

BUSINESS

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GE Capital throws \$550M lifeline to Borders

Jaclyn Trop / The Detroit News

Borders Group Inc. said Thursday it is getting closer to securing the financing it needs to restructure its business without closing its doors, but acknowledged for the first time that bankruptcy is an option.

GE Capital, a part of General Electric Co., will lend the Ann Arbor-based bookseller \$550 million if Borders can obtain \$175 million of that amount in credit from other lenders and \$125 million in junior debt financing from its vendors and other sources, according to a company statement. There was no deadline given for arranging the other credit.

The company also would have to close more stores "as soon as practicable," the statement said.

Borders delayed payments to publishers Dec. 31 as it suffered a cash crunch. The company has since cut 370 managerial and other jobs, shuttered a distribution center near Nashville, Tenn., and sold a calendar kiosk business.

But Borders Group President Mike Edwards said in a statement that "It is prudent as well for Borders to explore alternative avenues, including the possibility of an in-court restructuring."

Still, the traditional bookseller seems to pin its hopes on the new conditional loan.



More Borders stores, like this one in Farmington Hills, would close "as soon as practicable" under the offer from GE Capital. (Kiya Gibbons / Special to The Detroit News)

The money from GE Capital "will provide Borders with the financial flexibility and an appropriate level of liquidity to move forward with its strategy to reposition its business model and the Borders brand," according to the Borders statement.

Meeting the conditions could be tough, one retail expert said.

"It's good news, but it's subject to a lot of conditions, and they're difficult," said Ken Dalto, a consultant in Farmington Hills.

The stock market initially welcomed the news, boosting Borders' stock price by 6:30 p.m. Thursday about 40 percent to \$1.12 a share in afterhours trading on the New York Stock Exchange from a close of 81 cents.

Edwards said getting the financing is an important step for Borders to "reposition itself as a vibrant national retailer of books and other related products."

"We strongly believe that, based on our business strategy, Borders will be able to transform its business to capitalize on the evolving reading marketplace and perform as a best-in-class destination and shopping experience for consumers," Edwards said in a statement.

The company will focus on expanding its Borders Rewards Plus loyalty program, e-book market share and overall retail mix, including non-book offerings, according to the statement.

Meanwhile, Borders said it will aggressively reduce costs in its supply chain and stores, and invest in information technology.

Borders first indicated it was having financial problems in its third-quarter earnings announcement Dec. 9 when it said it could face a cash shortfall early this year. Since then it has stopped payments to some vendors and negotiated with publishers to restructure payments.

Publishers Weekly reported Thursday, based on anonymous sources, that book publishers are not persuaded that the chain has a viable turnaround plan and rejected a request from Borders this week to meet with them.

Larger rival Barnes & Noble has argued that if Borders gets refinancing deals, so should it.

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