REUTERS

Investor in defunct Bear fund wins $3.4 mln award

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* Award follows acquittal of fund managers

* JPMorgan Chase is responsible for paying the investor

By Matthew Goldstein

NEW YORK, Feb 9 (Reuters) - A Georgia-based chain of service stations that lost money with a Bear Stearns hedge fund that collapsed in July 2007 has won a $3.4 million arbitration award.

The award by the securities industry arbitration panel is the first ruling in favor of an investor in one of two now defunct Bear hedge funds since a jury acquitted the funds' former managers of criminal charges in November.

The award suggests that investors who lost $1.6 billion in the collapse of the two highly leveraged funds may still be able to recoup some of their money. The award was made on Dec. 23 and was posted recently on a website maintained by the Financial Industry Regulatory Authority.

The three-member arbitration panel, as is customary, did not offer much of a rationale in its written decision for the award of $3.4 million in damages to Racetrac Petroleum Inc, an Atlanta-based chain of more than 525 gas stations and convenience stores across the U.S. Southeast.

The award represents 70 percent of Racetrac's $5 million investment in one of the former Bear funds, according to a copy of the arbitration award posted on the website.

Ross Intelisano, one of Racetrac's attorneys, declined to comment on the award. Carl Bolch, chief executive officer of privately-held Racetrac, did not return a phone call.

The arbitration panel reached its decision after holding 32 hearing sessions last year. Six of those hearings took place in December, after a Brooklyn, N.Y., jury acquitted former Bear managers Ralph Cioffi and Matthew Tannin on Nov. 10.

Federal prosecutors had charged the pair with lying to investors about the health of the funds, which had invested heavily in complex bonds backed by subprime mortgages. The summer 2007 collapse of the funds, which at their peak controlled more than $30 billion in mortgage-related securities, is often seen as the start of the financial crisis.

The arbitrators found that Bear, which is now part of JPMorgan Chase & Co (JPM.N: Quote, Profile, Research), was negligent and failed to adequately supervise the funds.

The Racetrac ruling shows that even though Cioffi and Tannin were acquitted, "they can still be held responsible in an arbitration forum for their misconduct," said attorney Steven Caruso, who represents Bear fund investors in a number of pending arbitrations.

The ruling is a blow to JPMorgan Chase, which assumed most of Bear's legal liabilities when it acquired the ailing investment bank in March 2008.

A JPMorgan spokesman declined to comment on the award.

When JPMorgan bought Bear for $10 a share in a deal engineered by the federal government, the bank said it was setting aside $6 billion to pay for any litigation arising from the acquisition. But following the acquittal of Cioffi and Tannin, some in the legal world thought investors in the Bear funds might have a tough time prevailing in lawsuits and arbitration.

Indeed, many investor lawsuits and arbitrations had been put on hold pending the outcome of the criminal trial.

But the Racetrac case went forward after a U.S. district judge rejected an attempt by federal prosecutors to stay the arbitration. (Reported by Matthew Goldstein; editing by John Wallace)