

Gallery Bankruptcy Impacts Many Collectors

The Salander-O' Reilly Galleries in New York, a well known source for high end art, became the subject of dozens of complaints and lawsuits last fall by collectors and investors claiming they were owed millions of dollars. The gallery successfully specialized in 20th century American art for many years, and many industry insiders were surprised when in 2005 the gallery began selling old masters and moved to an extravagant townhouse on the upper east side.

There is a very small market for old masters and it is not an easy niche to enter, even for experienced professionals. The expansion to the new location, which came with a monthly rent of \$154,000, left most wondering how the owner Lawrence Salander was able to do it. It was later reported that Salander was staying afloat by borrowing money, ranging from \$130,000 to over \$500,000 each month.

Salander is accused of selling consigned works for less than the agreed value and in some cases never paid the owner. He also allegedly sold works that were only being stored, tried to sell fakes, or simply lost consigned works. Salander also received loans with works for which he did not have title, most notably from Sotheby's and his landlord.

Claimants allege that that Salander accepted money to purchase a painting and would receive a profit once the work was sold, but did not receive the agreed upon funds. Several of the lawsuits, including one from tennis legend John McEnroe, alleges that Salander was paying earlier investors with the funds of subsequent investors, essentially a Ponzi scheme.

A judge ordered that the gallery be closed in October while complaints were reviewed, the gallery's assets were evaluated and missing works located. In November, Salander filed Chapter 11 bankruptcy, but in April a judge agreed to a petition that it be converted to Chapter 7, or instead of a reorganization of the business, the assets will be liquidated. Salander requested in February that he be hired by the gallery to assist with the reorganization of the gallery, but was rejected.

In June, a liquidation sale of the contents of the gallery, such as rugs, furniture and decorative items was held. Salander's father-in-law asserted that he partially owned these items and asked that the sales be halted, but was turned down. The sale realized \$1.6 million, more than the estimate, but far less than what Salander paid for the items.

18,000 notices were mailed in April to galleries and collectors who may be owed money or own lost art, requesting that they submit a claim by mid June. 4,000 works were found in the gallery and in warehouses, so lawyers and the bankruptcy court will attempt to determine who owns what. Implications for the art world could be significant. Collectors may decide to work with auction houses if they feel dealers can't be trusted.

The bigger issue though is likely to be the title of the work. Unlike auto or real estate sales which are regulated, establishing ownership is not a requirement of an art sale. Art title insurance, a relatively new and expensive product (premiums range from 1.75% to 6.75%) may be used more widely in future to protect investments.

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