

Peter H. Bresnan  
Cheryl Scarboro  
Reid A. Muoio  
Keshia West

Attorneys for Plaintiff  
Securities and Exchange Commission  
450 Fifth Street, N.W.  
Washington, D.C. 20549-0706  
(tel) 202/942-7205 (Muoio)  
(fax) 202/942-9639 (Muoio)

UNITED STATES DISTRICT COURT FOR THE  
EASTERN DISTRICT OF MICHIGAN

----- x  
)  
SECURITIES AND EXCHANGE COMMISSION, )  
)  
  Plaintiff, )  
  v. )  
) **COMPLAINT**  
)  
DANNY FOREST WHITT and )  
JOHN TERRY SHIELDS, ) 04 Civ.  
)  
  Defendants. )  
)  
----- x

Plaintiff Securities and Exchange Commission (the  
"SEC") alleges as follows:

**NATURE OF THE ACTION**

1. This case concerns books and records violations at Handleman Company, a NYSE-listed music and movie distributor. Employees of an indirect, wholly-owned subsidiary of Handleman, Anchor Bay Entertainment, caused the company to enter into two million-dollar sham transactions. Both transactions involved the purported

sale of slow moving or obsolete inventory to business partners coupled with secret buy-back provisions.

2. The responsible individuals were Danny Forest Whitt and John Terry Shields. Whitt was President of Anchor Bay and Shields was the Director of Finance during the relevant time period. They were motivated by a desire to reduce inventory levels in their division.

3. Handleman subsequently restated its financial statements to correct these accounting errors.

#### JURISDICTION

4. This Court has jurisdiction over this action pursuant to Sections 21(e) and 27 of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. §§ 78u(e) and 78aa]. Defendants have, directly or indirectly, made use of the means or instrumentalities of interstate commerce and/or of the mails in connection with the transactions described in this Complaint.

#### DEFENDANTS

5. **Danny Forest Whitt** ("Whitt") was President of Anchor Bay. Handleman terminated Whitt for accepting a bribe from a business partner after the relevant period. Whitt recently pleaded guilty to federal money laundering charges and is currently incarcerated.

6. **John Terry Shields** ("Shields") was Director of Finance for Anchor Bay during the relevant period. Whitt

was Shields' immediate supervisor. Shields is currently Assistant Vice President for Business Support and Analysis at Handleman.

### ISSUER

7. **Handleman Company** ("Handleman" or the "company") is a Michigan corporation headquartered in Troy, Michigan. Handleman has approximately 3,000 employees and annual revenues of over \$1 billion. The company's common stock is registered with the Commission pursuant to Section 12(g) of the Exchange Act and is listed on the New York Stock Exchange. The company's fiscal year ends the Saturday closest to April 30 and its independent auditor is PricewaterhouseCoopers LLP.

8. **Anchor Bay Entertainment** ("Anchor Bay") was an indirect, wholly-owned subsidiary of Handleman during the relevant period. Anchor Bay acquired, developed, marketed and distributed DVDs for movies such as "Halloween," "Manhunter," and the "Evil Dead Trilogy." Anchor Bay comprised a relatively small portion of Handleman's overall business. Handleman subsequently sold Anchor Bay to an unrelated party.

### SUBSTANTIVE ALLEGATIONS

#### CREST NATIONAL TRANSACTION

9. Whitt and Shields negotiated a two-year agreement between Anchor Bay and a relatively small, private company

called Crest National for DVD replicating services. During the negotiations, Whitt and Shields made it clear to Crest National that it would have to purchase \$1 million worth of inventory from Anchor Bay to close the deal.

10. Crest National had no interest in acquiring the inventory, which consisted of obsolete or slow moving DVDs. To make the inventory transaction palatable to Crest National, Shields, at the direction of Whitt, offered to have Anchor Bay repay the \$1 million purchase price, plus \$110,000 in interest, through a 37 cent surcharge applied to the first three million DVDs purchased by Anchor Bay from Crest National. (The total costs of the agreed-upon replicating services were nevertheless less than what Anchor Bay had been paying previously.)

11. Under Whitt's supervision, Shields then helped draft the so-called "Media Services Agreement" with Crest National, which Whitt signed on or about September 5, 2000. The Media Services Agreement embodied, but did not explicitly disclose, the inventory purchase-buyback arrangement. The only reference to the arrangement was a sentence that obligated Crest National to make a \$1 million "credit upon execution." There was no disclosure of the inventory purchase or 37 cent surcharge. (Again, the total costs of the agreed-upon replicating services were nevertheless less than what Anchor Bay had been paying previously.)

12. On or about October 11, 2000, Shields signed a side letter relating to the inventory purchase-buyback arrangement. Unlike the executed contract, the side letter disclosed both the inventory purchase and 37 cent surcharge. The inventory purchase-buyback arrangement with Crest National was not disclosed to Handleman senior management.

13. Because important deal terms were concealed from senior management, Handleman improperly recorded the Crest National transaction on its books and records as a \$1 million sale of inventory at cost. The impact on Handleman's financial statements, however, was negligible.

14. The DVDs remained at Anchor Bay's warehouse at no cost to Crest National. The inventory included titles such as "Satanic Rites of Dracula," "Kiss Me Monster," "Littlest Horsethieves," "Even Dwarves Started Small," and "Cat From Outer Space." Over time Anchor Bay repaid the \$1 million to Crest National, plus \$110,000 interest, through the secret surcharge mechanism.

#### **TEPEL BROTHERS TRANSACTION**

15. Whitt and Shields also helped negotiate an agreement between Anchor Bay and relatively small, private company called Tepel Brothers for printing services, e.g. video boxes and DVD sleeves. Once again, Anchor Bay required that, as a condition to closing the deal, Tepel

Brothers had to purchase \$1 million of inventory from Anchor Bay.

16. Tepel Brothers had no interest in acquiring the inventory, which consisted of worthless video boxes and sleeves. Whitt and Shields agreed that Anchor Bay would pay the money back, with interest of approximately \$120,000, through a 1.4 cent surcharge on an estimated 80 million units of print product.

17. Shields, at Whitt's direction, then helped draft the so-called "Component Services Agreement" with Tepel Brothers, which Whitt signed on or about March 1, 2001. While the Component Services Agreement disclosed that "Tepel Brothers agrees to purchase \$1,000,000 of Anchor Bay inventory on or before March 2, 2001," it did not disclose the inventory buyback arrangement or the 1.4 cent surcharge. This information was not disclosed to Handleman senior management.

18. Because important deal terms were not known by senior management, Handleman improperly recorded the Tepel Brothers transaction on its books and records as a \$1 million sale of inventory at cost. The purported sale was reversed, however, before Handleman's financial statements were made public.

20. After executing the Component Services Agreement, Anchor Bay destroyed the inventory at the request of Tepel Brothers. Over time Anchor Bay repaid the \$1 million to

Tepel Brothers, plus \$120,000 interest, through the secret surcharge mechanism.

**CLAIM FOR RELIEF**

**(Violations of Rule 13b2-1  
of the Exchange Act)**

21. Plaintiff SEC hereby incorporates ¶¶ 1 through 20 with the same force and effect as if set out here.

22. Whitt and Shields caused Anchor Bay to enter into sham sales of inventory to Crest National and Tepel Brothers, and important deal terms were not disclosed to senior management.

23. Whitt and Shields' misconduct caused the books, records and accounts of Handleman to inaccurately and unfairly reflect the Crest National and Tepel Brothers transactions as sales.

24. In the manner described in ¶¶ 1 through 23, Whitt and Shields violated Rule 13b2-1 of the Exchange Act [17 C.F.R. § 240.13b2-1] by falsifying or causing the falsification of, the books, records or accounts of Handleman.

25. Whitt and Shields are likely to continue to violate this provision of the Exchange Act unless enjoined.

**SECOND CLAIM FOR RELIEF**

**(Violations of Section 13(b)(5)  
of the Exchange Act)**

26. Plaintiff SEC hereby incorporates ¶¶ 1 through \_\_\_ with the same force and effect as if set out here.

27. Section 13(b)(5) of the Exchange Act [15 U.S.C. § 78m(b)(5)] prohibits any person from knowingly circumventing or knowingly failing to implement a system of internal accounting controls or knowingly falsifying any book, record, or account of a publicly traded company.

28. In the manner described in ¶¶ 1 through 27, Whitt and Shields violated Section 13(b)(5) of the Exchange Act [15 U.S.C. § 78m(b)(5)].

29. Whitt and Shields are likely to continue to violate this provision of the Exchange Act unless enjoined.

**THIRD CLAIM FOR RELIEF**

**(Violations of the Section 13(b)(2)(A)  
of the Exchange Act)**

30. Plaintiff SEC hereby incorporates ¶¶ 1 through 29 with the same force and effect as if set out here.

31. Handleman violated Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)] by failing to make



and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflected the transactions and dispositions of the assets of the company.

32. In the manner described in ¶¶ 1 through 31, Whitt and Shields aided and abetted Handleman's violations of Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)], pursuant to Section 20(e) of the Exchange Act [15 U.S.C. § 78t(e)], by knowingly providing substantial assistance thereto.

33. Whitt and Shields are likely to continue to aid and abet violations of this provision of the Exchange Act unless enjoined.

#### **PRAYER FOR RELIEF**

WHEREFORE, the SEC respectfully requests that this Court enter a judgment:

(i) permanently enjoining Whitt and Shields, and their agents, servants, employees, attorneys, and those in active concert or participation with them, who receive actual notice by personal service or otherwise, from (i) violating Rule 13b2-1 of the Exchange Act [17 C.F.R. § 240.13b2-1]; (ii) violating Section 13(b)(5) of the Exchange Act [15 U.S.C. § 78m(b)(5)]; and (iii) aiding and abetting violations of Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)];

(ii) ordering Whitt and Shields to pay civil money penalties pursuant to Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)]; and

(iii) granting such other relief as this Court may deem just and appropriate.

Dated: February 4, 2005

Local Counsel

Julia C. Pidgeon (AUSA)  
211 West Fort Street  
Suite 2001  
Detroit, MI 48226-3211  
(tel) 313/226-9772  
(fax) 313/226-3800

---

Peter H. Bresnan  
Cheryl Scarboro  
Reid A. Muoio  
Keshia West  
Attorneys for Plaintiff  
Securities and Exchange  
Commission  
450 Fifth Street, N.W.  
Washington, D.C. 20549-0706  
(tel) 202/942-7205 (Muoio)  
(fax) 202/942-9639 (Muoio)