

DEALER'S CHOICE

NEGOTIATING A
SUCCESSFUL M&A DEAL.

A SOPHISTICATED THIEF

Divesting of stolen art is more difficult than stealing it.

WHEEL OF FORTUNE

No one expected Tom Watjen's amazing turnaround of Unum.

ANGELINA JOLIE NAKED

Your computer network's weakest link: titillation and you.

BUYER, HOLDER OR CELLAR

The crime had the makings of a mystery novel for the Robb Report set.

In the affluent Silicon Valley town of Atherton, Calif., a venture capitalist returned from a New Year's vacation in the first days of 2007 to his gated multi-million dollar home on Fair Oaks Lane, a quiet cul-de-sac. To the horror of both his wallet and palate, he found \$139,000 worth of vintage wine missing from his climate-controlled cellar. A total of 454 bottles had vanished, including a rare \$11,000 magnum of 1959 Château Pétrus and a vertical of red Bordeaux representing an unbroken line of more than 20 years.

The average price of a stolen bottle: an astonishing \$300. No common cat burglar, this thief was one discerning oenophile.

The heist became known as "The Big Wine Caper."

STOCKING UP

On a Saturday morning in spring, tables draped with starched white linen and stacked with trays of canapés face the auctioneer at Christie's Fine and Rare Wines auction at New York's Rockefeller Center. In the back of the room a bartender serves fresh juice, sparkling water and champagne. There is the pop of a cork. To the amusement of the bidders, the auctioneer pauses and imitates the sound by flicking the back of his index finger against the side of his mouth.

A buff guy in a black tee shirt, jeans and pointy boots never removes his shades. A silver-haired lady sits attentively, glasses perched on her nose. A balding man with long strands of the hair he has left and bright red socks studies the catalogue like a racing form.

Amateur and serious collectors, wine brokers and the curious, wine auctions draw an eclectic crowd and an exclusive group of insurers and brokers helping wealthy collectors pursue and protect their passions.

On each side of the room, tapestries of half-clad people dancing merrily in the woods hang from the walls behind the dark wood consoles where rows of jacketed salesmen and saleswomen arm the phones for call-in bidders.

A case of '95 Opus One goes for \$2,370. An absentee bidder gets two bottles of 1990 Cristal for a bargain \$700. After a bit of witty banter with the auctioneer whose accent reflects his Savile Row-like pinstriped suit, Mr. Red Socks ceases bidding on a lot of Château Lafite-Rothschild, eliciting a "Sure? You were tempted weren't you?" It is a convivial yet businesslike atmosphere.

Lots from the private cellars of well-known collectors create spirited bidding. But with the storage habits of other sellers a mystery and counterfeit labels on the rise, buying wine, even prestigious vintages, is not a sure thing.

One thing is for sure: With record sales of over \$71 million in 2007 at Christie's alone, demand is soaring. And with a case of 1985 Romanée-Conti fetching \$237,000, the most expensive case of Burgundy ever sold at auction, collectors are willing to pay for it.

FAST FOCUS

- ▶ As demand for high-priced vintages grows, so does demand for wine insurance.
- ▶ Wine connoisseurs would rather drink their bottles than get a claim check, so insurers help them protect their collections from damage and spoilage.

Insuring vintage investments may be hard to swallow for some, but it's absolutely essential if you don't want to become the next 'Big Wine Caper.'

BY CARRIE WILLIAMSON



"It is a global phenomenon," says Rik Pike of Christie's New York. "There has been a substantial increase in wine investment over the last four or five years mirroring the rise in prices for blue chip wines. There are major collectors in North America and Europe and also a large collecting community in Asia, a significant and important market."

London is setting the tone for prices, says Doug Fauth, the owner of Tribeca Wine Merchants in the trendy Manhattan neighborhood of the same name. "A 2000 Pétrus, which sells for \$4,250, is selling at well over \$5,000 in London."

Fauth deals in wines of the high-

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est provenance and those rarely offered outside of the vineyard mailing lists. "I sell directly to some of the largest collectors in the United States and Canada with average cellars of 50,000 to 200,000 bottles," says Fauth. "It is a relatively small group of primarily Bordeaux and Burgundy collectors, but the average value of their cellars is in the millions if not tens of millions of dollars."

Echoing Pike he continues, "My collectors are always looking for the top vintages. Pétrus, Lafite, Mouton. Cult wines from California—Harlan, Bryant, Colgin. They buy every vintage, which creates more value to the collection. Like Chinese antiquities and 20th century paintings, only one to two percent of wines in the world are the great wines. Unfortunately, the top

wines continue to go up in price because the demand far outstrips what is out there."

Motive has clearly been established for "The Big Wine Caper."

VINEGAR AND BROILED

The \$1 million wine collection at legendary Brennan's Restaurant in New Orleans' historic French Quarter was not spared the wrath of Hurricane Katrina. After a month without power and with temperatures that reached 130 degrees in the cellar located in the former slave quarters, the 35,000 bottles were "vinegar and broiled," as co-owner Teddy Brennan lamented in a 2006 interview on National Public Radio.

"We used to have what was considered probably the finest wine cellar between Texas and Florida and Louisiana and Chicago," he continued. Although the restaurant stocked \$20 bottles to accommodate tourists, prices went as high as \$5,000. "We had some wines back there that weren't even on the wine list, like a magnum of 1870 Château Lafite that doesn't exist. I mean there might be three or four more in the world."

Brennan's brothers and the chefs rode out the storm, eating and drinking in style in an effort to stem the waste. "They drank a lot of Pétrus, but they didn't drink the old, old vintage," Brennan told the NPR reporter. "I wish I had told them about it on the phone from Dallas. I should have said, 'You ought to drink that 1870 Lafite.'"

"We were covered by insurance, but some of that stuff you just can't replace."

WINE INSURANCE—COVERING FOR BIBLICAL AND MODERN TIMES

Wine insurance. It's like living in Biblical times—flood, fire, earthquake. Mix in the modern day calamities of counterfeiting and theft-for-profit, and it is the perfect storm of worry for insurance underwriters and brokers.

James Kane, president of HUB International Personal Insurance in Chicago, encourages collectors to

"deal with carriers that are familiar with the specifics of the exposure." According to Kane, AIG, Chubb and Fireman's Fund are the major players in the wine insurance market. "All three write homeowners policies that are broad enough to cover most collections and also provide scheduled coverage," he says. If there is a particular issue that increases exposure, like a collector regularly shipping expensive cases of wine from Europe, Kane may turn to Lloyd's or XL "because the pricing is more favorable because they are more comfortable with it."

While the nuances of each company's coverage vary, they are united by their emphasis on risk management. "The way you assess the risk, you take into account a lot of things you normally wouldn't," says Ron Fiamma, director of Private Collections, AIG Private Client Group. "We have a whole team of loss prevention specialists who work to make sure collections are properly stored."

When a policyholder was building a new home, AIG sent out experts to do a safety assessment that included a temperature control system for the custom wine cellar. The system used parts from a German manufacturer.

"We determined that it was more cost effective to pre-purchase \$4,000 worth of spare parts to have on hand if the system broke down rather than risk losing the entire collection if the parts didn't arrive within a few days," he says. Upon AIG's recommendation, the client purchased the spare parts. "Since AIG does cover mechanical breakdowns, which depending on the company and type of policy are not always covered, this was key to avoiding a payout in the millions." The client could also rest assured that he could save his collection of rare vintages, which Fiamma says is much more important to this kind of client than a claim check.

Wine insurers advise customers on how to store their collections to avoid damage.

Peter Spicer, communications manager of Chubb Personal Insurance, has seen "massive collections



stored in moldering boxes under attic stairs”—something that should make any serious wine drinker, let alone wine insurers wince.

Aiming to “prevent loss in the first place,” Spicer says, Chubb sends out a collector specialist who assesses temperature, humidity, light, the storage facility, where the cellar is located within the home, and if there is an alarm system. “We try to help them understand how they can protect their wine,” says Spicer. “For instance, in earth-

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quake-prone areas we recommend using racking systems specifically designed for seismic events. We’ve even used infrared cameras to assess the overall house and help look for electrical arcing, missing insulation and water leaks.”

Fortunately, for Brennan’s and others with storied collections of rare wines living in hurricane-prone areas, flooding may not spell the end of a good wine before its time. “In many cases when there is a flood, if it is not a violent flood, the wine may remain intact,” says Spicer. “There is depreciation of the value because of the damage of the labels. But we assess that on a case by case basis.”

AN OUNCE OF PREVENTION—HIGH-TECH CELLARING

Evan Goldenberg, owner of Design Build Consultants in Greenwich, Conn., builds high-end custom wine cellars ranging from \$50,000 to \$500,000, many of which are so elaborate and spacious you wouldn’t recognize them as wine cellars if not for the racks of bottles.

Goldenberg says wine cellars have gone high-tech, a welcome advent for insurers, auction houses and collectors. “Years ago the focus was on refrigeration only,” he says. “If you were lucky they would put

in a high/low temperature alarm.” Now his company can monitor each client’s wine cellar in 30-second intervals with a digital electronic controller that sends data to the Internet. “Each client can log onto the Web site and see the temperature and humidity in real time,” he says. “We can produce provenance on how well the wine was kept versus someone leaving old cases of Bordeaux in their moldy basement and selling them. We want to make sure that they aren’t selling vinegar.”

And what about that vinegar? What would happen if Mr. Red Socks had purchased the lot of 1966 Lafite-Rothschild only to open a coveted bottle, take a sip and find out it had gone bad?

“Corkage is not covered,” Spicer responds. “If there is no mechanical breakdown and the bottle isn’t good, well, too bad.”

The insurers often refer clients to companies that offer comprehensive wine collector services, including helping people understand when it is the right time to drink specific bottles of wine.

THE HAVES VERSUS THE SORT-OF-HAVES

The staggering prices of prestigious vintages at auction and through wine brokers would make one believe that there are millions of dollars of wine stocked in every wine cellar. However, the different types of coverage generally reflect the different types of collectors.

Wine underwriters insure private collections in several ways. For his sophisticated collectors with blue chip vintages, Kane recommends that they keep an inventory and insure their wine collection or at least their most expensive bottles, separately with “valuable articles coverage,” VAC for short.

The all-risk policy, which has no deductible, includes coverage not always found in a homeowners policy, such as coverage for flood damage, “mysterious disappearance,” spoilage resulting from a rapid temperature change due to loss of power or a mechanical breakdown

that causes equipment to malfunction. Coverage for a \$250,000 collection could run from \$1,000 to \$1,150 a year.

For serious collectors who regularly buy at auction houses and through dealers in London, Singapore and Hong Kong, purchasing VAC is especially important. “VAC is worldwide coverage, and coverage kicks in as soon as they purchase the wine,” says Spicer. Depending on whether the collector has an existing VAC policy or a newly acquired policy, the amount of coverage and time allotted for transport to their cellar will vary.

What about the sort-of-haves—the person who isn’t collecting verticals of Bordeaux and \$11,000 magnums of Château Pétrus but does have a well stocked cellar?

“We provide blanket coverage and name a \$100,000 limit, applying up to \$10,000 for any bottle,” Spicer says. “This is also a nice feature if the collector is changing out their wine collection regularly.” Yes, there are those lucky few who uncork their precious bottles of Pétrus so fast there is no time to schedule them.

Finally, there is standard contents coverage under homeowners insurance. A \$1 million dollar policy will offer 50% coverage for contents and is subject to a deductible. So for certain types of losses, such as fire, theft and water damage (a hot water heater bursts, not a flood), the collector will have coverage right up to \$500,000 for their wine. They actually do get some coverage for spoilage, limited to \$5,000 with a \$250 deductible, but it covers only for spoilage caused by these certain types of losses. “The downside is that a person can pretty quickly tap out their contents limit,” Spicer says. “If there is a loss, they will have to make choices about what they will use the insurance to replace— wine, jewelry, art, furs.”

Collectors ultimately purchase a policy based on their own comfort level. “The guy that really likes his Cakebread chardonnay and stores his cases in his house will schedule \$12,000 for wine and cover it all,”

Kane says. On the other hand, Kane has also had a client with a \$40 million house and a \$50,000 wine cellar who was perfectly comfortable covering his collection with his homeowners policy. “A \$50,000 impact is significant, but it doesn’t alter his lifestyle.”

MODERN MISCHIEF

While the Federal Bureau of Investigation doesn’t have any hard data on the subject, anecdotal evidence shows that counterfeit wines are on the rise. Billionaire William Koch is shaking up the wine industry with several lawsuits he has filed, including one against two prominent Chicago wine companies accusing them of selling him over \$1 million dollars in counterfeit wine, some of which was purported to be from Thomas Jefferson’s cellar. While the FBI did investigate the case, no criminal charges were filed, so it remains to be seen how things will pan out in civil court.

Insurers have not really been focused on discerning whether the bottles they insure are counterfeit.

“What they’ve been more focused on is whether a wine cellar is temperature controlled or not, and fire hazards and floods,” Goldenberg

says. “Systems conking out when there aren’t backup generators.”

At certain values, Chubb will ask customers to show receipts for very expensive wine, Spicer says, “but we rely on the value a customer shows us. We are not looking for a detailed appraisal until over \$10,000, and then we will ask for additional documentation.”

High-tech devices are helping collectors keep closer tabs on their fine wines. The latest are radio frequency identification (RFID) tags.

“Collectors used to rely on bar codes, but now some people are having a digital chip the size of the head of a pin affixed to the bottom of the wine,” Spicer says. “As the customer leaves the wine cellar with the bottle they can scan the bar code so they can keep up with what is missing. With RFID they can essentially do a whole room scan and understand what the inventory is without having to individually scan.”

Wine insurers offer varying levels of consultative services from outside companies to select customers who have complex household needs that address security issues. “Domestic servants create a higher level of risk, so we provide complimentary background checks to these select customers,” says Spicer. “We also provide consultative services to help minimize turnover. Happy employees are a method of defense and provide security. Of course, you can’t beat a good alarm system.”

Ironically says Kane, “Most clients do not take advantage of these services.”

Despite the hoopla over counterfeit wines and high-profile thefts, Spicer says most claims are much more mundane. “Breakage. Damage to shipments during transport, the most vulnerable time.”

WHODUNIT?

Since there were no signs of forced entry, and a person would need both a code and a key to enter the house, the police figured the Silicon Valley wine caper was an inside job. “We got cameras and placed them strategically so there wasn’t anywhere

in the cellar you could go without being seen,” says Detective Sergeant Joe Wade of the Atherton police.

The police watched on a live feed and saw the housekeeper and her boyfriend rummaging around. He picked up a few bottles but didn’t take anything.

A couple of days later when Wade noticed the camera pointed to the wall, the police checked the cellar and found that 12 bottles of wine worth \$350 each were missing. They got a search warrant and found the bottles at the boyfriend’s house.

In a “C.S.I.” twist to the case, the police confiscated a computer. “What we found when we were looking on the computer were all of these searches on winezap.com,” says Wade. “Winezap.com allows you to input the specifics of the vintage and get a ballpark price for how much a particular bottle of wine costs. We tracked every missing bottle through his winezap.com searches.”

Both the housekeeper and her boyfriend were charged with burglary, conspiracy and possession of stolen property, and both had criminal records for theft-related offenses.

The cellar did not have an alarm system or barcodes or RFID tags on the bottles. In a nod to the risk management emphasis of wine insurance policies, Wade says, “If you want to keep your wine safe, you almost have to take these kinds of measures. Some people slip through the cracks. Some people who seem trustworthy in the beginning turn out not to be. Cameras proved to be very helpful.”

In the end, only the boyfriend was sentenced to four years. “The court really says that a person’s home is his castle,” Wade says in response to the stiff sentence.

Wade, whose own interest in wine collecting was piqued during the investigation, muses, “Somewhere there are still 454 bottles of wine floating around out there. I’ll always be looking for a 1959 magnum of Château Pétrus.” ■

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