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Borders Gets A New Chief As It Battles For Survival

By JEFFREY A. TRACHTENBERG

Only a few hours after Borders Group Inc. disclosed Monday that its board had ousted Chief Executive George Jones and his management team, the new CEO, Ron Marshall, was making calls to New York publishers to reassure them of the retailer's viability.

The company's board specifically cited the need to "more aggressively" improve cash flow and reduce debt as its reasons for choosing the 54-year-old Mr. Marshall, who has a strong financial background. The retailer, as expected, had disappointing Christmas sales. Last March it put itself up for sale but wasn't able to find a buyer.

Publishers and other suppliers said that Borders is currently paying its bills. But the retailer has been aggressively selling assets, slashing costs, laying off employees, and reducing debt to stave off the kind of financial crisis that could result in a Chapter 11 bankruptcy filing.

However successful Mr. Marshall is in coming weeks, publishers will continue to watch Borders closely, limiting their shipments to minimize their potential exposure.

The shake-up at Borders, the nation's second-largest national bookstore chain, comes as book publishing and retailing are undergoing major changes, driven by readers who are buying more books online and, in some cases, switching to digital e-books. (Barnes & Noble Inc. is the biggest national bookstore chain by revenue, and Amazon.com Inc. is the dominant online bookseller.) Borders's stock price and market capitalization have plummeted recently, putting the retailer in potential danger of being delisted by the New York Stock Exchange.

"They've got issues to address, including getting books onto the shelves faster and more efficiently," said Mark Suchomel, president of Independent Publishers Group, a leading book distributor that expects to receive a major check from Borders within days.

The turmoil may also create opportunities for some: On Friday, it was disclosed that Yucaipa American Management LLC, the investment arm of supermarket magnate Ron Burkle, has acquired an 8.3% stake in Barnes & Noble.

The new CEO's past book retail experience includes an 18-month stint as chief financial officer at privately held Barnes & Noble College Booksellers in the late 1980s.

Mr. Marshall, who wasn't available for an interview, faces challenges on many fronts. Borders also disclosed Monday that it was notified Dec. 31 by the New York Stock Exchange that its shares had traded for less than \$1 for 30 consecutive days. As a result, Borders no longer satisfies one of the standards for continued listing on the exchange, so the retailer must now submit a plan to cure the situation. The chain has six months to get its shares above \$1.

In addition, the exchange noted that Borders's market capitalization "is approaching the minimum standard of total market capitalization of \$25 million over a 30 trading-day period, which is a minimum

threshold standard that does not allow for any cure period." If Borders's total market cap dips below \$25 million for 30 days, the shares will be delisted.

In composite trading on the New York Stock Exchange Monday, Borders shares rose 29% to 58 cents a share. At that price, the company's market cap is \$35.1 million.

In recent weeks, many publishers have expressed concern about the future of Borders, which has a heavy debt load. "They first need to restore confidence among their stakeholders, including their banks, their vendors and their employees," said Kenneth Dalto, who owns Kenneth J. Dalto & Associates, a turnaround firm based in Farmington Hills, Mich. "Then they need to articulate a new strategic direction and a specific plan. They also need a new capital injection."

Mr. Marshall's phone calls seeking support from key publishers found at least one sympathetic ear Monday. "He said he is absolutely hell-bent on insuring that Borders is the first choice for the serious book buyer," said David Young, CEO of Lagardère SCA's Hachette Book Group USA, who spoke to Mr. Marshall for about five minutes. "I hope Ron and his team are successful. We need a strong Borders."

Mr. Marshall's predecessor, Mr. Jones, took over as CEO in the summer of 2006. During his tenure, Borders underwent many changes, including the launch of Borders.com, which went online last May; the development of 14 new concept stores that emphasize digital downloading and present distinct boutiques such as travel and cooking; and the introduction of a proprietary publishing initiative.

Mr. Jones also succeeded in reducing somewhat the significant amount of debt he had inherited. But he stunned investors and publishers alike last March by disclosing a potential liquidity crisis and putting the company up for sale.

As expected, Borders, based in Ann Arbor, Mich., had a difficult Christmas selling period. Total sales for the nine-week period ended Jan. 3 were \$868.8 million, an 11.7% decline from the year-earlier period. Same-store sales at the superstores, a key economic indicator, were down 14.4% compared with the same period a year ago. Borders.com sales for the nine-week holiday period were \$20.3 million.