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## Borders Group Inc. Stock price



Source: Free Press research Detroit Free Press

■ Net sales, net income, 9A

## Homegrown Borders is exploring a sale

By GRETA GUEST  
FREE PRESS BUSINESS WRITER

Borders Group Inc. put itself up for sale Thursday, after years of speculation that it would merge with the nation's largest bookseller, Barnes & Noble.

While industry analysts said New York-based Barnes & Noble will be a likely suitor for Borders, the Ann Arbor-based chain also got an infusion of high-interest cash to keep its ambitious turnaround plan

### Borders at a glance

**Michigan employment:** 1,232 at headquarters; 885 at 40 stores

**Based:** Ann Arbor

**Employees:** More than 30,000 worldwide at 1,100 stores

**2007 sales:** \$3.8 billion

**2007 profit:** \$157.4-million loss

**Rewards loyalty program:** 25 million members

afloat this year.

Investors responded harshly, sending Borders stock to an

all-time low of \$3.97 a share Thursday on the New York Stock Exchange. It closed down \$2.03, at \$5.07 a share, and has lost 51% of its value since January. It also suspended paying dividends to shareholders.

If Borders is purchased and the headquarters is moved out of state, "it would be yet another sad example of a homegrown company leaving" as Michigan's economy sags, said Pat-

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# BOOKS | Borders is exploring a sale

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rick Anderson, an East Lansing economist.

"I am very hopeful that Borders will stay here. The main problem Borders has is the financial markets and the slowing economy, not anything we have done in Michigan," he said.

Traditional bookstores have struggled in recent years as more people buy books online or at supercenters and warehouse stores. On Thursday, Barnes & Noble reported a 9.2% fall in profits for the fourth quarter. But Barnes & Noble boosted dividends and predicted a profitable first quarter for this year.

Borders, in contrast, suspended dividends, and arranged \$42.5 million in financing at 12.5% interest from its largest shareholder, Pershing Square Capital Management LP.

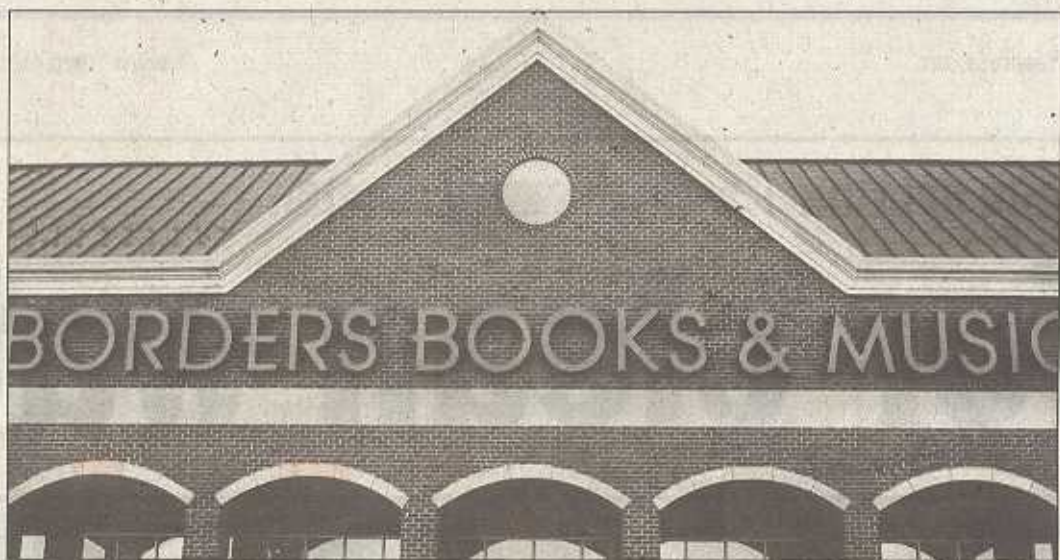
"I'm definitely upset at the decline in the share price. I'm a little bit in shock," said John Chevedden, 62, of Redondo Beach, Calif., who owns 250 shares of Borders stock. "I don't know if it means things are worse than they look. The other side of it is they are preemptive and they are trying to fix things before they get really bad."

Borders Chief Executive Officer George Jones told the Free Press on Thursday that a loan was needed because the retail environment became increasingly brutal after the credit crunch that began in August. There are no plans for layoffs, he added.

"There was not a crisis," Jones said. "So why did we do the loan? Because we don't want to have a crisis. We're not in trouble; we're not in trouble at all."

On a conference call with analysts Thursday, Borders management said it would work with advisers to reduce costs from headquarters to stores. Borders hired J.P. Morgan Securities and Merrill Lynch & Co. to advise it on strategic alternatives such as selling the company or certain divisions.

Besides the loan, Pershing Square, which owns 24.5% of Borders shares and has a representative on Borders' board of directors, made an offer to purchase certain parts of the company's international businesses

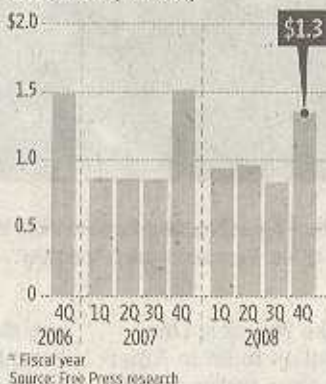


PATRICIA BECK/Detroit Free Press

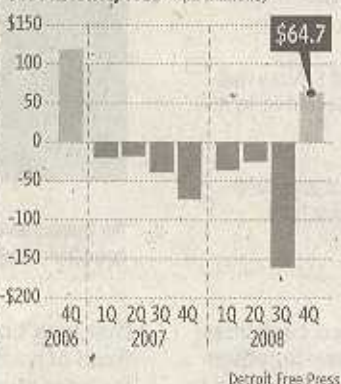
The Borders on Ford Road near the Southfield Freeway in Dearborn is one of 40 stores in Michigan. Borders Chief Executive Officer George Jones said Thursday that there are no plans for layoffs.

## Borders Group Inc.

Net sales\* (in billions)



Net income/loss\* (in millions)



for \$125 million. Those businesses include Paperchase and Australia, New Zealand and Singapore subsidiaries. Pershing also has a warrant to buy nearly 20% of Borders shares at \$7 a share for 7 1/2 years.

### Saving a name

It is too early to tell if Borders will go the way of Kmart or Frank's Nursery and Jacobson's, and add to the heap of bankrupt or merged Michigan retailers, said Kenneth J. Dalto, a Farmington Hills-based turnaround expert.

"One of the key things I see here is they have gotten help earlier than most of the other retailers," Dalto said. "Borders has a financial crisis and they have a core business model problem. They need to find a way to compete on the Internet and that requires a huge capital expansion."

"The situation is deeper. There are going to be manage-

ment cuts and people cuts," Dalto said. "Private equity firms don't put money in, especially in this economy, without making changes."

The cash infusion became more urgent after negotiations to sell Borders' Australia and New Zealand division fell apart last week.

For the quarter that ended Feb. 2, Borders reported profit of \$64.7 million, or \$1.10 a share, compared with a loss of \$73.6 million, or \$1.22 a share, during the same quarter in 2007.

Revenue dropped 2%, to \$1.35 billion from \$1.37 billion for the quarter. Analysts expected profits of \$1.42 a share on sales of \$1.37 billion.

### Difficult financing

The credit crunch made it difficult to arrange conventional financing, said Jones. He said Borders would have run into liquidity trouble without the Pershing Square funding in the

next few months.

"Overall, we believe that the 2009 financial targets we set back in March of last year remain attainable, yet within the current economic environment we will be slowed in our progress and expect that we'll reach them later than originally anticipated," Jones said.

Jones is leading the nation's second-largest bookseller in a turnaround effort. This year, the chain is rolling out concept stores that have digital centers for downloading music and books, and it's setting up strategic partnerships with online companies.

For 2007, Borders reported total sales of \$3.8 billion, up from \$3.6 billion the year before. It had a net loss of \$157.4 million for the year, compared to a loss of \$151.3 million in 2006.

Sales at stores open at least a year rose 1.5% at Borders superstores, 2.2% at Waldenbooks and 7.9% at Borders international stores.

Borders expects to unveil its new e-commerce site by May 3.

Anderson said that all retailers are feeling the pinch of the slowing economy.

"Borders is suffering because of the overzealous lending to marginal homebuyers," Anderson said. "I think Borders is a fundamentally sound company and has a fundamentally sound business strategy. They are not in danger of going under."

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