MERCER

Consulting. Outsourcing. Investments.

March 21, 2011

Borders Group, Inc.
Restructuring Compensation Programs

John Dempsey john.dempsey@mercer.com

www.mercer.com

Contents

Introduction and Background

- Borders Group, Inc. ("Borders") is seeking to restructure its balance sheet and operations to maintain solvency through a traditional bankruptcy
- Mercer has been retained by the Board of Directors of Borders to advise on the development of a market competitive compensation program in order to create alignment of interests between key employees and the Company's financial stakeholders during the restructuring
- The purpose of this report is to provide Mercer's recommendations on the implementation of a Key Employee Incentive Plan ("KEIP") and Key Employee Retention Plan ("KERP") for employees critical to accomplishing a successful reorganization
- The remainder of this report provides:
  - An overview of Mercer's recommendations regarding the KEIP and KERP
  - Recommended award sizes for eligible employees
  - Details of competitive positioning

Guiding Principles

Mercer developed the following guiding principles based on competitive practices and our experience in designing compensation programs for reorganizations, with input from management

- Create incentive to **successfully restructure rapidly and emerge from bankruptcy quickly** while preserving the operational platform: stores still serving the reading public as well as a
  - Distribution channel for content producers, and
  - Tenant for landlords
- Store and SG&A rationalizations have to be implemented to complete restructuring; **successful implementation of a mutually agreeable rationalization** is implicit in the plan design
- **Do not reward for liquidation** or a protracted bankruptcy
- Proposed plan design elements and program costs **consistent with recent bankruptcies**
- Create and maintain **market competitive pay opportunities**, reflecting practices in the markets in which Borders competes for talent and bring compensation closer to market competitive levels for most critical employees
  - Below market median compensation in 2011

Rationale for Immediate Action

- The company has reduced corporate headcount by over 55% in the last two years. During that same period over 85 directors and officers have exited. The leadership group in place today has been selected to be the team that will manage through the restructuring and manage the on-going business. It is an extremely lean team as validated by Alix Partners as part of the SGA rationalization and consequently we do not anticipate significant SGA savings from headcount reduction.
- In the absence of annual and long term incentives at the Officer level, compensation will be far below competitive levels and employee engagement may suffer.
  - This risk of disengagement could be higher among the short service leaders whose future careers and reputations are less directly linked to Borders' survival, but who are critical to that survival.
  - The KEIP will bridge that gap and provide incentive for the officers to quickly and effectively move through and emerge with a plan of reorganization.
  - 70% of the 17 recommended KEIP participants have less than 18 months of service; of that, 50% have less than one year of service. Because of the short tenure, these leaders have been unable to accrue any value for the risk taken.
- The Director level lead the day to day execution; Should any of this team chose to leave, it will be extremely difficult, it not impossible to replace them during the bankruptcy, leaving significant functional leadership and talent gaps.
- The recommended KEIP and KERP presented herein are designed to provide the incentives to avoid liquidation and right size the Company to deliver positive financial results for stakeholders.

Overview of Recommended Plans

	Description	Eligibility	Maximum Cost
Key Employee Incentive Plan ("KEIP") *Senior & Executive Leaders*	▪ Awards earned based on completion of restructuring and payment will be based on the effective date of the Plan of Reorganization ("POR") ▪ Target award levels equal 150% of historical annual incentive target opportunities ▪ Participants can earn up to 150% of the *target* KEIP award, based upon timing from emergence (maximum)	▪ KEIP program to be implemented for key executives focused on restructuring efforts and ongoing business operations, including the Top 6 executives ▪ 17 employees, VP level and above	**Target Cost** **~$4.7 M** **Maximum Cost** **~$7.1 M**
Key Employee Retention Plan ("KERP") *Directors and Other Key Employees*	▪ Awards are based upon continued employment through the completion of the restructuring and paid upon emergence ▪ A lump-sum award equal to historical annual incentive target opportunities; no upside provided ▪ Other key employees would be eligible to participate in the discretionary pool based on management judgment – Awards would be determined on an individual basis and will not exceed $20,000	▪ KERP program to be implemented for 25 key directors focused on restructuring efforts and ongoing business operations – Excludes Officers and KEIP eligible employees ▪ Limited number of other key employees critical to restructuring	**~ $1.2 M[1]**
		Total Target Cost	**~$6.0 M**
		Total Maximum Cost	**~$8.3 M**

$8.3M represents 0.36% of Borders' 2010 revenue, which falls below the average for comparables of 0.39%

See pages 11-12 for additional details of comparables

[1]Includes discretionary pool of $300K for a limited number of other key employees critical to restructuring

Proposed KEIP Design Elements
Individual Award Opportunities

- Target award opportunities are set at 150% of historic annual incentive target opportunities
  - For the Top 5 Executives, target award opportunities range from 90% - 150% of base salary and have an average award size of $623K
  - For the Other 12 Key Executives, target award opportunities range from 60% - 90% of base salary and have an average award size of $135K
- Payout opportunities range from 0% - 150% of target (i.e., maximum payout of 225% of historic annual target opportunity), based upon timing from emergence
- As time spent within restructuring increases, award opportunities for participants decrease*

			Annual Incentive		KEIP Target		KEIP Payout - Timing of Emergence			Total Compensation		
Incumbent	Position Title	Base	% of Base	$ Value	% of Base	Target - $	<=6 Months	9 Months	>= 9 Months	<=6 Months	9 months	>= 9 Months
							150%	*100%*	*0%*	*Base Salary + KEIP Payout*		
Edwards, Mike	CEO	$750	100%	$750	150%	$1,125	$1,688	$1,125	$0	$2,438	$1,875	$750
Henry, Scott	EVP CFO BGI	$600	80%	$480	120%	$720	$1,080	$720	$0	$1,680	$1,320	$600
Cloutier, Michele	EVP CMO	$500	80%	$400	120%	$600	$900	$600	$0	$1,400	$1,100	$500
Frering,James M	EVP Store Operations	$350	80%	$280	120%	$420	$630	$420	$0	$980	$770	$350
Thompson,Rosalind	SVP Human Resources	$275	60%	$165	90%	$248	$371	$248	$0	$646	$523	$275
Top 5 Aggregate		**$2,475**		**$2,075**		**$3,113**	**$4,669**	**$3,113**	**$0**	**$7,144**	**$5,588**	**$2,475**
Other 12 Key Executives Aggregate		**$2,580**		**$1,082**		**$1,623**	**$2,435**	**$1,623**	**$0**	**$5,015**	**$4,204**	**$2,580**
Aggregate - All Participants		**$5,055**		**$3,157**		**$4,736**	**$7,104**	**$4,736**	**$0**	**$12,159**	**$9,791**	**$5,055**

Maximum Award

**Note: Payouts are interpolated based on actual timing of emergence between 6 and 9 months*

In addition to the amounts shown above, the company intends to seek court approval to honor the following prepetition arrangements:

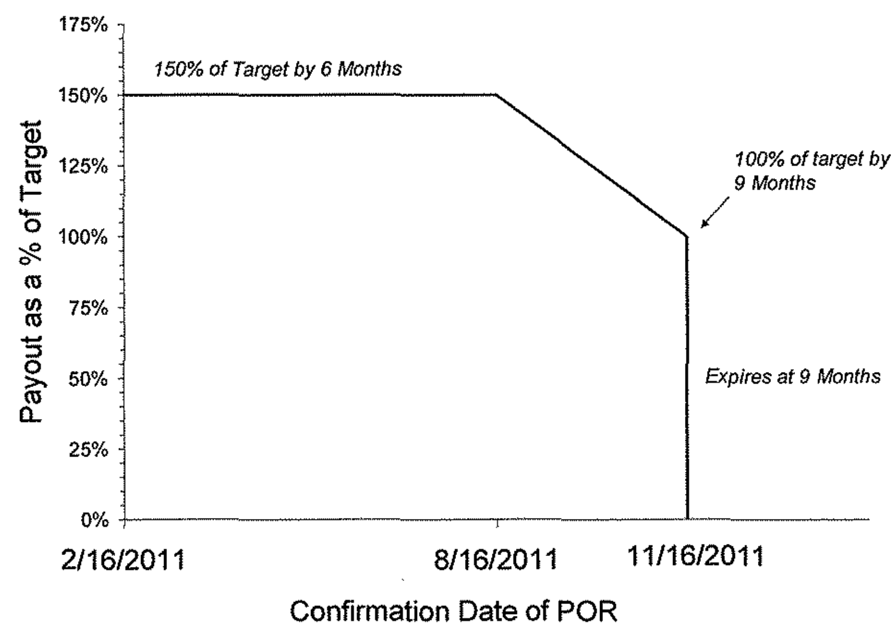
- *Michele Cloutier and Scott Henry: guaranteed deferred compensation of $200,000*
- *Glen Tomaszewski and Jason Cline: amounts earned with respect to pre-petition services of $100,000 and $75,000, respectively*

Proposed KEIP Design Elements (cont.)
Additional Terms

Element	Proposed Plan Design	Market Practice / Considerations
Payout Timing	▪ Payment will be based on the effective date of the POR and is contingent upon employment on the confirmation date ▪ To occur as soon as possible after the effective date	▪ Majority pay immediately upon the completion of the performance period – Most common performance period is effective date or consummation of POR
Performance Measures	▪ Completion of restructuring transaction as soon as reasonably possible and, in any event, within nine months ▪ Payment alternately triggered upon sale of all or substantially all the assets or sale of business unit of the participant ▪ Performance period occurs from filing date until emergence from Chapter 11	▪ Rewards participants for achieving a successful restructuring that enables emergence from bankruptcy while maximizing value for stakeholders

Emergence within	KEIP Award Adjustment
<= 6 months	150%
9 months	100%
>= 9 months	0%

**Note: Award adjustment is interpolated for emergence between 6 and 9 months*



Proposed KEIP Design Elements (cont.)
Market Benchmarking

- If no action is taken, executives will receive salary only and will be at 38% of market median total direct compensation (TDC) overall[1]
- Overall, assuming target KEIP payout, TDC (base + target KEIP award)[2] for the 17 participating executives is significantly below the market median, falling at 73% of the market median
  - Target TDC for the Top 5 Executives falls at 62% of the market median
  - Target TDC for the Other 12 Key Executives falls at 95% of the market median
- Assuming maximum KEIP payout, total direct compensation for participating executives also falls below the market median, falling at 91% of the market median

Incumbent	Position Title	Base Salary	Target KEIP %	Target KEIP $	Target TDC	Max KEIP $	Max TDC	Market TDC ($000) 25th %ile	50th %ile	75th %ile	Market TDC Index 25th %ile	50th %ile	75th %ile
Edwards, Mike	CEO	$750	150%	$1,125	$1,875	$1,688	$2,438	$2,941	$4,279	$6,685	64%	44%	28%
Henry, Scott	EVP CFO BGI	$600	120%	$720	$1,320	$1,080	$1,680	$1,137	$1,294	$1,938	116%	102%	68%
Cloutier, Michele	EVP CMO	$500	120%	$600	$1,100	$900	$1,400	$1,435	$1,555	$2,139	77%	71%	51%
Frering,James M	EVP Store Operations	$350	120%	$420	$770	$630	$980	$842	$1,247	$1,577	91%	62%	49%
Thompson,Rosalind	SVP Human Resources	$275	90%	$248	$523	$371	$646	$463	$620	$876	113%	84%	60%
Top 5 Aggregate		**$2,475**		**$3,113**	**$5,588**	**$4,669**	**$7,144**	**$6,818**	**$8,994**	**$13,215**	**82%**	**62%**	**42%**
Other 12 Key Executives Aggregate		**$2,580**		**$1,623**	**$4,204**	**$2,435**	**$5,015**	**$3,273**	**$4,422**	**$6,192**	**128%**	**95%**	**68%**
Aggregate - All		**$5,055**		**$4,736**	**$9,791**	**$7,104**	**$12,159**	**$10,091**	**$13,416**	**$19,406**	**97%**	**73%**	**50%**

[1] See page 18 for compensation definition

[2] For Borders, KEIP bonus is in place of long-term incentives; there is no annual incentive program for current fiscal year

Proposed KERP Design Elements

The KERP will help to promote continuity of business and retain and motivate important members of management throughout the restructuring process

Element	Proposed Plan Design	Market Practice / Considerations
Award Opportunities	▪ Provide 25 eligible directors with award opportunities equal to historic annual incentive target opportunities – Average award size of $37K ▪ All plan participants have consistent award opportunities equal to 30% of base salary	▪ Provide an effective means to retain non-insider key employees throughout the reorganization process ▪ High risk of turnover and little bench strength; considerable cost and the likelihood to finding a suitable replacement for such employees during this crucial period of time
Plan Costs	▪ KERP cost: $933K ▪ Discretionary Pool: $300K	▪ Market practices vary widely
Payout Timing	▪ Lump sum award payment will be made at the effective date of the POR ▪ Also paid upon involuntary termination without cause offset by any severance paid	▪ Recognizes that strategic and financial achievements prior to termination will likely be realized over the performance period
Eligibility (Excludes "insiders)	▪ Key employees critical to restructuring efforts and ongoing business operations ▪ A small number of other key employees would participate in the discretionary pool based on management judgment; individual awards not to exceed $20,000	▪ Recognizes the lack of annual incentives and will close the gap to market competitive levels for critical employees ▪ Recognize above and beyond efforts during restructuring
Plan Term	▪ Contingent upon Borders' successful restructuring and emergence from Chapter 11	

Appendix A:
KEIP Cost Comparison

Competitive Practice – Chapter 11 Comparator Group

- We examined a group of 20 companies that filed on or after January 1, 2009, with each company having a Supplemental Incentive Plan approved by the courts
  - All revenue sizes, ranging from approx. $350 million to $50 billion
  - All asset sizes, ranging from approx. $500 million to $30 billion
  - Excluding financial services industry and TARP companies
- We looked at market practices for both traditional and prepackaged/prearranged bankruptcies
- Borders' current revenues fall between the median and average of the comparator group
  - Borders' projected revenues upon emergence fall below the median and average of the comparator group

					Revenue ($M)	
	Company	Assets ($M)	Filing Date	Emergence Date	Before Filing[1]	Emergence / Most Recent[2]
	Companies Filed On or After January 1, 2009					
*	General Growth Properties	$27,392	4/16/09	n/a	$3,400	$3,136
*	Almatis B.V	$6,873	4/30/10	10/1/10	$400	$534
	Extended Stay Inc	$9,000	6/15/09	n/a	$1,000	$792 [3]
	Orleans Homebuilders, Inc.	$7,387	3/1/10	2/14/11	$330	$239
*	Reader's Digest Association, Inc.+	$8,072	8/24/09	2/22/10	$2,200	$2,121
	Nortel Networks	$3,064	1/14/09	n/a	$7,623	$4,088
*	Six Flags+	$29,577	6/11/09	5/3/10	$1,021	$953
*	American Media Operations, Inc.	$1,818	11/17/10	12/22/10	$462	$412
	Chemtura Corporation	$3,816	3/18/09	n/a	$3,500	$2,541
	Smurfit-Stone Container Corporation	$1,984	1/26/09	6/30/10	$7,420	$5,883
*	Journal Register+	$3,966	2/21/09	8/7/09	$460	$365
	Spansion Incorporated	$676	3/1/09	5/10/10	$2,282	$1,222
	Lear+	$3,031	7/7/09	11/9/09	$13,600	$9,740
	Pliant+	$7,133	2/11/09	12/3/09	$1,127	$1,045
	Lyondell Chemical Company	$622	1/6/09	4/30/10	$50,706	$36,768
*	Abitibi Bowater	$941	4/16/09	12/9/10	$6,800	$4,663
*	NTK Holdings (Nortek, Inc.)	$932	10/21/09	12/17/09	$2,270	$1,808
*	Newark Group	$1,530	6/9/10	8/16/10	$723	$712
	Tarragon Corporation	$1,134	1/12/09	7/6/10	$368	-
*	Cooper-Standard Holdings	$716	8/3/09	5/27/10	$2,595	$2,157
	Summary Statistics#					
	Median	**$3,047**			**$2,235**	**$1,808**
	Average	**$5,086**			**$5,683**	**$4,346**
	Borders	**$1,452**	**2/16/2011**	**n/a**	**$2,300**	**$1,500**

\+ Pre-packaged or pre-arranged bankruptcy

* Success Plan

General Growth Properties and Cooper Standard Holdings are excluded from the average statistics

1 Revenue reflects the annual sales of the corporation for the latest fiscal year end prior to the petition date

2 Revenue reflects the annual sales of the corporation for the year in which the company emerged, where available. For companies still in Chapter 11, the most recent year's reported revenue is reflected. For companies that emerged in 2010 or emerged private, financial projections are reflected. See pages 12-13 for details

3 Nortel Networks revenue excludes operations in Europe, Middle East, & Africa (where employees were not considered for participation in the US court-approved plan)

Competitive Practice – Chapter 11 Comparator Group – Emergence/Most Recent Revenue

- On average, comparator companies saw a 18% decline in annual revenue, when revenue for the year of emergence is compared to revenue in the latest fiscal year-end prior to the petition date
- As a result, the maximum plan costs as a percentage of revenue increased overall
  - Median maximum plan costs as a percentage of annual revenue in the year of emergence for the comparator group are 0.47%
- Assuming Borders' projected emergence revenues of of $1.5 billion, projected maximum plan costs are slightly above the market median, at 0.56%

Company	Assets ($M)	Revenue ($M) Before Filing[1]	Revenue ($M) Emergence / Most Recent[2]	Revenue ($M) % Change[3]	Maximum Cost ($M)	% of Revenue Before Filing	% of Revenue Emergence / Most Recent	
Companies Filed On or After January 1, 2009								
* General Growth Properties	$29,577	$3,400	$3,136	-8%	$70.80	2.08%	2.26%	4
* Almatis B.V	$1,530	$400	$534	34%	$4.30	1.08%	0.80%	
Extended Stay Inc	$7,133	$1,000	$792	-21%	$8.80	0.88%	1.11%	
Orleans Homebuilders, Inc.	$716	$330	$239	-28%	$2.38	0.72%	1.00%	5
* Reader's Digest Association, Inc.+	$3,966	$2,200	$2,121	-4%	$14.91	0.68%	0.70%	6
Nortel Networks	$9,000	$7,623	$4,088	-46%	$45.00	0.59%	1.10%	7
* Six Flags+	$3,031	$1,021	$953	-7%	$5.03	0.49%	0.53%	
* American Media Operations, Inc.	$941	$462	$412	-11%	$2.26	0.49%	0.55%	8
Chemtura Corporation	$3,064	$3,500	$2,541	-27%	$16.50	0.47%	0.65%	
Smurfit-Stone Container Corporation	$7,387	$7,420	$5,883	-21%	$27.83	0.38%	0.47%	9
* Journal Register+	$932	$460	$365	-21%	$1.30	0.28%	0.36%	10
Spansion Incorporated	$3,816	$2,282	$1,222	-46%	$5.50	0.24%	0.45%	
Lear+	$6,873	$13,600	$9,740	-28%	$22.02	0.16%	0.23%	
Pliant+	$676	$1,127	$1,045	-7%	$1.58	0.14%	0.15%	11
Lyondell Chemical Company	$27,392	$50,706	$36,768	-27%	$60.00	0.12%	0.16%	12
* Abitibi Bowater	$8,072	$6,800	$4,663	-31%	$6.00	0.09%	0.13%	13
* NTK Holdings (Nortek, Inc.)	$1,984	$2,270	$1,808	-20%	$2.00	0.09%	0.11%	
* Newark Group	$622	$723	$712	-2%	$0.50	0.07%	0.07%	14
Tarragon Corporation	$1,134	$368	-	-	$0.17	0.04%	-	15
* Cooper-Standard Holdings	$1,818	$2,595	$2,157	-17%	$1.04	0.04%	0.05%	16
Summary Statistics#	**Median**	**$2,235**	**$1,808**	**-21%**	**$5.26**	**0.33%**	**0.47%**	
	Average	**$5,683**	**$4,346**	**-18%**	**$12.56**	**0.39%**	**0.50%**	
Borders	$1,452	$2,300	$1,500	-35%	$8.34	0.36%	0.56%	

+ Pre-packaged or pre-arranged bankruptcy
* Success Plan

Footnotes to the exhibit are on the following page

** For companies still in Chapter 11, the most recent fiscal year's revenue is used. % Change is calculated as the change in average revenues for companies with revenue information available in both periods

General Growth Properties and Cooper-Standard Holdings are excluded from the average statistics

Competitive Practice - Chapter 11 Companies - Emergence/Most Recent Revenue

Analysis Footnotes:

1) Revenue reflects the annual sales of the corporation for the latest fiscal year end prior to the petition date
2) Revenue reflects the annual sales of the corporation for the year in which the company emerged, where available. For companies still in Chapter 11, the most recent reported revenue is reflected. For companies that emerged private, financial projections are reflected
3) The percentage change calculates the difference in revenues between the revenue in the latest fiscal year end prior to petition date and in the year of emergence (or most recently reported revenues).
4) General Growth's supplemental incentive plan is uncapped and payouts can be paid above the highest performance level. As such, the value understates the actual maximum plan cost. Due to size, General Growth is excluded from the *average* statistics
5) Orleans Homebuilders has just recently emerged; financial projections for FY2011 revenues reflected
6) Reader's Digest emerged from bankruptcy as a private company, financial projections for FY2010 revenues disclosed
7) The maximum value of the cash and equity bonus to be awarded to Nortel's top executives upon emergence was $103.50M; this value has not yet been earned
8) American Media Operations emerged from bankruptcy as a private company; financial projections for FY2010 revenues reflected
9) Smurfit-Stone has just recently emerged; financial projections for FY2010 revenues reflected
10) Journal Register emerged from bankruptcy as a private company, financial projections for FY2009 are disclosed
11) Pliant was acquired by Berry Plastics on December 3, 2009, financial projections for FY2009 disclosed
12) Lyondell Chemical emerged from bankruptcy as a private company, financial projections for FY2010 revenue disclosed
13) Abitibi Bowater has recently emerged, financial projections for FY2010 revenue disclosed
14) Newark Group emerged from bankruptcy as a private company, financial projects for FY2010 revenue disclosed
15) Revenue reflects the annual sales of the corporation for the latest fiscal year end prior to the petition date
16) Tarragon Corporation emerged from bankruptcy as a private company, financials are not disclosed
17) Cooper Standard emerged from bankruptcy as a private company, financial projections for FY2010 revenues reflected. Due to size, Cooper Standard is excluded from the *average* statistics

Appendix B: Non-insider Retention Bonus Plans

Non-insider Retention Bonus Plans
Companies filing after January 1, 2009

Company	Date of Filing	Date of Emergence	Number of Eligible Employees	Payment Schedule	Payment Amounts	Maximum Total Cost	Average Payment per Employee
Lyondell Chemical Company	1/6/2009	4/30/2010	350	▪ Amounts and timing of payments to be determined and approved in the future ▪ Retention period may range from 1-3 years	▪ Up to 30% of salary over 1-3 years	$15M[1]	$43,000
Nortel Networks	1/14/2009	n/a	880	▪ 25% on earlier of June 30, 2009 or 1st Milestone ▪ 25% on earlier of December 31, 2009 or 2nd Milestone ▪ 50% on earlier of June 30, 2010 or 3rd Milestone[2]	▪ 13 – 41% of salary	$22M	$25,000
Spansion	3/1/2009	5/10/2010	101[3]	▪ 33% on October 1, 2009 ▪ 67% on April 1, 2010	▪ 5% – 30% of salary	$2.7M[4]	$27,000
Crusader Energy Group	3/30/2009	n/a	27	▪ 50% on earlier of (i) September 30, 2009, (ii) Closing Date of sale of substantially all of Debtors' assets, or (iii) Effective Date of confirmation of Plan of Reorganization or liquidation ▪ 50% on earlier of (i) Closing date and (ii) Effective Date[5]	▪ 50% of salary	$1.2M	$44,000

(1) Up to $10 Million to be allocated immediately

(2) The three milestones are as follows:

1. The achievement of North American objectives of Nortel's cost reduction plan
2. The achievement of certain parameters, which have been disclosed to the Monitor, Committee and advisors to the Bondholder Group, that will result in a leaner and more focused organization
3. The later of the confirmation of the Debtors' plan of reorganization or the confirmation by the Canadian Court of a plan or plans of restructuring and/or arrangement in Canada

(3) Includes an undisclosed number of employees under a smaller Retention Bonus Plan

(4) Includes $200,000 from a smaller Retention Bonus Plan

(5) If Closing Date or Effective Date occurs before September 30, 2009, each Qualified Employee will receive 100% of the retention payment on the earlier of the Closing Date and the Effective Date. Note: Actual Effective Date of confirmation of Plan of Reorganization was December 16, 2009

Appendix C:
Market Compensation Data

Mercer developed a peer group from the population of specialty retailers, based on revenue size and scope (e.g. non-luxury, non-internet-only businesses)

Ticker	Company	Sales	Assets	Sub-Industry	Business Description
BKS	Barnes & Noble	$5,810	$3,706	Specialty Stores	Barnes & Noble, Inc., together with its subsidiaries, operates as a bookseller in the United States. The company provides access to books, magazines, newspapers, and other content across its multi-channel distribution platform.
PETM	PetSmart, Inc.	$5,336	$2,462	Specialty Stores	PetSmart, Inc., together with its subsidiaries, operates as a specialty retailer of products, services, and solutions for pets in North America.
FL	Foot Locker Inc	$4,854	$2,816	Apparel Retail	Foot Locker, Inc. operates as a retailer of athletic footwear and apparel. The company operates in two segments, Athletic Stores and Direct-to-Customers.
DKS	Dicks Sporting Goods Inc	$4,413	$2,245	Specialty Stores	Dick's Sporting Goods, Inc. operates as a sporting goods retailer in the United States.
RSH	Radioshack Corp	$4,276	$2,429	Computer & Electronics Retail	RadioShack Corporation engages in the retail sale of consumer electronic goods and services through its RadioShack store chain and non-RadioShack branded kiosk operations.
WSM	Williams-Sonoma Inc	$3,103	$2,079	Homefurnishing Retail	Williams-Sonoma, Inc. operates as a specialty retailer of home products.
SBH	Sally Beauty Holdings Inc	$2,637	$1,589	Specialty Stores	Sally Beauty Holdings, Inc., together with its subsidiaries, engages in the distribution and retail of professional beauty supplies. The company operates in two segments, Sally Beauty Supply and Beauty Systems Group.
CAB	Cabelas Inc	$2,632	$2,492	Specialty Stores	Cabela's Incorporated, together with its subsidiaries, operates as a specialty retailer and direct marketer of hunting, fishing, camping, and related outdoor merchandise.
CHRS	Charming Shoppes Inc	$2,065	$1,162	Apparel Retail	Charming Shoppes, Inc. operates as a specialty apparel retailer primarily for women in the United States. The company operates retail stores and related e-commerce Web sites under the LANE BRYANT, LANE BRYANT OUTLET, FASHION BUG, and CATHERINES PLUS.
JAS	Jo-Ann Stores Inc	$1,991	$1,000	Specialty Stores	Jo-Ann Stores, Inc. operates as a specialty retailer of fabrics and crafts in the United States.
URBN	Urban Outfitters Inc	$1,938	$1,636	Apparel Retail	Urban Outfitters, Inc. operates lifestyle specialty retail stores under the Urban Outfitters, Anthropologie, Free People, and Terrain brands; and engages in the apparel wholesale business under the Free People and Leifsdottir brands.
MW	Mens Wearhouse Inc	$1,910	$1,232	Apparel Retail	The Men's Wearhouse, Inc. operates as a specialty retailer of men's suits in the United States and Canada. The company operates its retail apparel stores under Men's Wearhouse, Men's Wearhouse and Tux, and K&G brand names in 47 states in the U.S.
ANN	Ann Taylor Stores Corp	$1,829	$902	Apparel Retail	AnnTaylor Stores Corporation, through its subsidiaries, operates as a specialty retailer of women's apparel, shoes, and accessories primarily in the United States.
CHS	Chicos Fas Inc	$1,713	$1,319	Apparel Retail	Chico's FAS, Inc., together with its subsidiaries, operates as a specialty retailer of casual-to-dressy clothing, intimates, complementary accessories, and other non-clothing gift items.
GCO	Genesco Inc	$1,574	$864	Apparel Retail	Genesco Inc. engages in the retail of branded footwear, licensed and branded headwear, and licensed sports apparel and accessories; and the wholesale of branded footwear primarily in the United States.

n = 15

BGP	**Borders Group Inc**	**$2,824**	**$1,425**
	75th Percentile	$4,344	$2,446
	50th Percentile	**$2,632**	**$1,636**
	25th Percentile	$1,924	$1,197

Note: Financials are Fiscal 2009

Compensation Benchmarking Methodology
Borders' compensation was compared to the following market data:

Compensation Element	Borders	Proxy Peer Group[1,2]	Survey[2]
Base Salary	2010 base salary	Most recent base salary	Most recent base salary
Target Annual Incentive	none	Target percentage where available, otherwise 3-year average actual bonus as a % of base salary, applied to most recent base salary	Most recent target annual incentive
Target Total Cash Compensation (TCC)	Base salary	Base salary + target annual incentive	Base salary + target annual incentive
Equity and Long-Term Incentives (LTI)	KEIP Bonus	Most recent 3-year average grant value[3]	Most recent year's grant value[3]
Total Direct Compensation (TDC)	Base salary + KEIP Bonus	TCC + LTI	TCC + LTI

[1] Proxy data will be the primary reference point for CEO, CFO, CMO and EVP Store Operations positions

[2] Data are aged to February 15, 2011 by 2.8% for 2010 and 3.0% for 2011, based on industry-specific data for executive positions from Mercer's 2010/2011 U.S. Compensation Planning Survey (median 2010 actual and 2011 expected salary increases)

[3] Stock options are valued using the Black-Scholes pricing model; all other forms of equity are valued at face value or target payout level on date of grant. Cash LTI Plans are valued at target payout level

Proxy Data – Chief Executive Officer
Mike Edwards – Chief Executive Officer

All values in USD '000s (except where noted)

Company	Revenue (MM USD)	Incumbent	Title	2009 Base Salary	2009 Target STI As a % of Base	2009 Target STI As a USD Amount	Total Cash Comp	3-yr Avg. LTI As a % of Base	3-yr Avg. LTI As a USD Amount	Total Direct Comp
RadioShack	4,276	Day, J.	Chair. & CEO	1,004	125%	1,250	2,254	592%	5,940	8,194
Williams-Sonoma	3,103	[1,2] Lester, W.	Chairman & CEO	975	100%	975	1,950	326%	3,177	5,127
Foot Locker	4,854	[3] Hicks, K.	Chairman, President, and CEO	1,100	125%	1,375	2,475	706%	7,764	10,239
Dick's Sporting Goods	4,413	Stack, E.	Chair. & CEO	700	200%	1,400	2,100	405%	2,837	4,937
Jo Ann Stores	1,991	[4] Webb, D.	Chairman, President, CEO	875	100%	875	1,750	276%	2,416	4,166
Men's Wearhouse	1,910	Zimmer, G.	Chair & CEO	956	6%	53 ‡	1,009	7%	69	1,078
PetSmart, Inc.	5,336	Moran, R.	Pres. & CEO	903	75%	678	1,581	211%	1,903	3,484
Barnes & Noble	5,810	[5] Lynch, Jr., W.	Chief Executive Officer	900	150%	1,350	2,250	862%	7,757	10,007
Charming Shoppes	2,065	Fogarty, J.	President & CEO	1,000	150%	1,500	2,500	41%	408	2,908
AnnTaylor Stores	1,829	[6] Krill, K.	Pres., CEO & Dir.	1,200	110%	1,320	2,520	448%	5,372	7,892
Urban Outfitters Inc	1,938	[7] Senk, G.	CEO	1,000	200%	2,000	3,000	200%	2,002	5,002
Sally Beauty Holdings	2,637	Winterhalter, G.	President and CEO	885	100%	885	1,770	246%	2,180	3,950
Cabela's	2,632	Millner, T.	Pres & CEO	800	100%	800	1,600	141%	1,125	2,725
Genesco Inc	1,574	Dennis, R.	President & CEO	779	80%	623	1,401	181%	1,411	2,812
Chico's FAS	1,713	[8] Dyer, D.	Pres. & CEO	950	100%	950	1,900	97%	919	2,819
Analysis Summary Statistics										
75th Percentile	4,344			1,027	138%	1,399	2,428	426%	4,390	6,685
50th Percentile	2,632			976	100%	1,001	2,003	246%	2,239	4,279
25th Percentile	1,924			904	100%	860	1,720	161%	1,302	2,941
Average	3,072			960	115%	1,098	2,058	316%	3,100	5,158
Borders Group, Inc.	**2,300**	**Edwards, Mike**	**CEO**	**750**					**Target TDC** **Max TDC**	**1,875** **2,438**

(‡) Bonus and total cash compensation reflect 3-yr avg. bonus

Notes

* 2010 Data are reflected for Barnes & Noble and Sally Beauty Holdings in exhibit

1 Mr. Lester will retire as Chairman and CEO and as a member of our Board on May 26,2010. Mr. Lester will continue to provide consulting and advisory services following his retirement.

2 Award made in conjuction with its review of fiscal 2009 performance and Mr. Lester's contribution to the company's performance, and as a part of its consideration of executive equity grants. The award will vest upon his retirement which is defined in the proxy as May 26,2010.

3 Did not participate in 2009 Annual Bonus Plan, but was entitled to an annual bonus calculated in the same manner as the Plan, with a guaranteed bonus equal to target

4 Pursuant to the employment agreement, Mr. Webb received an additional grant of restricted shares with a grant date value of $3.2 million on March 16, 2009.

5 Mr. Lynch became entitled to a $1,000,000 signing bonus upon entering into such employment agreement with the Company.

6 During fiscal year 2009, none of our Named Executive Officers received salary increases and will not in 2010.

7 One-third of the total number of performance stock units are eligible to vest on each of January 31, 2015, January 31, 2016, and January 31, 2017, except that additional performance stock units may vest on January 31, 2017. Performance measures beginning in Fiscal 2015.

8 1 year perf period + 2 years time based vesting

Proxy Data – Chief Financial Officer
Scott Henry – EVP Chief Financial Officer BGI

All values in USD '000s (except where noted)

				2009	2009 Target STI		Total	3-yr Avg. LTI		Total
Company	Revenue (MM USD)	Incumbent	Title	Base Salary	As a % of Base	As a USD Amount	Cash Comp	As a % of Base	As a USD Amount	Direct Comp
RadioShack	4,276	Gooch, J.	EVP & CFO	595	93%	555	1,150	397%	2,358	3,508
Williams-Sonoma	3,103	[1] McCollam, S.	EVP, CFO & COO	725	50%	363	1,088	143%	1,038	2,125
Foot Locker	4,854	McHugh, R.	SVP & CFO	575	75%	431	1,006	158%	906	1,912
PetSmart, Inc.	5,336	Molloy, L.	SVP, CFO	424	75%	318	743	188%	798	1,541
Barnes & Noble	5,810	Lombardi, J.	CFO	750	150%	1,125	1,875	324%	2,427	4,302
Dick's Sporting Goods	4,413	Kullman, T.	EVP Finance&Admin. & CFO	505	75%	378	883	166%	838	1,721
Charming Shoppes	2,065	Specter, E.	EVP, CFO	500	50%	250	750	90%	451	1,201
Jo Ann Stores	1,991	Kerr, J.	EVP, CFO	360	50%	180	540	169%	609	1,149
AnnTaylor Stores	1,829	[2] Nicholson, M.	EVP & CFO	600	60%	360	960	150%	901	1,861
Men's Wearhouse	1,910	Davis, N.	EVP CFO Treasurer	399	36%	145 ‡	543	21%	85	628
Urban Outfitters Inc	1,938	Kyees, J.	CFO	440	60%	264	704	--	--	704
Sally Beauty Holdings	2,637	Flaherty, M.	SVP&CFO	396	60%	238	634	158%	625	1,260
Cabela's	2,632	Castner, R.	VP,CFO& Chair of World's Foremost Bank	400	77%	308	708	67%	270	978
Genesco Inc	1,574	Gulmi, J.	SVP, Finance, CFO & Treas.	409	60%	245	654	101%	411	1,065
Chico's FAS	1,713	Kleeberger, K.	EVP Finance, CFO & Treasurer	550	80%	440	990	45%	247	1,237

Analysis Summary Statistics

75th Percentile	4,344			601	76%	416	1,025	168%	929	1,938
50th Percentile	2,632			514	60%	327	770	154%	731	1,294
25th Percentile	1,924			415	55%	254	698	93%	432	1,137
Average	3,072			522	70%	383	906	155%	878	1,725

Borders Group, Inc.	2,300	Henry, Scott	EVP CFO BGI	600					Target TDC	1,320
									Max TDC	1,680

(‡) Bonus and total cash compensation reflect 3-yr avg. bonus

Notes

* 2010 Data are reflected for Barnes & Noble and Sally Beauty Holdings in exhibit

[1] Empl. Agreement base salary reflect 2009 salary decisions.

[2] During fiscal year 2009, none of our Named Executive Officers received salary increases and will not in 2010.

Proxy Data – Chief Merchandise Officer
Michele Cloutier – EVP CMO

All values in USD '000s (except where noted)

Company	Revenue (MM USD)	Incumbent	Title	2009 Base Salary	2009 Target STI As a % of Base	2009 Target STI As a USD Amount	Total Cash Comp	3-yr Avg. LTI As a % of Base	3-yr Avg. LTI As a USD Amount	Total Direct Comp
PetSmart, Inc.	5,336	Miller, M.	SVP and CMO	319	50%	159	478	294%	937	1,415
Dick's Sporting Goods	4,413	Manto, G.	EVP & Ch.Merch.Off.	639	84%	536 ‡	1,175	167%	1,065	2,240
Sally Beauty Holdings	2,637	Lowery, B.	SVP and General Merchandise Manager, Beauty System	352	60%	211	563	126%	445	1,008
RadioShack	4,276	[1] Whitsett, P.	EVP, Chief Merchandising Officer	503	93%	469	972	292%	1,468	2,440
PetSmart, Inc.	5,336	O'Leary, J.	SVP, Merchandising & Supply Chain	461	75%	346	806	175%	806	1,612
Cabela's	2,632	[2] Snyder, P.	SVP of Merchandising & Chief Mktg	475	80%	380	855	113%	537	1,392
Analysis Summary Statistics										
75th Percentile	5,106			509	83%	459	968	263%	1,061	2,139
50th Percentile	4,344			481	78%	373	853	171%	895	1,555
25th Percentile	3,046			389	64%	251	641	136%	620	1,435
Average	4,105			471	74%	360	830	194%	900	1,730
Borders Group, Inc.	2,300	Cloutier, Michele	EVP CMO	500					*Target TDC*	1,100
									Max TDC	1,400

(‡) Bonus and total cash compensation reflect 3-yr avg. bonus

Notes

* 2010 Data are reflected for Sally Beauty Holdings in exhibit

[1] Mr. Whitsett ceased being a RadioShack employee on September 18, 2009.

[2] Patrick A. Snyder has been EVP & Chief Marketing Officer since January 2010.

[3] As James Zimmer elected to forego a significant portion of his base salary and receive a stock option grant equal to such value instead, he has been excluded from the summary statistics

Proxy and Survey Data – Top Store Operations
James M Frering – EVP Store Operations

- ***Proxy Data*** – Chief Operating Officer – Weighted 50%

All values in USD '000s (except where noted)

Company	Revenue (MM USD)	Incumbent	Title	2009 Base Salary	2009 Target STI As a % of Base	2009 Target STI As a USD Amount	Total Cash Comp	3-yr Avg. LTI As a % of Base	3-yr Avg. LTI As a USD Amount	Total Direct Comp
Dick's Sporting Goods	4,413	Schmidt, J.	Pres & COO	675	75%	506	1,181	137%	924	2,105
Charming Shoppes	2,065	Baron, J.	EVP, COO	532	50%	266	798	71%	379	1,177
Jo Ann Stores	1,991	[1] Smith, T.	Chief Operating Officer	575	75%	431	1,006	137%	788	1,795
Men's Wearhouse	1,910	Ewert, D.	Pres COO	499	51%	256 ‡	755	240%	1,199	1,953
Chico's FAS	1,713	[2] Jones, J.	EVP, COO	518	80%	415	933	51%	264	1,197
RadioShack	4,276	Bevin, B.	EVP, Store Ops	502	93%	469	971	311%	1,562	2,533
Jo Ann Stores	1,991	Haverkost, K.	EVP, Store Operations	400	50%	200	600	128%	512	1,112
Analysis Summary Statistics										
75th Percentile	3,170			569	78%	462	1,015	189%	1,090	2,084
50th Percentile	1,991			532	75%	426	958	137%	810	1,843
25th Percentile	1,950			514	51%	268	797	100%	457	1,219
Average	2,623			543	68%	373	916	154%	826	1,742
Borders Group, Inc.	2,300	Frering,James M	EVP Store Operations	350					Target TDC	770
									Max TDC	980

- ***Survey Data*** – Top Operations Executive - Weighted 50%
  - 10% premium for scope of responsibility

Base Salary			Target TCC			Target TDC		
25th %ile	50th %ile	75th %ile	25th %ile	50th %ile	75th %ile	25th %ile	50th %ile	75th %ile
$249	$298	$397	$346	$423	$593	$465	$651	$1,069

  - *Job Description:* Top position responsible for all store operations within a unique brand or business with full profit and loss responsibility. The responsibilities may include franchised operations. Develops operational plans and policies. Assists with long-range business planning and strategy. Ensures the successful implementation of staff policies or programs, but does not have staff or buying responsibility. Typically reports to a brand or business executive.

Survey Data

- **Rosalind Thompson** – SVP Human Resources
  - *Position Match:* Top Human Resources Executive

Incumbent Data			*Survey Data*								
Base Salary	Target TDC	Max TDC	Base Salary			Target TCC			Target TDC		
			25th %ile	50th %ile	75th %ile	25th %ile	50th %ile	75th %ile	25th %ile	50th %ile	75th %ile
$275	$523	$646	$251	$302	$373	$384	$478	$598	$463	$620	$876

  - *Job Description:* Top position responsible for company policies in employment, employee relations, compensation and benefits, orientation and training, safety and health, and employee services. This is typically a single incumbent position and may report to the Chief Executive Officer (CEO), Chief Operating Officer (COO), or Chief Administrative Officer (CAO).

MERCER