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Pacific Metro Seeks Bankruptcy Protection

Last Wednesday, Pacific Metro of Morgan Hill, the production arm of Thomas Kinkade, filed for Chapter 11 bankruptcy. The action comes only a day after a \$1 million part payment became due to be paid to two gallery owners who have tried for four years to collect on a judgment they won against the self-styled 'painter of light'.

The Chapter 11 bankruptcy was filed in US bankruptcy court in San Jose, California and protects Pacific Metro from any further action by the two gallery owners, Jeff Spinello and Karen Hazelwood while the company reorganizes its debts. In total Kinkade owes the two gallery owners \$3 million.

Back in 2003, Hazelwood and Spinello sued Kinkade and his company, which was then called Media Arts Group Inc., alleging that Kinkade used his Christian faith as a tool to persuade them to invest in the Thomas Kinkade Signature Gallery. At the height of its popularity, there were 350 independent stores, each exclusively authorized to sell Kinkade's luminous landscapes and street scenes. The lawsuit also alleged that Spinello and Hazelwood were stuck with merchandise that could not be sold, compelled to open stores in markets that could not sustain sales and were undercut by other traders who sold the artist's works at prices they were not allowed to match.

Between 1997 and May 2005, Kinkade made over \$50 million from the sale of his paintings and licensed product lines while many of the galleries failed. By 2005, the number of Signature Galleries had fallen to less than half its original number.

In 2006, an arbitration panel concluded that there was enough evidence to suggest that Kinkade's company and one of its executives had fraudulently kept mum about material facts that would have dissuaded Spinello and Hazelwood from investing \$122,000 into the business. Although Kinkade himself was not specifically mentioned in the finding, the arbitration panel noted that he and others in the company had allegedly created a religious environment that was aimed at getting gallery owners to trust in their company.

The arbitration panel awarded \$860,000 to Spinello and Hazelwood, whose 2 galleries in Virginia went under. The figure was later increased to \$2.8 million with interest and legal fees. This prompted a legal battle that went up to the Supreme Court this year. The high court ruled against Kinkade's petition to set aside the award and ordered it to be reinstated.

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Spinello and Hazelwood's lawyer hired a moving van that went to Kinkade's headquarters to cart away artwork in settlement of the award. That was when Kinkade agreed to make payment. His company made an initial payment of \$500,000 and was due to pay another \$1 million when it filed for bankruptcy protection.