

BUSINESS

Borders Group tries to maintain positive outlook

Some ask if bankruptcy filing is near

By GRETA GUEST
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Despite its financial troubles, Borders Group has tried to keep things positive.

The Ann Arbor-based bookseller has focused on new partnerships with teachers and digital book companies as it looks to the future.

Still, the company is in distress.

Holiday sales for stores open at least a year were down by 14.7%. In January, it had to correct reports that it was slowing payments to its vendors. That same month, Borders had to abruptly sweep in an interim CEO when former chief executive Ron Marshall left for a job with Great Atlantic and Pacific Tea.

Borders has struggled for the past five years in a competitive onslaught from Amazon.com, Barnes & Noble and big-box retailers such as Wal-Mart.

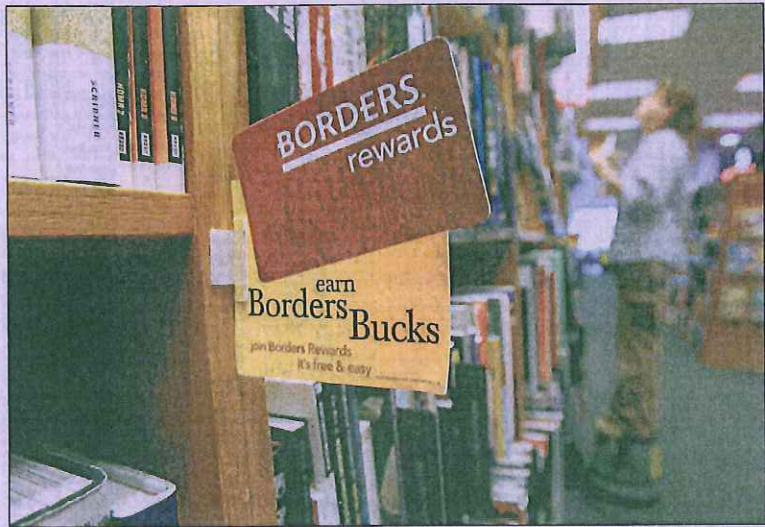
Ken Dalto, a Farmington Hills-based turnaround expert, said Borders appears to be headed for Chapter 11 bankruptcy protection. It could even be a condition from an interested buyer who wants it cleaned up first, he said.

"They are doing what GM and Chrysler were doing at this time last year," Dalto said. "They will either do a workout with creditors or do a formal bankruptcy."

Borders' board of directors approved retention bonuses for the top five executives on March 10. The board also said in a filing to the U.S. Securities and Exchange Commission on March 16 that key employees will develop a business plan for the second half of the year, with earnings targets that would be used to set their bonuses. The filing didn't specify what those targets are.

Interim CEO and President Michael J. Edwards, the former chief merchandising manager, is now leading Borders.

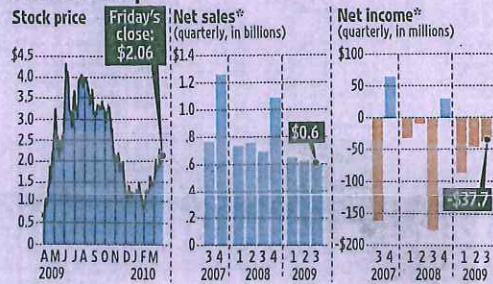
Retention bonuses include \$148,092 for Edwards; \$130,978 for Mark Bierley, chief financial officer; \$75,430 for Thomas Carney, general counsel; \$70,671 for David Scott Laverty, chief informa-



2007 photo by FABRIZIO COSTANTINI/Bloomberg News

The Borders bookstore chain has struggled over the past five years amid heavy competition.

Borders Group



* Fiscal-year figures
Source: Free Press research

Detroit Free Press

tion officer, and \$65,277 for Shereen Solaiman, human resources director.

Through spokeswoman Anne Roman, Borders officials declined to comment.

The company has been restructuring for three years. Pinched by falling sales and an unforgiving economy, it has closed stores and reduced its workforce.

As of January, the company had about 25,000 U.S. employees, down from roughly 27,000 in early March of last year.

Borders has shed nearly half of its headquarters employees in the past two years. As of January, it employed 650 people at its headquarters, compared with 1,232 in 2008.

In the fall, Borders said it would close 200 of its Waldenbooks mall stores, leaving it with 130 locations.

Bankruptcy concerns have gone on for more than a year. Its stock was trading less than

\$1 in early February. Shares closed Friday at \$2.06 on the New York Stock Exchange.

Alyce Lomax, an analyst with the Motley Fool, said the stock is likely being bid up by speculators hoping someone will purchase Borders. However, there were no takers when it was for sale two years ago.

"I still feel very much that individual investors should have a very buyer-beware attitude about it," Lomax said.

Yet it still has support from its largest shareholder, William A. Ackman, Pershing Square Capital Management's managing member.

Pershing Square owns 17.7% of Borders' outstanding shares. Ackman said in an interview in February on CNBC that a bankruptcy filing was "a low-probability event."

The bookseller's shares jumped by 36% to \$1.30 a share after the interview.

"Given the dwindling reve-

nues and the debt of the retail companies that I cover, Borders is the one I see as the most likely to fail. That doesn't mean it will," Lomax said. "You can't underestimate the power of a single shareholder who wants to bolster you up."

A large part of Marshall's strategy was to cut costs. It is unclear what strategy Edwards and his team will create.

It is expected to include a focus on electronic books. While Borders has announced digital book partnerships with Kobo and Spring Design, it will take time to develop that new e-book revenue stream.

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