



## Business

Last Updated: January 07. 2011 1:00AM

# Borders' financial woes spark bankruptcy debate

## Analysts divide on bookseller's future after payment delays

Tim Devaney The Detroit News / The Detroit News

The financial problems of Borders Group Inc. have stirred debate among analysts about whether the next chapter in the Ann Arbor-based bookseller's story will involve bankruptcy.



The country's second-largest bookseller has talked this week with suppliers about restructuring agreements after it said a week ago Thursday that it had delayed payments to some

vendors. Company spokeswoman Mary Davis said Borders has no further comment about the meetings.

The company's stock price has fallen 38 percent since Dec. 6 — the day Borders revealed that activist shareholder William Ackman offered \$960 million in cash to help Borders acquire rival Barnes & Noble. Shares closed at 86 cents Thursday.

Four consecutive years of losses and a Borders' warning on Dec. 9 that the bookseller could face a cash shortfall early this year have focused attention on the company's future. The firm insists it doesn't face a liquidity crisis, and the Wall Street Journal reported Thursday, based on an unnamed source, that Borders doesn't plan to hire bankruptcy counsel.

A bankruptcy filing is looming, said Ken Dalto, a Farmington Hills retail analyst, who predicts it could happen by the end of the first quarter or the beginning of the second quarter.

"I don't see them surviving in their present form," Dalto said. "The morale has never been lower."

As evidence, he pointed to the Monday announcement of the resignations of two senior Borders executives — Thomas Carney, general counsel, and D. Scott Laverty, chief information officer. It is a sign they have given up on the company's survival, Dalto said.

But other analysts said bankruptcy isn't ensured.

While they agree that Borders faces trouble, they said Borders' suppliers and lenders have an incentive to renegotiate deals rather than risk going into bankruptcy court to try to recover payments that Borders owes them.

"The publishers are probably very interested in Borders having a future," said Michael Norris, a publishing analyst at Simba Information Inc., a Stamford, Conn., market research firm. "If they were to close, it would have an immediate and lasting impact on the publishers' bottom line. It's not going to be good for publishers to have a large bookseller go out of business."

Whether Borders files for bankruptcy affects consumers, who would be hurt by the move, analysts said. The company would be forced to eliminate products, raise prices and lower service, Dalto said.

"Customers won't be happy," he said. "Three or four years ago, if you called them up and wanted a book, they would spend 10 minutes looking for it for you. Now they will tell you they don't do that anymore."

But Borders won't file without a fight, another expert said.

"You can bet your life they are certainly trying to avoid bankruptcy at all costs," said turnaround consultant James McTevia, managing member of McTevia & Associates in Bingham Farms.

The most likely way for Borders to avoid bankruptcy is to reach agreements with creditors and lenders that would include publishers accepting interest-bearing IOUs and deferring payments while continuing to supply new books, said Albert Greco, a marketing professor at Fordham University's Graduate School of Business in New York.

The incentives for publishers to renegotiate are that they would only get pennies for every dollar that is owed to them in bankruptcy and might lose a big revenue source, Greco said.

"It could emerge if everybody comes through," he said.

But Barnes & Noble, the nation's largest traditional bookseller, is trying to complicate matters.

The company said Tuesday that if Borders gets deals for refinancing, so should it. Another option is merging with a competitor. McTevia believes this is Borders' best choice and a way for stockholders to walk away with some cash.

But a merger of two struggling companies would only make things worse, Norris said. "It just doesn't make any sense to me," he said. "A combination would be less than the sum of its parts."

From The Detroit News: <http://detnews.com/article/20110107/BIZ/101070334/Borders'-financial-woes-spark-bankruptcy-debate#ixzz1AMF3e6QO>