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DEALS & DEAL MAKERS

Borders in Talks With Najafi Cos.

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By JEFFREY A. TRACHTENBERG And MIKE SPECTOR
June 8, 2011

Private-equity firm Najafi Cos. is among those in discussions to buy Borders Group Inc. out of bankruptcy proceedings, said people familiar with the matter.

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Najafi, a boutique Phoenix-based firm that usually makes investments of \$1 billion or less, is competing with Los Angeles-based

Gores Group to purchase the beleaguered bookstore chain, the people said. Both Najafi and Gores attempt to buy companies that have fallen on hard times and make money by turning them around.

Both private-equity firms are in talks to buy more than 200 of Borders' remaining stores and keep the bookstore chain operating as a going concern, the people said. They are focusing attention on Borders' remaining 265 superstores, the larger retail outlets that garner the bulk of the chain's revenues, one of these people said. The possible bidders would also buy Borders' website operations and customer lists, this person said.

Gores would shift Borders more toward an online business model, should it acquire the chain, the people said, adding that Gores would use Borders' remaining stores to promote a shift toward an online retail business.

The talks are fluid and could fall apart, the people cautioned.

A Borders spokeswoman declined to comment. A Najafi representative didn't immediately respond to a request for comment.

Both Najafi and Gores are negotiating terms with Borders, one of the people said, ahead of a potential bankruptcy-court auction later in the summer. Borders hopes to soon select one of the suitors as a so-called stalking-horse bidder that would make an offer others must top in the bankruptcy auction, this person said.

Najafi is moving quickly to complete due diligence on Borders and cement an offer for the company, this person said. Details of Najafi's strategy for the company remain unclear, this person said.

Founded by Jahm Najafi in 2002, Najafi bought Network Solutions, a provider of Web address registrations, in 2003 for \$20 million in cash and an \$80 million assumption of debt. In 2007, Najafi flipped the company for \$800 million, or more than 30 times its initial investment. Mr. Najafi is also vice chairman of the Phoenix Suns professional basketball team.

Najafi is well-known in the book retail and publishing industries. In 2008, the firm acquired Direct Brands Inc., a direct-marketing company home to brands such as the Book of the Month Club, DoubleDay Book Club and Columbia House DVD.

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Unlike other private-equity firms, Najafi says it doesn't raise money from outside investors for deals.

Borders, which filed for Chapter 11 bankruptcy protection in February, is racing to find a buyer amid mounting losses. The bookstore chain has lost more than \$150 million in the past two months and owes large publishers \$182 million combined.

Borders has been trying to reorganize through bankruptcy proceedings but has intensified efforts to find a buyer amid losses and a cool reception from some publishers to its business plans. Publishers have essentially been demanding cash in advance for books, a departure from normal trade terms in which Borders pays several months later for goods received.

A judge recently granted Borders more time to reorganize while it pursues buyers. Publishers are anxious to see details of the suitors' plans for Borders, especially when it comes to digital books. Borders lacks its own e-reading device and has struggled to compete with [Barnes & Noble Inc.](#), [BKS -0.61%](#) with its Nook, and [Amazon.com Inc.](#), [AMZN -1.62%](#) with its Kindle. Borders does sell the Kobo e-reader, though it was developed by a Canadian e-book retailer in which it has an investment stake.

—Shira Ovide contributed to this article.

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