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Tower Records Up For Sale

By Dale Kasler
Staff Writer

Tower Records, humbled by debts and edging closer to bankruptcy, has put itself up for sale.

Capping a painful, two-year struggle to regain prosperity, Sacramento's Solomon family hired a Los Angeles investment banker to find a buyer for the legendary music retailer, that bank said Friday.

Founded in Sacramento in 1960, Tower grew into an international brand and pioneered the era of the music megastore. In the past few years, however, the rise of discounters and the Internet sapped its strength.

The decision to sell followed Tower's declaration on April 29 that it might miss a \$5.2 million interest payment on its bonds.

Although Tower, which also sells books, has had other brushes with bankruptcy in the past two years, the most recent declaration seemed to bring Tower's problems to a head. Climactic, high-level negotiations ensued between Tower and its creditors over the troubled company's future.

What resulted was a plan calling for bondholders to exchange their debts for ownership in Tower. The West Sacramento-based company's debts would be reduced while the sale of the company would give bondholders a way to cash out.

Bondholders and other creditors have agreed to the proposed sale, said Lloyd Greif, president of Greif & Co., the Los Angeles-based investment banker hired by Tower.

"Everybody to my knowledge is on board," Greif said.

He predicted a relatively quick sale and said there's a good chance of survival for Tower's 500-employee headquarters and distribution center in West Sacramento. He said he thinks most

buyers would want to keep those facilities intact.

That would be a relief to West Sacramento, where the company has kept a low profile but is still a major -- and prestigious -- employer.

"Having a company like Tower Records headquartered in West Sacramento gives us tremendous bragging rights," said Val Toppenberg, the city's redevelopment director.

The Solomons declined comment Friday.

The decision to sell wasn't surprising to many in the music industry, given Tower's financial troubles and the slump facing music retailers. Chilmark Partners, a Chicago investment bank hired by Tower in 2001, tried to sell the company's U.S. operations with no luck, Chilmark said in court papers filed in connection with a lawsuit against Tower.

Tower denied that in court documents, but it did sell its Japanese stores last year as a means of raising desperately needed cash.

And last fall, interim Tower Chief Executive Betsy Burton -- brought in at the insistence of Tower's bankers to overhaul the company -- told The Bee that the whole company could wind up being sold. While she was CEO, the company closed underperforming stores and trimmed the corporate payroll.

Despite its apparent inevitability, a Tower sale was seen as a milestone in music industry history.

"They're a long-standing, major retailer of music," said Don Gorder, a music business expert at Berklee College of Music in Boston. "It's just another harbinger of what's going on in



Tower founder Russ Solomon, right, and son Michael at the West Sacramento headquarters.

that business -- it's a turbulent time."

Greif indicated that the Solomons, whose patriarch, Russ Solomon, founded the company, could play a role in the post-sale Tower.

"Russ Solomon's relationships in the industry are the envy of virtually everyone. I would be extremely surprised to see him not involved in Tower's future," he said.

Solomon and son Michael control practically all the ownership in Tower. The son is the company's president, and the father, chairman, remains a daily presence at the West Sacramento headquarters, Greif said.

The sale would come as music retailers face a historic crisis. Greif said he's confident a sale can bring "fair value," but others were skeptical, noting that Best Buy Co. already has put its struggling Musicland division, which includes the Sam Goody chain, up for sale.

"We now have two failing music retailers on the market," said Colin McGranahan, an analyst at Sanford C. Bernstein & Co. in New York. "It's usually a hard-enough sale when there's only one."

Tower's short-and long-term debts total \$358 million. Analysts said that's

too high for a company that has reduced itself to about 101 stores through sales and closures. Tower used to do \$1 billion a year in revenue, but is down to about \$600 million to \$700 million.

A spokesman for the big bondholders, several insurance companies owned by American International Group Inc. of New York, did not return phone calls. Tower's lead banker, CIT Group/Business Credit Inc., also had no comment.

The music industry, which is owed tens of millions of dollars by Tower for CDs, pledged to continue doing business with the retailer.

"Tower is a very, very major force for the record companies," said Jim Urie, president of Universal Music and Video Distribution. "We're going to support that as much as we can."

Despite the monumental woes facing music retailers, Greif said, several potential buyers have expressed an interest in buying Tower.

"Tower is the *crème de la crème*," Greif said. "When you've got that strong of a brand, that's what's going to be attractive."

He said a sale could be announced fairly quickly.

Greif wouldn't identify potential purchasers but said there's interest from "nontraditional buyers" interested in exploiting Tower's good name in the entertainment business -- and taking the company far beyond the realm of music. Although the company has already moved into non-music items such as DVDs and memorabilia, "there's a lot of products that could be sold in Tower that aren't being sold there now," Greif said.

A restructured Tower, with a significantly reduced debt burden, could become "a growth company again," he said.

A sale nonetheless would mark the end of an extraordinary era, begun in Sacramento in the 1940s, when 16-year-old Russ Solomon began selling records from the back of the family-owned Tower Drugs on Broadway.

After a stint in the military and a couple of false starts in the record business, he got Tower Records going for good when he opened a store on Watt Avenue in 1960.

Naming his company MTS Inc. -- for his son, Michael T. Solomon -- he revolutionized the business. After being relegated to small spaces in department stores and the like, music for the first time had a big store to itself.

"If you were a kid growing up in the

late '50s and early '60s, Tower was, like, your favorite store," said former Beach Boys manager Fred Vail, an old friend of the Solomons who shopped the Watt Avenue store in the early days. "It was like mecca for music junkies."

The gruff, irascible Solomon -- whose eccentricities included a penchant for confiscating the neckwear of anyone who dared visit his office in a tie -- became a leading figure in the industry.

Tower ventured outside Sacramento for the first time in 1968, when Solomon opened a store near San Francisco's Fisherman's Wharf at the height of the city's pop music explosion. The company began mushrooming, and in 1979, it opened for business in Tokyo, the start of a huge overseas expansion.

By the late 1990s, when Solomon promoted son Michael from general counsel to CEO, the company owned 217 stores, was ranked as the No. 2 music retailer in the United States and sold \$1 billion in merchandise annually.

But the industry was changing -- disastrously so for Tower. New competition came from discounters such as Target and Best Buy, booksellers Borders and Barnes & Noble, and Internet merchant Amazon.com.

Retailers also fell victim to the onset of so-called digital piracy, in which computer users downloaded free music off the Web from Napster and its successors.

Tower lost \$168 million over 4 1/2 years. Moody's Investors Service and Standard & Poor's, the two leading credit-rating firms, downgraded Tower's debt to low "junk" status, indicating the peril Tower faced.

Facing a \$187 million bank payment in April 2002, the company sold its still-successful Japanese stores, bringing in cash to pay down debt and prompting banks to provide new financing.

Debt analysts said the move probably staved off bankruptcy but was hardly a cure-all. They noted that the Japanese stores were the most profitable in the chain.

Besides, selling Japan, which represented a third of Tower's operations, left the company simply too small to cover the debt load rung up by what had been a much bigger company, analysts said.

While Tower had cut a new deal with banks, it still faced a \$110 million bond debt stemming from a 1998 pub-

lic bond sale -- a legacy of more optimistic times. The bond isn't due until 2005, but the company has been making regular, twice-a-year interest payments of \$5.2 million.

Last month, Tower replaced Burton with E. Allen Rodriguez, a former Univision Communications Inc. executive with investment banking experience.

Three days after his appointment became official, Tower announced it was delaying the regular bond interest payment by 30 days and might not pay it at all.

The delay was permissible under Tower's bond deals but signaled that problems were worsening. Moody's downgraded Tower's bond ratings to the lowest possible: "C." Moody's defines such bonds as having "extremely poor prospects."

Industry officials began speculating about a bankruptcy filing. Then reports circulated that the Solomons were working to persuade bondholders to accept a debt-for-equity swap, culminating in Friday's confirmation that Tower was on the block.

Tower Records became an international icon of the music business. Russ Solomon founded the company in 1960 with a store on Watt Avenue in Sacramento.

Official corporate name: MTS Inc.

Headquarters: West Sacramento, where employees number 500

Ownership: Solomon family of Sacramento

Founder and chairman: Russ Solomon

President: Michael Solomon

CEO: E. Allen Rodriguez

Company-owned stores: 101