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Out-of-Trust C.M. Meiers Brokerage in California Fetches \$1.375 Million at Auction

Woodland Hills, Calif.-based C.M. Meiers Co. Inc. was auctioned earlier this month at a U.S. bankruptcy court near Los Angeles, with three competing bidders pushing the sales price to \$1.375 million for the troubled brokerage's assets and assumption of its liabilities, including between \$400,000 to \$1 million required to put the 76-year old firm back in trust.

The United States Bankruptcy Court Central District of California San Fernando Valley Division courtroom was packed with nearly 50 people, many of those were formerly producers at the company and their attorneys, who argued against transferring their books of business and client data to any winning bidder.

Attorneys for some of C.M. Meiers' clientele were also on hand representing "highly confidential" clients arguing to ensure the security of their clients' names and information.

The brokerage was sold by appointed trustee Bradley D. Sharp. Following a Chapter 11 bankruptcy filed on Jan. 9, the brokerage was placed in the hands of Sharp by the court.

The winning bidder was Woodland Hills-based Liberty Co., which also has offices in San Jose, Salinas and Irvine.

The 25-year-old brokerage, which works with providers such as Mercury, Safeco, Hartford and Fireman's Fund, has nearly \$50 million in premium, and is a member of the Atlantic Pacific Insurance Brokers affiliation of Independent Insurance Agencies, according to its website. Liberty owners and attorneys hurried into a private conference room to hash out the details of the purchase and were not available to comment following the auction.

Since that time, the new owners have not returned calls or emails for comment.

Liberty beat out two other firms. Woodland Hills-based Affinity was the stalking horse bidder. Then there was Woodland Hills-based Capitol Financial Services, owned by Gensar Saleigh, who sued C.M. Meiers and was awarded nearly \$400,000 in damages plus attorneys' fees by a commercial arbitration tribunal over a breach of contract suit brought by Capital.

Sharp had said the suit was the final blow that brought C.M. Meiers to its financial knees, but others at the proceeding argued the brokerage was not well managed. That it was out of trust was chief among the evidence they cited in support of their allegations.

The minimum bid was set at \$750,000, including the assumption of liabilities and replenishing the trust.

After haggling over who owns the brokerage's book of business, producers or the brokerage, the bidding started with Affinity, which bowed out early following its opening bid of \$750,000.

Saleigh and the attorney for Liberty, David Ruben, with Ruben & Sjolander in Los Angeles, countered each other's bids up to \$1.3 million, which is where Saleigh bowed out.

Asked after the auction why he stopped bidding, the 53-year insurance industry veteran said that after adding the up to \$1 million required to put the firm back in trust and the purchase price, “you’re talking about \$2.375 million.”

“How much is it worth?” the 75-year old Saleigh added, noting that most of the producers would likely keep their books of business. “At this age, you can’t afford to gamble.”

However a former producer at the proceeding, Bill Kulchin, who left the firm to form his own brokerage with another former C.M. Meiers producer, Derek Ross, believes the brokerage is easily worth more than what was bid, despite it being out of trust.

“You would expect to pay \$3 to \$4 million for that firm,” he said, adding that the book of business the brokerage owns even after producers take away their books is impressive, and he noted that \$800,000 in contingency money is due the brokerage in the next few months. “They got a deal.”

The troubled brokerage has been up for sale for some time, but its worsening financial condition has sped up the process, Sharp said.

The brokerage had 50 employees before the financial troubles set in. Sharp didn’t say how many work there now, only that “it’s less than 50.”

Sharp sold the right, title and interest to the assets of the brokerage, which includes accounts receivable, the brokerage’s book of business, its name, phone numbers and other intangibles, as well as tangibles like computers and office furniture.

As for certificates of authority for the books of business, Sharp said, “The winning buyer will have to deal with the carriers.”

Executives at Woodland Hills-based Affinity were not at the auction. On its website, Affinity states it offers a variety of services, including commercial property and auto enhancements, healthcare programs, and workers’ compensation enhancements.

According to court documents, and competing bidders, Affinity is owned by Jason Adelman, the brother-in-law of Herb and Eric Rothman, the father and son owners of C.M. Meiers.

At one point following financial collapse of C.M. Meiers, Affinity managed the brokerage for a week, Affinity attorney Diane Stanfield, with Alston & Bird LLP in Los Angeles, said just prior to her opening bid.

She said that if Affinity didn’t help steer the company through hard times, “there would be nothing to buy, there would be nothing left to bid on.”

She added, “Affinity has acted in good faith from start to finish.”

Saleigh’s attorney, Victor Sahn, with Los Angeles-based firm SulmeyerKupetz, started his client’s bid by referring to Stanfield’s opening statements and defense of Affinity, which Sahn said, “none of which I agree with.”

Sahn has publicly and in court documents raised concern about the brother-in-law of C.M. Meiers’ owners attempting to purchase the brokerage, and Herb and Eric Rothman’s possible return in some capacity to the entity that went out of trust with them at the helm.

“Herb and Eric are going to work for them, that’s what we presume, and they are the ones who brought us \$400,000 to \$1 million out of trust,” Sahn said.

The lead up to the auction was a series of arguments from attorneys representing C.M. Meiers clients, former producers and other creditors.

Sharp opened the proceedings stating that he and his attorneys had been in extensive talks with all parties to resolve the data transfer issue.

“We can’t resolve it the way they want to resolve it,” Sharp told Federal Bankruptcy Court Judge Maureen Tighe,

who presided over the auction.

Several parties want clientele's data deleted from C.M. Meiers databases, computers and backup systems. C.M. Meiers clients want data erased to protect their privacy, and former producers of the brokerage asked that the data be deleted or returned to them because they believe it's their property.

However, that data is tied with accounting data, which cannot be deleted, Sharp said.

As a solution, Sharp agreed to collect and compartmentalize all data not sold, and keep hardcopies of all data that must be maintained for a period of time in a separate room.

Attorneys for clients and former producers argued that no data should be made available to any buyer, but Tighe ruled that state law and a confidentiality agreement the winning bidder is subject to was enough to go forward with the auction.

The matter of which clients belong to whom can be sorted out by Sharp and attorneys for the former producers following the auction, and rulings on those matters can be made later, Tighe ruled.

Sharp said the books will be looked at on a "contract by contract basis" to determine which books of business belong to whom.

"I'm only authorizing the sale of what the estate owns," Tighe said, noting that following the auction that books of business later determined to be owned by former producers will not have been part of the sale.

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