March 7, 2012, 2:01 p.m. ET

UPDATE: Court Rules Against Santander In Convertible Bond Case

-- Case relates to EUR7B bond sale used to finance ABN Amro takeover in 2007

-- Court voids sales contract, tells bank to return investment

-- Securities lawyers are considering class-action lawsuits in relation with sale

(Adds comment from securities lawyer in paragraph 6, plaintiff's lawyer in paragraph 10 and background in the final paragraph.)

```
By Christopher Bjork
Of DOW JONES NEWSWIRES
```

MADRID (Dow Jones)--A Spanish court has ruled against Banco Santander SA (STD) in the first of an expected slew of lawsuits related to the EUR7 billion sale of convertible bonds to 129,000 of its clients more than four years ago.

A court in the southeastern Spanish city of Alicante annulled Santander's sale of EUR45,000 worth of the bonds to one of its clients, court documents reviewed by Dow Jones Newswires showed. It ordered the bank to pay back the amount invested and interest on that money, subtracting the yield that the client had received on the securities since the sale.

Santander has 20 days to appeal the ruling with a higher court. A spokesman for the bank declined to reply when asked for comment by email and by telephone. In the past, Santander has said it acted correctly and that it complied with all relevant rules for the placement, which ranks as the world's largest-ever sale of convertible bonds.

Santander has been a facing growing backlash from clients saddled with about EUR4 billion in paper losses on their investment in the risky bonds, which will automatically convert into common stock in October this year. Securities lawyers and consumer associations are rounding up hundreds of clients who say the bank failed to properly spell out the investment's risks, and said they plan to file class-action lawsuits against the bank.

The court ruling put weight on the fact that Santander sold the bonds to Segura before the regulator had authorized the prospectus that laid out the bond's key terms and conditions. The Wall Street Journal reported last year that Santander began selling Valores to customers as early as Sept. 6, 2007, almost two weeks before the prospectus was published.

"We have several clients in these same circumstances," said Fernando Zunzunegui, a securities lawyer who represents about 300 bondholders. "With this precedent, we will go ahead and file lawsuits against the bank on behalf of these clients."

The value of the so-called Valores securities is tied to Santander's share price, which has more than halved in value since they were issued in October 2007.

The plaintiff in the Alicante case, a prison therapist named Jorge Segura, had alleged that the bank's employees led him to believe he was buying a risk-free, short-term investment product.

Santander contested Segura's version of the events, saying the plaintiff had been properly informed of all the risks, according to the court documents.

In the ruling dated March 5, the court concluded that Santander had failed to inform Segura properly about the investment's characteristics, which it deemed sufficient grounds to void the contract. Officials at the Alicante court weren't reachable for comment.

Segura's lawyer, Esther Arroyo, said his client was satisfied with the ruling. A second trial involving possible misselling of the Valores bonds is scheduled later this month at the same Alicante court, also led by Arroyo's law firm.

"The ruling might make the bank more inclined to negotiate deals with clients, at least in some cases," said Arroyo.

Santander had sold the convertible bonds to Spanish retail customers in late 2007 to fund its portion of the EUR72 billion purchase of ABN Amro NV, the Dutch lender that Santander bought along with two other European banks.

The bonds offered an eye-catching 7.5% interest rate in the first year, and then were set to pay 2.75 percentage points above the European interbank lending rate during the remaining four years. If the bid for ABN failed, Santander would return the cash to clients after a year, giving the Valores a deposit-like feature.

But the bid succeeded, and the bonds will automatically convert into shares in October 2012 at a 16% premium to Santander's share price at the beginning of October 2007.

Under those terms, Valores holders stood to profit on the security if Santander's stock rose by at least that much over the next five years. But Santander's shares, which closed Wednesday at EUR6, would need to more than double to EUR13.93 by October for that to happen.

Santander is far from the only bank facing lawsuits over sales of loss-making securities in recent years. Spanish banks sold more than EUR20 billion in convertible bonds and preferred stock to retail customers between 2007 and 2010. Many of these securities also have accumulated steep losses.

- By Christopher Bjork; Dow Jones Newswires; +34 9 1395 8123; christopher.bjork@dowjones.com