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Bankrupt Borders Group Chain Looking to Liquidate Assets at 51 Stores

By Tiffany Kary - Jun 9, 2011

[Borders Group Inc. \(BGP\)](#), the bankrupt bookstore chain, seeks court permission to liquidate assets at another 51 stores, even as it negotiates with landlords and lenders to avoid doing so.

Closing the stores, including those at New York's JFK International Airport and [Penn Station](#), will result in a "significant loss of jobs" and may not give the best returns to creditors, Borders said. It plans to try to shorten the list of stores if it can bargain more concessions from landlords. Meanwhile, its bankruptcy loan requires it to prepare for closing all 51 stores under certain deadlines or risk a default, Borders said in court papers filed today.

"This leaves the debtors with a Hobson's choice: the debtors can proceed with store-closing sales at these stores under these unfortunate circumstances or, if they refuse to do so, risk being placed into default," lawyers for Borders wrote in the papers in [U.S. Bankruptcy Court in Manhattan](#).

[Mary Davis](#), a spokeswoman for [Ann Arbor](#), Michigan-based Borders, said the company expects far fewer stores to close.

"We are actively working with our landlords to obtain the required stipulations," including an extension of the 210-day window given to bankrupt companies to assume or reject leases, she said.

Potential Bids

Borders said closing the stores means it won't be able to sell them. Najafi Cos., a private-equity firm, is considering buying many Borders stores, a person familiar with the matter said yesterday. Gores Group LLC, a Los Angeles-based private-equity firm, is bidding for at least half of Borders's stores, another person familiar with the matter said June 1.

"If they close all 50 stores, and say that includes some of their best, Najafi or Gores may say, 'why would I want the remaining stuff?'" said Schuyler Carroll, a partner at law firm Perkins Coie LLP in New York who specializes in bankruptcy. That could increase the risk for liquidation of the entire chain, he said.

Borders, though, should be able to get more time from lenders if it can show Najafi and Gores would want some of those stores, said Carroll, who isn't involved in the case.

Borders was founded 40 years ago as a single used-book store. The company, the second-largest book chain after [Barnes & Noble Inc. \(BKS\)](#), had 642 stores in February when it filed for court protection. It closed 237 of them, leaving 405 still operating.

\$505 Million Loan

When Borders filed for bankruptcy, it took out a \$505 million loan from a group of lenders led by General Electric Co.'s GE Capital unit, saying it needed the money to cover immediate expenses if it was to keep operating and reorganize.

Borders will pursue two paths as it seeks to avoid liquidating the stores. While seeking bankruptcy court permission to sell furniture, fixtures and equipment through a liquidator, the company asked lenders for a grace period until a court hearing around July 21 that could allow a sale of the entire business.

The lenders are still considering the proposal, Borders said. The company plans to choose a liquidator for the stores by June 16, after selecting a starting bid by June 15, according to court papers. Store-closing sales would have to begin by June 22 to avoid a default on the bankruptcy loan.

At the 51 sites, which include some of Borders's most-profitable stores, the company hasn't been able to get landlords to extend a deadline to assume or reject leases. Borders can't assume the property leases itself because creditors said they would object, company lawyers wrote.

"A combination of Amazon.com Inc., other Borders shops, Barnes & Noble, independents, digital and mass merchants will absorb the majority of 'lost' sales from closed Borders locations," Peter Wahlstrom, an analyst at Morningstar Investment Services, said in an e-mail.

The case is *In re Borders Group Inc.*, 11-10614, U.S. Bankruptcy Court, Southern District of [New York](#) (Manhattan).

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