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Bear Stearns in $275 million shareholder settlement

Jonathan Stempel

NEW YORK (Reuters) - Former Bear Stearns Cos shareholders who claimed they were misled about the investment bank's deteriorating health agreed to settle their nationwide lawsuit for $275 million, four years after the company was bought by JPMorgan Chase & Co (JPM.N).

The all-cash settlement, disclosed Wednesday night, resolves claims against Bear and several former executives including long-time chief executive James Cayne, his successor, Alan Schwartz, and former chairman Alan "Ace" Greenberg.

Investors led by the State of Michigan Retirement Systems asked U.S. District Judge Robert Sweet in Manhattan to grant preliminary approval of the settlement. The defendants denied wrongdoing in agreeing to settle.

JPMorgan agreed to purchase Bear on March 16, 2008, in an emergency buyout brokered by the U.S. Federal Reserve, as fleeing clients were causing a liquidity crunch that drove Bear to the brink of collapse.

After initially agreeing to pay just $2 per share for Bear, JPMorgan later consented to pay $10 per share. That was far below the $170 that Bear shares once commanded. More than $18 billion of market value at Bear was erased.

The settlement covers owners of Bear Stearns stock and call options, and sellers of Bear put options, between December 14, 2006 and March 14, 2008.

JPMorgan spokesman Joe Evangelisti declined to comment on the settlement. Lawyers for the former Bear executives did not respond to requests for comment.

Terry Stanton, a spokeswoman for the Michigan Department of Treasury, said the state is pleased to settle. The state's public retirement systems include several pension plans with nearly $47 billion of combined assets, according to its website.

In a court filing, lawyers for the plaintiffs called the settlement "an excellent result."

It is unclear how the $275 million payout will be allocated among the defendants, or how much is covered by insurance.

Bear's outside auditor, Deloitte & Touche, which is a defendant in the case, was not part of Wednesday's settlement. A Deloitte spokesman did not respond to requests for comment.

BEAR SAID TO IGNORE, CONCEAL RISKS

The plaintiffs claimed that Bear had "secretly abandoned any meaningful effort to manage the huge risks it faced" from subprime and other mortgage-related securities. Such exposure contributed to the collapse of two in-house hedge funds in the middle of 2007.

According to the plaintiffs, misleading statements by Bear Stearns continued to the end, including on March 12, 2008, when Schwartz told CNBC television he was "comfortable" that Bear would be profitable that quarter and that liquidity was not threatened.

JPMorgan Chief Executive Jamie Dimon had told investors in May 2008, shortly before completing the Bear purchase, that "we would not have done it if we didn't think it made sense, but we are bearing an awful lot of risk."

NERA said the largest crisis-era settlement is Wells Fargo & Co's (WFC.N) $627 million accord last year with purchasers of securities from Wachovia Corp, which Wells Fargo later bought.

The next three largest settlements are with Bank of America Corp's (BAC.N) Countrywide and Merrill Lynch units, NERA said.

Judge Sweet in April granted preliminary approval to a $10 million settlement for former Bear employees who lost $215 million from owning company stock in their retirement plan.

The case is In re: Bear Stearns Companies Inc Securities, Derivative and ERISA Litigation, U.S. District Court, Southern District of New York, No. 08-md-01963.

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