

## **Borders announces financial results on Tuesday; analysts say more store closures, staff cuts are likely**

by Stefanie Murray | The Ann Arbor News  
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Lon Horwedel | The Ann Arbor News Borders flagship store on East Liberty Street in downtown Ann Arbor. The giant bookseller will announce its annual financial results on Tuesday.

No one expects the news to be good.

At its worst, when the ailing Borders Group Inc. reveals its 2008 financial results on Tuesday, some fear bankruptcy, downsizing moves or a splintering or sale of the company could be on the table. More store closures and staff cuts are likely, some analysts say.

The Ann Arbor-based bookseller has been battling liquidity issues, the slowing economy and rising book sales at discount chains like Wal-mart and online rivals like Amazon.com.

Borders has been restructuring for two years. It replaced its CEO in January after reporting disappointing holiday sales that fell nearly 12 percent and since then has announced the closure of a couple of large stores and two rounds of big layoffs. It has aggressively cut costs internally.

The company's stock price has been trading below \$1 a share. Borders will ask its shareholders to approve a plan in May to consolidate shares of stock in what's called a reverse stock split to make them worth more.

Borders' financial results are set to be released after the market closes on Tuesday. A conference call with Borders' management, investors and analysts is planned for early Wednesday, at which time it's likely the company will detail its strategy.

Retail experts who follow Borders expect, at the least, more cutbacks. Some local employees at Borders' headquarters have said the mood's been tense over the past several weeks in anticipation of layoffs or benefit cuts.

"I think they have to do something more definitive soon," said Ken Dalto of Kenneth J. Dalto & Associates, a management and financial consulting firm based in Farmington Hills. "My experience in turnarounds, after doing this for many years, is you don't cost cut your way to profitability." Dalto said something deeper than strong marketing and cost-cutting needs to happen. Depending on its financial situation, filing for Chapter 11 bankruptcy, for example, would help Border break expensive store leases and allow it to downsize faster and cheaper.

In 2006 and 2007, Borders lost a combined \$308.7 million, although its sales rose slightly both years. In 2007 the company reported sales of \$3.7 billion and analysts expect 2008 sales of \$3.3 billion, with continued bottom-line losses into 2010.

The company put itself up for sale for much of 2008 and also took a loan from its largest shareholder, Pershing Square Capital Management.

Borders employs 27,000 workers worldwide, including roughly 770 people at its Ann Arbor headquarters. So far this year, the company has reshuffled top management and laid off 94 people at its local headquarters. Private equity executive Ron Marshall replaced CEO George Jones in January. Jones had been at the helm since mid-2006.

Ed Nakfoor, a Birmingham-based retail consultant, said it's important for Borders to concentrate on its core business and eliminate distractions.

"They are focusing on what they do and they just need to figure out how to do that better," Nakfoor said. "I think that this turmoil is challenging for any brand to overcome and its challenging to convince customers that you'll be around."

Earlier this month, rival Barnes & Noble Inc. reported a better-than-expected fourth quarter profit, although sales fell. It has been cutting expenses, too, and cut 100 jobs at its corporate headquarters in January.

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