



BUSINESS

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Borders delays vendor payments

Ann Arbor-based bookstore chain is on shaky ground

Jaclyn Trop / The Detroit News

Borders Group Inc. faces serious trouble as it moves into the new year, following an announcement that it has delayed payments to vendors, a move that puts the Ann Arbor-based company in jeopardy.

The nation's second-largest bookseller said it's working with vendors to restructure payment arrangements as it looks for a solution to a potential liquidity shortfall.

Borders is in discussions with lenders to refinance and get enough cash to pay vendors and buy new inventory, spokeswoman Mary Davis said.

The company's stock price fell to less than a dollar — for the first time since February — after the market closed Thursday, amid news of its financial woes. Shares closed at 90 cents Friday.

Industry watchers said it's not surprising that Borders is facing serious financial troubles following several quarters of losses.

The timing of the announcement is particularly ominous, said Ken Dalto, a retail analyst in Farmington Hills.

"This is the best time for liquidity for any retailer. If they don't have the cash after the Christmas season, it's a serious problem," he said.

Borders did not indicate which vendors wouldn't be paid.

"As part of this potential refinancing, Borders has determined it is necessary to restructure its vendor financing arrangements and is delaying payments to certain of its vendors," Davis said in a statement Friday. "Borders has notified these vendors and is working with them to restructure their arrangements with the company."

"Borders has stated there can be no assurance it will be successful in restructuring its senior credit facilities or in restructuring its vendor financing arrangements," the statement continued. "As the company previously reported, the absence of the refinancing could cause the company to violate the terms of its existing credit agreements in the first calendar quarter of 2011 and the company could experience a liquidity shortfall."

Borders announced on Dec. 9 third-quarter losses of \$74.4 million, or \$1.03 a share, compared with a loss of \$37.7 million, or 63 cents a share, last year.

The results followed an announcement that key shareholder and activist investor William Ackman offered to finance a bid for the company to buy rival Barnes & Noble.

Like other bricks-and-mortar booksellers, Borders faces pressure from Internet competitors, such as Amazon; discounters, including Wal-Mart and Target; and a boom in digital content.

Borders has taken measures to stay afloat, including shuttering unprofitable stores, debuting several electronic readers at different prices, revamping its customer loyalty program and unveiling a digital bookstore through its website.

It's unclear whether vendors will continue to ship inventory. But the move would hurt the entire book industry, including authors, agents, publishers, printers and even trucking companies that bring the books from the warehouses to the stores.

"A lot of people in that value chain could be hurt," said Al Greco, a marketing professor at Fordham University's Graduate School of Business in New York.

Authors with books released in the first quarter wouldn't get their books into stores.

New releases are major drivers to stores; if Borders doesn't carry new releases, customers could turn to competitors.

"If that happens, that could be a really serious problem," Greco said.

The company's statement "indicates concern within Borders about its financial position," he said. That Borders said there's no assurance "tells you they've been working on it and are not sure."

"What's clear is that all of these events in the last 24 hours are not good signs," he added.

It would take a "white knight" with a cash infusion to save the beleaguered bookseller, Greco said.

These could include the company's largest shareholder and chairman, Bennett LeBow; Ackman, the second-largest shareholder, of New York-based hedge fund Pershing square Capital Management; or another private equity group.

If Borders isn't bought, merged or saved by private equity, it could face liquidation or a bankruptcy filing, Dalto said.

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