.

Jill Sutton, UNFI's general counsel, said that "when the defendants had to choose between UNFI's best interests and their own profits, they opted to put their financial motives first".