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First Bank of the Palm Beaches sued after rejecting \$15M buyout

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A biotechnology entrepreneur in Jupiter has filed a lawsuit against West Palm Beach-based [First Bank of the Palm Beaches](#) for rejecting his offer to buy a majority stake in the small bank for up to \$15 million.

Jayaram Chigurupati's complaint, filed in April in Palm Beach County Circuit Court, claims that the bank's board improperly terminated the purchase agreement after bank officials "sabotaged" and purposely delayed the deal. The claim accuses "certain officers and directors" of First Bank of making disparaging remarks about the potential investors to the [Federal Deposit Insurance Corp.](#), which would need to approve the deal.

The complaint asks for unspecified monetary damages and reactivation of the purchase option.

First Bank quietly had major management changes at the end of 2009. President J. Patterson Cooper left the bank. In April, First Bank applied with Florida regulators to hire Joseph B. Shearhouse III, [National City Bank's](#) former South Florida market president, as president, CEO and director, and John M. Ahrenholz, National City's former regional manager for business banking, as senior VP and COO.

First Bank officials did not return several calls seeking comment and had not yet filed a response in court.

At a time when [First Capital](#) and many other banks are losing money, rejecting a purchase and capital infusion seems unusual. As of March 31, First Bank had \$8 million in Tier 1 capital and \$78.3 million in assets, so the \$15 million deal with Chigurupati and the other proposed investor, Wellington gastroenterologist Krishna Tripuraneni, would allow the bank to significantly increase in size. It would also help it deal with its \$5.1 million in noncurrent loans, which represented 7.8 percent of its total loans.

The bank was founded in 2006 and is considered well capitalized by regulators.

Chigurupati and Tripuraneni have been minority shareholders of First Bank since April 2009. Two months later, they received conditional approval from Florida regulators to purchase a controlling interest. They joined the bank's board in August – the same month the board signed an agreement for them to invest up to \$15 million into the bank and acquire majority ownership.

That deal stated that either party could terminate the acquisition, should it not be completed by Dec. 31, 2009, unless the failure to close was caused by a breach of the agreement.

On March 18, First Bank Chairman C. Gerald Goldsmith notified Chigurupati and Tripuraneni that the board voted to terminate the purchase agreement because it passed the deadline. Tripuraneni assigned his interest in the deal to Chigurupati, who hired Miami attorney Daniel Casey to sue the bank.

The complaint says First Bank officers and directors undertook actions that prevented the deal from closing. That includes telling Shearhouse, whom the complaint calls a "potential investor," the terms of the purchase agreement before he was named CEO. The complaint says they made "false and disparaging" remarks about the potential investors to the FDIC so the regulator delayed its decision on the deal.

The lawsuit did not include any examples of the remarks or the communication to the FDIC or to Shearhouse.

The FDIC must approve or reject change of ownership applications within 60 days unless it files a request for more information, so it appears that regulators wanted to know more about the deal or the parties involved, said Lewis Cohen, a banking attorney and partner with Cohen & Bobotas in Miami. It would be unusual for the FDIC to request additional background on Chigurupati and Tripuraneni because Florida regulators had already screened them without objections, he added.

Cohen said Chigurupati's complaint depends on proving that bank officers or directors gave the FDIC false information that caused a delay. However, proving monetary damages could be difficult.

"The value of a bank stock today is very volatile, and to try to assess the monetary loss to the plaintiff would be speculative, at best," Cohen said.

First Bank would probably look to prove that its officials did not cause the delay in FDIC approval, Cohen said. The bank could also argue that whatever information its officials allegedly gave the FDIC about the potential investors was a justified reason to be concerned about consummating the deal, he added.