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Suits reveal falling out of Hawaii furniture partners

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The co-owners of the INspiration Hawaii furniture stores are suing each other over allegations of self-dealing and broken contracts in a pair of messy lawsuits that also reveal the financial troubles of the 12-year-old company and its landmark **Honolulu Design Center**.

Peter Skaaning filed a lawsuit in federal court on Aug. 10 against business partner Thomas Sorensen, claiming he was “constructively discharged” as company president in April because Sorensen made it “virtually impossible to run the company at a profit and in a businesslike manner.”

In turn, Sorensen filed a countersuit in 1st Circuit Court on Aug. 25, claiming Skaaning formally resigned, which triggered an agreement that allowed him to buy out Skaaning’s 50 percent ownership for \$1 in June.

Skaaning’s suit wants the court to dissolve the pair’s partnership, as well as three companies they held equal interest in. It also seeks to have the assets of the companies sold off and put toward debts, with any profits being split between the owners. That move could shut down the business and eliminate 90 jobs.

The company has two stores on Oahu, at Pearlridge Center and in the Honolulu Design Center on Kapiolani Boulevard, a warehouse in Campbell Industrial Park, and a showroom in Vancouver, B.C.

Skaaning’s attorney, Jerry Hiatt of Kamuela, declined to comment on the case, and said that Skaaning is presently in Los Angeles.

“Our position is basically in the court papers,” Hiatt said by phone from Indiana. “We’ve requested a jury trial, but nothing’s set because it’s still really early. This is just a real unfortunate thing to have to happen.”

Sorensen’s suit wants the court to “expel” Skaaning from what he calls an “oral general partnership” and alleges that Skaaning began setting up a separate furniture business in Los Angeles over the past year.

Sorensen did not return calls to his office in the Honolulu Design Center. His attorney, James Bickerton of Bickerton Lee Dang & Sullivan, said he has asked that Skaaning’s case be tossed out. A motion to dismiss the case is set to be heard Oct. 13.

“Thomas Sorensen has been a well-respected businessman in Honolulu for over 30 years with an excellent reputation,” Bickerton said. “We’re confident these disputes will not affect any of our customers or suppliers in any way. The business remains in good health and shouldn’t be affected by the disagreement among the ownership.”

The lawsuits reveal the complicated business model used to run the INspiration companies.

The suits are in agreement that Sorensen, 53, and Skaaning, 35, were equal partners in a corporation and two LLCs: **INspiration Hawaii Inc.**, **INspiration International LLC** and **TPS LLC**.

The INspiration Hawaii Inc. entity operates the two Oahu stores, and was the company that Skaaning has served as president since 1999. According to the state’s Business Registration Division, the corporation’s filing was changed July 1 to reflect Sorensen as chairman and president.

The INspiration International LLC entity is a real estate holding company that owns 103,000 square feet of space at **Pearlridge Center Uptown** called Uptown 2. It was formed to buy the buildings vacated by JC Penney in 2002, and serves as landlord to tenants including **Borders Books & Music**, Farrell’s Ice Cream and Local Motion. The INspiration store at Pearlridge pays rent to Inspiration International.

Inspiration International is also the 50 percent owner of the Canadian corporation that Sorensen and Skaaning formed for the Vancouver showroom. Skaaning’s older brother, Steen Skaaning, owns the other half, and operates the Canadian store.

TPS LLC was formed in 2002 to receive royalties and consulting income for the INspiration stores in Hawaii and Canada and for use of the “INspiration” brand and business model. Both INspiration Hawaii Inc. and the Canadian corporation are required to pay 3 percent of their total gross sales to TPS each month for use of the trademark, according to the lawsuits.

The company’s showroom in the Honolulu Design Center is the anchor tenant for the design complex, which opened in early 2007 near the Moana Pacific’s twin condominium towers.

The \$25 million design center and the land it sits on are owned by Honolulu Design Center LLC, whose sole owner is Sorensen.



Christina Failma, PBN

The Honolulu Design Center, which opened in 2007 and is owned by Thomas Sorensen, charges INspiration \$300,000 a month rent, twice the amount of the monthly mortgage payment, according to a lawsuit filed against Sorensen.

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INspiration Hawaii pays rent for 70,000 square feet within the 80,000-square-foot building.

Skaaning's lawsuit claims that Sorensen pays a monthly mortgage of \$150,000 for the property, while charging the INspiration store rent of \$300,000 a month.

"This allows Mr. Sorensen a huge profit at the direct expense of INspiration Hawaii and Mr. Skaaning," Skaaning claims in his suit. "The rent is a drain on the assets of INspiration Hawaii to the benefit of Honolulu Design Center LLC, which is solely owned by Mr. Sorensen."

Skaaning's suit says the original plan was for INspiration to lease 40,000 square feet in the Honolulu Design Center, and to lease out the rest of the space to other tenants "such as a European kitchen store, a wallcovering store, a window treatment store, a lighting store, etc. ... INspiration Hawaii is not profitable because it is encumbered by an above-market lease."

Skaaning also claims that the Stage Restaurant, Amuse Wine Bar and Crema Espresso & Deli in the design center are owned solely by Sorensen and do not pay rent for their spaces.

Sorensen's suit says INspiration Hawaii generated \$14 million in 2006, when it had just the Pearlridge store, and \$21 million in 2007 after opening the Honolulu store.

"However, a slowdown of the general economy and the increased costs of the expanded operation meant that INspiration Hawaii was producing less profit as traffic built up," Sorensen's suit claims. "It is a company that is currently not profitable and is in arrears on its rent at both of its locations."

INspiration Hawaii's inventory has a retail value of between \$10 million and \$15 million, according to Skaaning's suit.

Skaaning claims that the property owned by the real estate holding company, Inspiration International, has a value of \$60 million. It also has a \$15 million loan it took out in 2006 that comes due in January 2011.

Sorensen founded Scan Design Furniture in Hawaii in 1979 and sold it in 1986. He moved to Nevada as part of a non-compete agreement with the new owners, then moved back to Hawaii in 1997, when he started INspiration Hawaii at Pearlridge.

Skaaning was hired in 1999 to manage the Pearlridge store.

Under an oral partnership agreement in 1999, Sorensen's suit says, the two agreed they eventually would become equal shareholders of INspiration Hawaii. Skaaning became 50 percent owner in 2001, according to the suit, and a formal employment agreement was signed that year.

"Skaaning's quitting of the partnership business by stopping his work at INspiration Hawaii is in violation of the oral partnership agreement," Sorensen's lawsuit states. It asks the court to declare that "Skaaning no longer has any right to participate in the management or conduct of the oral partnership agreement or its constituent businesses."

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