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Borders Bankruptcy may be Inevitable

Bankruptcy expert Professor John Pottow said in an interview that either Borders Group Inc. will file for bankruptcy protection or merge with competitor Barnes & Noble. The well-known bookstore lost $74.4 million in the third quarter of 2010 and is presently seeking new sources of financing while negotiating with creditors to restructure payment agreements.

The situation is critical as Borders enters the period of the year that bookshop chains dread the most – the post-holiday buying period. If they fail in securing new financing, it may affect their ability to honor their present credit agreements in the first quarter of 2011.

A Goldman Sach report shows that Borders accounted for about 8.7% of physical book sales in 2010. This is a reduction compared to 11.4% in 2006. In the meantime, investors appear to seem consigned to the fact that Borders would not be able to stay afloat financially without some form of restructuring. The value of its public shares fell to 86 cents recently almost immediately after the bookstore chain announced on Dec 30 that it would be delaying payments to its publishers.

Borders has more than 500 stores costing the bookstore chain about $562 million in rentals each year. This represents about one-fifth of its total revenue. But filing for bankruptcy will get them out of many of these leases according to Pottow.

Industry experts believe that new financing arrangements might delay but not save Borders from bankruptcy. This is because any prospective lender would not keep advancing money if the bookshop is not a profitable going concern. Lenders would naturally seek a lender's priority protection from the bankruptcy court.

The top shareholder of Borders, Bill Ackman of New York hedge fund Pershing Square Capital Management proposed that Borders merge with Barnes & Noble by buying over Barnes & Noble's shares that are valued at about $16 per share. Ackman went further to commit himself to financing the acquisition if need be.

However, analysts are doubtful such an acquisition would work because of Borders' weak financial situation and real estate commitments.

One other possibility is that Barnes & Noble buy over Borders' assets should the latter file for bankruptcy. Being under bankruptcy would make these assets (that include store locations in prime areas) a very attractive prospect.

Under Chapter 11, Borders has 6 months to compile a bankruptcy plan for reorganizing their operations. This plan would have to be approved by a bankruptcy judge before proceeding.

Just like in the case of Borders, bankruptcy might be the solution to your debt problems. If you or your business is considering filing for bankruptcy, call us at (813) 200-4133 for a free consultation.