

Business

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Borders plans to sell whole chain by end of July

Rather than sell piecemeal, filing suggests wholesale deal in works

Jaclyn Trop/ The Detroit News

Borders Group Inc. said it plans to name a bidder by the end of next week and sell itself by the end of July in a move analysts say could change the culture and management of the homegrown bookseller.

Ann Arbor-based Borders laid out a timeframe for its sale in a filing late Friday, starting with the naming by July 1 of a "stalking horse" bidder — the firm that management chooses to make an initial bid. The nation's second-largest bookstore chain said it hopes to begin an auction July 19, hold a sale hearing July 22 and close the sale July 29.

Borders indicated in previous filings it planned to either restructure or sell only parts of itself, preparing for a wholesale deal. The company has continued to lose money since filing for Chapter 11 bankruptcy protection in mid-February, reporting a loss of \$34.5 million between May 1 and May 28, according to a filing late Monday with the Securities and Exchange Commission.

Two private equity firms, Gores Group LLC in Los Angeles and Phoenix-based Najafi Cos., are reported to be interested in buying the company.

"The going concern sale process has gained significant momentum in recent weeks, and the debtors are encouraged that one of the parties presently negotiating with the debtors will emerge as the successful buyer on a going concern basis, which the debtors believe would be the best outcome for all constituencies," Borders lawyer Andrew Glenn said in the filing.



Two private equity firms, Gores Group LLC in Los Angeles and Phoenix-based Najafi Cos., are reported to be interested in buying Borders Group Inc.. (Brandy Baker / The Detroit News)

A sale would change the culture of the bookseller that began in 1971 with a single shop near the University of Michigan and grew into an international player with its computerized inventory system and wide selection of academic books, said Farmington Hills retail consultant Ken Dalto.

"The academic culture Borders has always prided itself on — that's not going to be there," Dalto said. The new owners will be "business people who are there to redefine the market."

Borders will become more of a popular bookseller, focusing on new releases, current fiction and coffee-table books while cutting its selection of books in history, philosophy and other more esoteric subjects, he said.

The buyer likely will change the company's top management and look at cost-cutting with fresh eyes, re-evaluating expenses from unprofitable store locations to employee salaries and benefits, Dalto said.

"Workers will be asked to do more with less," he said.

Cutting pay and benefits won't help the company in the short term, said Fordham University marketing professor Al Greco.

The buyer "will have to do something to retain the best people they can," Greco said. "I think there's a concern there with basic morale among the troops in the trenches."

The extent of the changes to Borders' daily operations depends on the buyer's vision for electronic books and digital sales, said David Brophy, director of The Center for Venture Capital and Private Equity at the University of Michigan's Ross School of Business.

"Typically, the finance function is totally changed, and real estate reduction may also be in the works," Brophy said, referring to the possibility of more store closings in addition to the 237 locations that already have been shuttered.

Borders reached a deal with GE Capital last week that would allow it to keep open the 40 stores it considered closing because those landlords hadn't agreed to give Borders more time to decide whether to close them.

The agreement was a key step in allowing the bookseller to proceed with a sale, Borders spokeswoman Mary Davis said in a Monday statement.

"We are pleased to have reached agreement with our (debtor-in-possession) lenders on amendments to our DIP financing agreement, which will provide a clear path forward for achieving a successful sale of the business," Davis said. "Discussions are continuing with a number of interested parties, and we look forward to filing a stalking horse bid with the court on or before July 1."

The court will consider at a Wednesday hearing Borders' request to expand a \$25 million loan to \$30 million for a \$1 million fee.

More information

Borders sale

A proposed timeline of how Borders Group Inc. would sell its whole bookstore operation:

Wednesday: Get bankruptcy judge's approval to start auction process for selling company.

July 1: Get judge's approval of a "stalking horse" or first official bidder on the company.

July 15: Court issues order on first bidder and bidding procedures.

July 19: Auction is held, entertaining all bids for the bookseller.

July 22: Judge holds hearing about the sale of the firm.

July 29: Sale of Borders is closed.