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ANNIVERSARY

## Most Powerful People

### Who's who in leadership?

Crain's looks at metro Detroit businesspeople who lead the way in influence and civic connectedness — and what the region must do to groom a new generation of movers and shakers,

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## Digital edition

### Top 10 stories of 2010

Recap the biggest news of the past year, plus all the latest, in a special holiday digital edition of *Crain's Detroit Business*, available at [craisdetroit.com](http://craisdetroit.com) beginning Sunday evening.

Paid subscribers already registered on our website will automatically receive an e-mail link. Subscribers who need to register can visit [craisdetroit.com](http://craisdetroit.com) and click the "register" link directly below the main navigation bar. The next regular print edition of *Crain's* will be Jan. 3, following the *Book of Lists* (see below) Dec. 27.

## Book of Lists

*Crain's Book of Lists* arrives Dec. 27, and it also is being made available in digital form with searchable content, Web addresses as hot

links, links to company articles and career centers and other features.

Print subscribers will receive both print and digital versions.

Standalone purchases of the digital edition cost \$36 and include a yearlong online subscription; standalone print copies are \$29.95. For more information, call (877) 824-9374.

# Snyder brightens biz outlook

Survey: 75% expect he'll have positive impact

BY NANCY KAFFER  
CRAIN'S DETROIT BUSINESS

Michigan business owners still aren't happy with the economy, but for the first time in years, some see a light at the end of the tunnel — and that may have something to do with Gov.-elect Rick Snyder.

In a recent survey of 300 metro Detroit business owners, operators or managers conducted by Lansing-based **Epic-MRA** for *Crain's Detroit Business* and **Honigman Miller Schwartz and Cohn LLP**, an overwhelming 75 percent of respondents said they expected Snyder, a technology entrepreneur

and venture capitalist, to have a positive effect on the economy.

"I'm thrilled Rick Snyder got into office because he really understands the challenges facing businesses," said survey respondent Eudora Adolph, a founding principal

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## ABOUT THE POLL

Part of a series of surveys sponsored by *Crain's Detroit Business* and **Honigman Miller Schwartz and Cohn LLP** on key business issues.

Full results are available at [craisdetroit.com/honigman](http://craisdetroit.com/honigman) and [honigman.com](http://honigman.com). Highlights are on Page 26.



BLOOMBERG NEWS SERVICE

Investor William Ackman has referred to himself as a "stuck holder."

## Borders investor's next chapter targets Barnes & Noble

BY DANIEL DUGGAN  
CRAIN'S DETROIT BUSINESS

When activist investor William Ackman bought an 11 percent share of **Borders Group Inc.** in 2006, he expected the \$24 stock to hit \$36 in 18 months.

It's been a long ride for Ackman since then.

He's poured four years of his time and has unrealized losses estimated at \$150 million for his investment in the Ann Arbor-based bookseller, referring to himself once as a "stuck holder."

As shares opened last week at \$1.25, Ackman proposed to use his hedge fund to finance a merger between Borders and its largest competitor, **Barnes & Noble Inc.**

Whether the merger has been his plan all along or a last-ditch effort to salvage some of his investment remains to be seen.

“He's got a losing bet, and he needs to make it a winner.”

Louis Meyer, Oscar Gruss & Son Inc.

Ackman did not respond to two requests last week for comment from *Crain's*.

An as investor, Ackman has earned a reputation for making investments in companies at a low price then pressuring management to make changes to turn the companies around. He's fought with the likes of Oak Brook-based **McDonald's Corp.**, Minneapolis-based **Target Corp.** and Atlanta-based **Wendy's Group Inc.**

Louis Meyer, an analyst covering Barnes & Noble for New York-based **Oscar Gruss & Son**

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## Dillon scouts talent for state turnaround team

Treasurer expects wave of local fiscal distress

BY TOM HENDERSON  
CRAIN'S DETROIT BUSINESS

Incoming state Treasurer Andy Dillon fears a potential wave of financially distressed municipalities and school districts may hit Michigan in the next few years.

So he's enlisting members of the state's legal and accounting communities and the state's **Turnaround Management Association** to come up with a plan to train more emergency financial managers.

Dillon met with about 20 business leaders Thursday afternoon at the **Detroit Regional Chamber** to begin the process.

Preliminary plans call for setting up seminars and training sessions next year for would-be emergency financial planners and for government executives seeking advice on how to begin financial turnarounds.

The goal is to act before such events as payless paydays or missing bond payments trigger automatic intervention by the state.

Dillon said it is crucial to improve the skills of emergency financial managers, who under state Public Act 72 are appointed by the governor.

In 2005, Gov. Jennifer Granholm appointed longtime politician Arthur Blackwell Jr. as emergency manager in Highland Park. He was



Dillon

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Building the infrastructure for tomorrow's economy.



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# Borders: Investor's next chapter targets Barnes & Noble

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Inc., said Ackman is seen largely as an opportunist with his hedge fund investments in companies overlooked by other investors.

Of Borders, Meyer said a merger may be the only way for someone like Ackman to recoup an investment in a struggling company.

"He's got a losing bet, and he needs to make it a winner," he said.

## Big winner, big loser

Ackman, 44, has a history of winning big — and losing big — but also brow-beating companies to get his way.

Son of a real estate mortgage investor, Ackman made a splash in the Wall Street world fresh out of **Harvard University**. He started a money management firm, **Gotham Management**, which grew from \$3 million in 1993 to \$500 million six years later.

At age 32, he was named a "40 Under 40" by *Crain's* sister publication *Crain's New York Business*.

*Forbes* estimates his net worth at \$700 million and deemed him earlier this year as one of its "billionaires in the making."

Through the years, his big wins and big losses have been chronicled, along with his taste for being highly involved with the turnaround of companies he owns.

A recent loss came at the hands of Target, according to *Crain's New York* coverage.

He set up an investment fund solely to invest in a Target Corp. upswing then had to apologize to investors when the fund lost 93 percent of its value.

On the other hand, he bought shares in mall operator **General Growth Properties** for \$60 million that are now \$1.2 billion, while the bonds he purchased for \$135 million are now worth \$480 million.

Ackman also bought a stake in Wendy's in 2006 and fought with management to spin off the profitable and growing **Tim Hortons**.

## FOURSOME OF HEAVY HITTERS

Major corporate investors are circling the two largest bookselling companies. Here's a look at who they are and what they want:

### David Ackman

■ **Net worth:** \$700 million

■ **Owns:** 14.7 percent of **Borders** shares

■ **What he wants:** To finance Borders' acquisition of **Barnes & Noble**.

### Ron Burkle

■ **Net worth:** \$3.2 billion

■ **Owns:** 18.75 percent of **Barnes & Noble**

■ **What he wants:** Prohibited from owning more than 20 percent of the company, he's fighting in court to own more. Wants to own the company; true intentions still a mystery.

### Bennett LeBow

■ **Net worth:** NA

■ **Owns:** 15.45 percent of **Borders**

■ **What he wants:** The largest owner and CEO of Borders wants to see a corporate turnaround.

### Leonard Riggio

■ **Net worth:** \$800 million (last calculated in 1999)

■ **Owns:** 29.7 percent of **Barnes & Noble**

■ **What he wants:** The company founder wants to lead Barnes & Noble buyout to take the company private.

Sources: Net worth from *Forbes* magazine, ownership amounts from Bloomberg

## An investor, lender

His entry to Borders stock came in November 2006 with a roughly \$10 million investment for about 7 million shares. He then increased the stake to 10.6 million shares a year later.

In April 2008, his **Pershing Square Capital Management LP** issued Borders a \$42.5 million loan, which Borders paid back but only after

several extensions. The deal gives Ackman the right to purchase 26 million shares as time goes on, though he is looking at losses on the stock he already owns.

Ackman's 10.6 million shares of stock represent a loss, on paper, of \$158 million, according to an October *Wall Street Journal* report.

Watching his investment, Ackman's firm took a more active role in Borders in 2008, when Richard "Mick" McGuire — a partner at Pershing Square — was named chairman of the bookseller's board of directors.

However, Ackman's influence in the company has faded in recent months.

In May, investor Bennett LeBow took a 15.4 percent stake in Borders for \$25 million to become its largest shareholder. In the process, LeBow became CEO of the company, as well as chairman of the board of directors, unseating Ackman's surrogate.

## Heavy hitters are swarming

Ackman's current run at merging Barnes & Noble with Borders is not his first attempt. His initial bid started back in 2006 when he started buying shares of both companies at the same time, building an 8 percent stake in Barnes & Noble and an 11 percent stake in Borders.

In 2008, Ackman's stake in both companies fueled rumors of a merger. Those rumors faded in February 2009, when Ackman sold all his 6.5 million shares in Barnes & Noble.

Merger speculation involving Ackman resurfaced again in August as part of a lawsuit filed by billionaire investor Ron Burkle.

Burkle, through his **Yucaipa Cos.**, owns 18.7 percent of Barnes & Noble and is suing the company because it created a rule to require shareholder approval for investments of more than 20 percent of the company.

Burkle has been at odds with

Barnes & Noble founder Leonard Riggio, who has been open about trying to make a play to buy Barnes & Noble himself and take it private.

According to New York-based **Bloomberg's** coverage of the Delaware court case, information has surfaced that Burkle, Riggio and Ackman have met to discuss bringing the two companies together.

Burkle also testified that he discussed working with Ackman to buy the company's assets in a bankruptcy, according to Bloomberg, and that Burkle disclosed the plan to Riggio.

In addition to Ackman, Riggio and Burkle, there are rumored to be seven other potential bidders for Barnes & Noble.

## Merger talks re-emerge

The idea of a Borders/Barnes & Noble merger surfaced again last week when Ackman filed a disclosure with the **U.S. Securities and Exchange Commission** indicating he would be interested in financing a Barnes & Noble acquisition on behalf of Borders.

In a company statement, Borders supported the idea and has not issued additional comments on the topic. Barnes & Noble has not commented either.

Analysts have applauded the idea of a merged company with less retail space and overhead costs.

In addition, a merged company would represent 44.1 percent of the market share for books, said Mary Gotaas, an industry analyst with Santa Monica-based **IBISWorld Inc.**

"However, the company's competition is not with other bookstores; it's with online retailers like Amazon, and mass merchandisers like Walmart," she said.

"If the merger brings down costs significantly enough to sell books at Amazon levels and still be profitable, the merger is likely to be

beneficial for the two struggling booksellers."

But challenges lie ahead for Ackman as some analysts believe the acquisition either couldn't be executed due to the poor performance of the entire book industry, or that the price is too low to be accepted by Barnes & Noble.

Ackman's offer of \$16 per share — roughly \$900 million — is too low, wrote Peter Wahlstrom, an analyst with Chicago-based **Morningstar Inc.**

"While stranger things have certainly happened, we view this scenario as unlikely, unless the transaction price inches higher," he wrote. "Both firms have their own internal and external challenges, and the risk is that combining entities now, under these circumstances, could present more of a distraction than anything else."

## Merger may be only way out

From Ackman's standpoint, there is likely no other way to make his money back than through a merger of the two companies, said Jim McTevia, managing partner of Bingham Farms-based business consulting firm **McTevia & Associates LLC**.

"In his position, he needs to be saying, 'We've tried everything,'" he said. "They've closed stores. They've cut expenses. They've done everything that, traditionally, a struggling company can do to get itself right."

For an investor like Ackman, the only options are to sell the company for a profit or to merge with a competitor.

"I've done this for 50 years, and I don't know how I'd make Borders profitable with major, major cost reductions," McTevia said. "(Ackman) is acting exactly the way any prudent investor would act. And a merger is the best way out."

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# Dillon: Incoming treasurer scouts talent for turnaround team

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later indicted in 2009 on two felony counts of embezzlement and one felony count of misconduct in office and awaits trial.

Those at Dillon's Thursday meeting included representatives from the accounting firm of Southfield-based **Plante & Moran PLLC** and the law firms of Detroit-based **Miller, Canfield, Paddock and Stone PLC**, Bloomfield Hills-based **Plunkett Cooney PC** and Troy-based **Giamarco Mullins & Horton PC**.

Also in attendance were Scott Eisenberg, president of the state chapter of the **Turnaround Management Association** and managing partner of Birmingham-based **Amherst Partners LLC** and Deputy Oakland County Executive Robert Daddow.

Dillon said his goal is to create a government turnaround association, whether it's a formal part of the TMA or a spinoff group. He said it will not be state funded.

"The goal is, when a city gets in trouble, to have a pool of qualified experts available to help, in ac-

counting, in labor law, in turnaround management," said Dillon.

"And if you still have to put an emergency financial manager in place, they can be a resource for the manager to go to."

Dillon said he wants to fast-track the program and would like to have the first seminar for prospective emergency financial managers in mid-January.

He also said the incoming Legislature needs to fine-tune Public Act 72 to make it easier for the state to intervene earlier with local units of government.

Eisenberg said Friday that he was in the process of polling his 14 board members about formally involving the association.

"I told Andy we'd look at setting up a division within the Turnaround Management Association to be a government practice unit," he said. "With Andy leading it and my recommending it, I can't imagine that there won't be a resounding 'Yes.'"

The association has 360 mem-

bers statewide.

"There's a concern about the failure of a lot of cities and school districts in the state. We need to figure out how to attack the problem earlier rather than later," he said.

Eisenberg said there likely will be a combination of two-hour training sessions and full-day seminars in 2011, both for would-be financial managers and financial managers of school districts and communities. No date has been set yet for a follow-up meeting of would-be stakeholders.

John Clark represented Giamarco Mullins at the meeting. He represents Robert Bobb, the emergency financial manager of the **Detroit Public Schools**, in the lawsuit filed against Bobb by the DPS board.

He also has represented several

emergency managers for municipalities, including Ed Kurtz in Flint, Lou Schimmel in Hamtramck and Ramona Henderson, Blackwell's predecessor in Highland Park.

"I typically get calls from financial managers when they walk in the door and they don't know where to start," he said.

Educating and perhaps even certifying emergency financial managers before they are appointed is a "fantastic idea" he said.

He said that for Dillon's plan to work, Public Act 72 needs to be changed.

"The current structure of the act doesn't allow the state to get involved soon enough. ... The ultimate goal is to get an intervention so you don't have to put a financial manager in place."

Daddow has long been preaching at conferences around the state, including a **Business Leaders for Michigan** program in Lansing last May, that local units of government haven't been nearly active enough to stave off a potential

calamity from declining tax revenues.

"The best possible solution to prevent municipalities from going under is to get officials to do what they need to do ahead of time," he said.

He said the **Michigan Department of Education** lists 42 school districts in financial distress.

"Who knows how many cities and townships are in trouble? No one's tracking it, but the problem is more serious than municipalities understand. Property taxes are still going down. Taxable real estate values are still going down. Foreclosures are still flowing."

"There are 46,000 **Michigan Tax Tribunal** cases backlogged," he said. "Some are significant, involving auto companies or tier-one and tier-two suppliers. As these cases are cleared in Oakland County, I'm going to lose money. We won't lose all of them, but we'll lose some of them."

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Eisenberg