The music's over for Tower Records

By Chris Morris
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LOS ANGELES (Hollywood Reporter) - Tower Records has played its last tune.

On Friday, after a 29-hour auction, most of the bankrupt music retailer's assets were sold to liquidation firm Great American Group, which bid $134.3 million. The company outbid Albany, N.Y.-based retailer Trans World Entertainment by a mere $500,000.

According to Tower attorney Peter Gurfein, Great American was set to begin liquidation and going-out-of-business sales Saturday.

An internal e-mail to employees from Tower CEO Joseph D'Amico said the company's Web operation, Tower.com, its label 33rd Street Records and its real estate holdings were sold separately.

D'Amico -- a bankruptcy specialist who succeeded outgoing CEO Allen Rodriguez in July -- said in his message, "My heart goes out to each of you who have poured your hearts and souls into this great company."

The sale sounded a bitter final bar for Tower, which operated 89 U.S. stores. Once the dominant music retailer in the country, the 46-year-old company attracted consumers to its spacious stores with flashy merchandising and a focus on deep catalog in a breadth of musical categories. Its store on Hollywood's Sunset Strip was a legendary music-biz hangout. But Tower's fortunes waned in the late '90s as severe price competition from big-box merchants, the growth of Internet sales, piracy and some ill-advised international expansion eroded sales.

The disappearance of Tower's familiar red-and-yellow logo will leave a gaping hole in the landscape of American music retailing. Los Angeles-based Virgin Megastores, which operates 20 Virgin Megastores, now will become the most prominent deep-catalog retailer.

One veteran industry observer noted that Tower might have accounted for 40%-50% of some niche-genre labels' business.
The largest surviving specialty retailers, including Trans World and Amarillo, Texas-based Hastings Books, Music & Video, are predominantly mall-based, hit-driven operations with a highly diversified product mix.

The sell-off of Tower's inventory, valuations of which run as high as $200 million, could have a wide-ranging impact on the music business at large. The company's West Sacramento, Calif., warehouse is filled with product from the vendors of its independent distribution company, Bayside Distribution, and its accessories suppliers. Companies with a high degree of exposure could be dealt a serious blow when their product is returned for full wholesale cost.

The court-supervised auction of Tower climaxed two months of drama, which began in early August when word surfaced that the retailer's major suppliers were refusing to ship product to the chain after it was unable to pay its bills. Estimates of Tower's total debt ran as high as $200 million. The troubled company -- 85% ownership of which shifted to its bondholders following a February 2004 filing for Chapter 11 bankruptcy protection -- had been on the sales block, but a sale to a group of unnamed investment firms reportedly fell through during the summer.

On August 21, Tower filed a second petition for Chapter 11 protection. Tower asked the court for a prompt sale of its assets so that a new owner would be in place before the critical fourth-quarter holiday sales season.

Sixteen companies -- ranging from Trans World (which had bought several similarly distressed competitors) to music wholesalers and real estate operators -- subsequently entered bids on Tower's assets; Great American turned in the top early bid of $90 million.

Many had hoped that Chicago-based Radius Equity -- a "white knight" bidder that had pledged to keep the chain's stores up and running on a stand-alone basis -- would win the bidding, but the company withdrew after it failed to assemble financing in time for the auction.

The family of Russ Solomon, who founded Tower in 1960 as a music department in his father's Sacramento pharmacy, remained a 15% shareholder. Solomon did not enter a bid for the company.

In an e-mail circulated Friday to Tower's staff, Solomon said, "The fat lady has sung ... she was way off key. Thank You, Thank You, Thank You."

On Friday, hours before the Great American acquisition was announced, Tower employees held a barbecue at the West Sacramento headquarters. More than one source described it as "a wake."

Reuters/Hollywood Reporter