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Troy firm faces the music on CD sales

Handleman to sell inventory and close

BY GRETA GUEST • FREE PRESS BUSINESS WRITER • JUNE 3, 2008

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What's this?

Handleman Co.'s announcement Monday that it would exit the music business in North America by selling its Wal-Mart inventory is just the beginning of a winding-down process that eventually will put the Troy company out of business.

Handleman shareholders are expected to receive a cash distribution from the sale, but it is not guaranteed.

Halting its North American music distribution business will result in 260 lost jobs at its Troy headquarters and Indianapolis distribution center.

The music distributor's business model was becoming increasingly irrelevant as more people download music from Web sites.

Albert A. Koch, president and CEO at Handleman, said the decision was tough but unavoidable, given the rapid decline of CD music sales. The drop-off has been in the double-digits for several years.

Koch said that even with significant cost cutting in the past two years, Handleman was not profitable. Koch said uncertainty over whether Handleman would have the liquidity to operate through the holiday season ultimately led to the decision.

"If we can get suitable values for all of our assets, that will be the most likely outcome... that we would sell all our operating assets," Koch said in an interview with the Free Press.

"We will have answers on all our operating assets in the next few months so that, largely by the end of the year, we should be in a position



CEO Albert A. Koch: 260 to lose jobs in Troy and Indianapolis.

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to start the wind-down process."

Ken Dalto, a Farmington Hills-based turnaround expert, said Handleman's demise was guaranteed when it did not react to the changes in its core business of music delivery.

"Handleman was a major company at one point. I think they are just facing the facts of what is going on in the economy and with technology," Dalto said. "I think their management failed. They just didn't have the foresight to put it together. They were assaulted on all fronts."

The company said it has entered into an agreement to sell music inventory related to its Wal-Mart business to Anderson Merchandisers L.P. of Amarillo, Texas. Wal-Mart has been Handleman's largest customer. It also plans to transition other clients to new suppliers. Handleman also has agreed to sell most of its Canadian operations to Anderson, subject to Canadian government approvals.

"We regret the impact of this decision on many of our employees and will do our best to assist them at this difficult time," he said.

Some employees, such as field service workers, may be offered jobs at Anderson, Koch said. Others will receive severance benefits and career transition services.

Koch would not give a breakdown of the number of employees at the headquarters and the distribution center who will lose their jobs. But he did say the loss of the 260 jobs would eliminate about half of the jobs at each place, leaving about 100 employees at the Troy headquarters to help wind down operations.

Handleman's operations not involved in the sale include Crave Entertainment Group, a video game distributor, and Handleman UK Limited, its distributor based in Britain. Handleman had announced it was exploring a sale of Crave.

Koch, vice chairman and managing director of AlixPartners, joined Handleman last November to help with a turnaround. He previously served as CEO of Champion Enterprises Inc. and chief financial officer of Kmart to help with those companies' financial turnarounds.

Contact **GRETA GUEST** at 313-223-4192 or gguest@freepress.com.

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K8lice wrote:

For a while all I did was download MP3's. Now I've found I like buying CD's. With CD's you can actually have a physical music collection. Plus, if my computer ever has a meltdown I'll still have my music :-)

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