

July 22, 2011

Borders Group, Inc.
Borders, Inc.
100 Phoenix Drive
Ann Arbor, MI 48108
Attn: Mike Edwards, President and Chief Executive Officer
Scott Henry, Executive Vice President and Chief Financial Office

Re: **Payoff Letter**

Ladies and Gentlemen:

Reference is hereby made to (a) that certain Senior Secured, Super-Priority Debtor-in-Possession Credit Agreement, dated as of February 16, 2011 (as amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement"), by and among (i) BORDERS GROUP, INC., a Michigan corporation, as a debtor-in-possession ("BGI"), (ii) BORDERS, INC., a Colorado corporation, as a debtor-in-possession ("Borders" and, collectively with BGI, the "Borrowers", and each individually, a "Borrower"), (iii) each other Credit Party from time to time party to the Credit Agreement, each as a debtor-in-possession, (iv) GENERAL ELECTRIC CAPITAL CORPORATION, a Delaware corporation, in its individual capacity and as Working Capital Agent (the "Working Capital Agent") for the Secured Parties (as defined in the Credit Agreement), (v) GA CAPITAL, LLC, a Delaware limited liability company, as Term B Agent (the "Term B Agent") for the Term B Lenders (as defined in the Credit Agreement), and (vi) each lender party to the Credit Agreement (collectively, the "Lenders", and each individually, a "Lender"), (b) the other Loan Documents (as defined in the Credit Agreement) and all guaranties, security agreements, mortgages, subordination agreements, intercreditor agreements, pledge agreements, blocked account agreements, notes and other documents and instruments relating thereto (together with the Credit Agreement, collectively, the "Credit Documents"), and (c) the Final Order Pursuant to 11 U.S.C. §§ 105, 361, 362, 363, 364, 507 (1) Approving Postpetition Financing, (2) Authorizing Use of Cash Collateral, (3) Granting Liens and Providing Superpriority Administrative Expense Status, (4) Granting Adequate Protection, and (5) Modifying Automatic Stay (the "DIP Order"). All capitalized terms used herein and not defined herein shall have the meanings set forth in the Credit Agreement or the DIP Order, as applicable.

The payoff amounts for the Credit Parties as of July 22, 2011 at 5:00 p.m. (New York time) (the "Computation Date") under the Credit Agreement and the other Credit Documents are as follows (collectively, the "Payoff Amount"):

1. Outstanding principal amount of Revolving Loans under the Credit Agreement	\$97,980,914.79
2. Accrued but unpaid interest on Revolving Loans under the Credit Agreement calculated through July 25, 2011	\$71,524.68
3. Outstanding principal amount of FILO Loans under the Credit Agreement	\$20,000,000.00
4. Accrued but unpaid interest on FILO Loans under the Credit Agreement calculated through July 25, 2011	\$116,111.11
5. Outstanding principal amount of the Term B Loans under the Credit Agreement	\$36,615,142.17
6. Accrued but unpaid interest on the Term B Loans under the Credit Agreement calculated through July 25, 2011	\$348,841.16
7. Unused Commitment Fee under Credit Agreement in respect of Revolving Loans calculated through July 25, 2011	\$95,333.28
8. Carve-Out Amount up to the Carve-Out Cap to be funded in accordance with <u>Schedule I</u>	\$6,500,000.00
9. Other Fees	
a. Letter of Credit Fees calculated through July 25, 2011	\$124,873.28
b. Wire Transfer and Other Fees	\$0
10. Cash Collateral for Letter of Credit Obligations (including Cash Management Letters of Credit and other Letters of Credit)	\$38,224,316.64
11. Escrow Account for Ad Valorem Tax Matters	\$1,343,000.00

12. Out-of-Pocket Fees and Expenses of Term B Agent and Term B Lenders	\$2,000.00
13. Legal Fees of Counsel to the Working Capital Agent	\$550,000.00
14. Legal Fees of Counsel to the Term B Agent	\$242,851.97
15. Other Professional Fees	
a. Financial Advisor	\$89,710.00
b. Sales Consultant	\$40,424.00
16. Total Payoff Amount	\$202,345,043.08

From and after 1:00 p.m. (New York time) on July 25, 2011 and until the Payoff Effective Time (as defined below) (i) interest shall continue to accrue on the unpaid principal amount of the Loans at the rates set forth in the Credit Agreement, and (ii) the other fees shall continue to accrue as provided for in the Credit Agreement such that from and after 1:00 pm (New York Time) on July 25, 2011, there will accrue and be due and payable in addition to the Payoff Amount (i) a per diem charge on account of interest (x) on the Revolving Loans of \$12,079.80 per day, (y) on the FILO Loans of \$6,111.11 per day, and (z) on the Term B Loans of \$13,730.68 per day, (ii) a per diem charge of \$3,964.80 per day on account of the Unused Commitment Fee and (iii) a per diem charge of \$5,172.68 per day on account of Letters of Credit (the aggregate amount of all such additional interest, fees and reasonable legal fees and expense, the “Per Diem Amount”). The Borrowers further agree to pay any and all reasonable legal fees and expenses incurred by counsel to the Agents in connection with this Payoff Letter and the termination of the Credit Documents, including such amounts which are billed after the Computation Date and not included in the Payoff Amount as of the Computation Date. Upon request of the Borrowers, the Agents shall provide the Borrowers with a revised number for the amount of interest to be paid in addition to the Payoff Amount plus any such additional reasonable legal fees and expenses incurred since the Computation Date. In the event a wire transfer is not received by 1:00 p.m. (New York time) on any date of determination on or after July 25, 2011, the Per Diem Amount shall be calculated as if such wire had been received on the next Business Day. If the Agents receive the Payoff Amount prior to July 22, 2011 at 1:00 p.m. (New York time), the Agents shall refund to Borrowers within one Business Day an amount equal to 3 multiplied by the Per Diem Amount.

Upon receipt by the Agents of (i) a federal funds wire transfer of (x) the Payoff Amount by no later than 5:00 pm on the Computation Date or (y) the Payoff Amount plus the Per Diem Amount if the Payoff Amount is not received by 1:00 pm on July 25, 2011,

(ii) a fully executed counterpart of this Payoff Letter signed by the Borrowers, the other Credit Parties, the Term B Agent (on behalf of itself and the Term B Lenders) and the Working Capital Agent (on behalf of itself and the Revolving Lenders), (iii) entry of an order of the Bankruptcy Court in form and substance satisfactory to the Agents (the "Approval Order"), which among other things shall approve the payment of the Payoff Amount and the Per Diem Amount in accordance with the DIP Order (the time at which all of the conditions in the foregoing clauses (i) through (iii) shall first be satisfied is herein referred to as the "Payoff Effective Time"), the Working Capital Agent agrees to release its Liens and security interests in all of the assets and property of the Borrowers and the other Credit Parties (the "Property"); provided, however, that such Liens shall attach to the amounts payable to, or on account of, the Guaranteed Amount Deposit (as defined in the Agency Agreement referenced in the Approval Order). Upon the Payoff Effective Time, the Working Capital Agent (on behalf of itself and the DIP Secured Parties) agrees and acknowledges that (i) all outstanding indebtedness (including, without limitation, for principal, interest and fees) and other obligations of the Borrowers and the other Credit Parties under or relating to the Credit Documents with respect to the Credit Agreement shall be paid and satisfied in full and irrevocably discharged, terminated and released, (ii) all security interests and other Liens granted to or held by the Working Capital Agent for the benefit of the DIP Secured Parties in any Property as security for such indebtedness shall be forever and irrevocably satisfied, released and discharged, and (iii) the Credit Documents shall terminate and be of no further force or effect other than those provisions therein that specifically survive termination and those provisions that relate to Letters of Credit or the cash collateralization of Letters of Credit (the "Continuing Provisions"); provided that for the avoidance of doubt, if and to the extent applicable, the Continuing Provisions shall not alter the priority of the liens granted pursuant to the Agency Agreement and Paragraph 33 of the Approval Order to the joint venture comprised of Hilco Merchant Resources, LLC, Gordon Brothers Retail Partners LLC, SB Capital Group LLC, Tiger Capital Group LLC and Great American Group WF, LLC (collectively, the "Liquidators"), it being understood that no such liens of the Liquidators attach to cash collateral for Letter of Credit Obligations.

Upon the Payoff Effective Time, the Agents and the Lenders hereby (a) authorize the Borrowers or their attorneys or other agents to file the UCC-3 financing statements attached hereto as Exhibit A, and so long as any further terminations or discharges are in form reasonably satisfactory to the Agents, to terminate any and all other security interests, liens and other encumbrances that the Agents or the Lenders have or may have against any of the Property of the Borrowers and the other Credit Parties in connection with the Credit Agreement. Further, the Working Capital Agent agrees to take all reasonable additional steps requested by the Borrowers as may be necessary or appropriate to release the security interests of the Working Capital Agent in the Property. Each Borrower agrees to pay the Working Capital Agent, the Term B Agent and the Lenders for all out-of-pocket costs and expenses incurred by the Working Capital Agent, the Term B Agent or the Lenders in connection with the matters referred to in the previous sentence, and acknowledges that the execution of and/or delivery by the Working Capital Agent, the Term B Agent or the Lenders of any documents releasing any security interest or claim in any Property of the Borrowers and the other Credit Parties as set forth herein is

made without recourse, representation, warranty or other assurance of any kind by the Working Capital Agent, the Term B Agent or the Lenders as to their respective rights in any collateral security for amounts owing under the Credit Documents, the condition or value of any Property or any other matter.

Each Borrower hereby confirms that the Termination Date has occurred and that the commitments of the Lenders and the Working Capital Agent to make Loans or to incur additional Letter of Credit Obligations under the Credit Documents are terminated as of the date hereof, and, as of the date hereof, none of the Lenders or the Working Capital Agent shall have any further obligation to make Loans to, or to incur Letter of Credit Obligations on behalf of, the Borrowers or to renew, extend or amend any existing Letter of Credit Obligations. Notwithstanding anything to the contrary contained herein or in any of such releases or other documents, (a) the obligations and liabilities of the Borrowers and the other Credit Parties to Lenders and the Agents under or in respect of the Credit Documents insofar as such obligations and liabilities survive termination of the Credit Documents or relate to Letters of Credit or cash collateralization of Letters of Credit shall continue in full force and effect in accordance with their terms, and (b) the Borrowers and the other Credit Parties acknowledge and agree that their respective obligations and liabilities under the Credit Agreement and the other Credit Documents, including without limitation the DIP Order, and the Liens securing those obligations and liabilities, shall be reinstated with full force and effect or in such amount as is refunded if, at any time on or after the Payoff Effective Time, all or any portion of the Payoff Amount (or the Per Diem Amount if applicable) paid to the Working Capital Agent or the Term B Agent, in each case on behalf of itself and the applicable Lenders is voided, rescinded or refunded for any reason, including, without limitation, reversal, modification or vacatur of the DIP Order, all as though such payment had not been made, but in all cases including clauses (a) and (b) above, such liens being subordinated to the liens granted pursuant to the Agency Agreement and Paragraph 33 of the Approval Order to the Liquidators.

The Payoff Amount and the L/C Cash Collateral referred to below should be sent by federal funds wire transfer in immediately available funds in accordance with the wire instructions set forth in Schedule I no later than 5:00 p.m. (New York time) on July 22, 2011.

As a condition to the Agents' and the Lenders' accepting the Payoff Amount, and to secure the Borrowers' outstanding Letter of Credit Obligations, the Payoff Amount includes cash collateral in the amount of \$38,224,316.64 (the "L/C Cash Collateral"), and the Borrowers hereby assign to the Working Capital Agent and grant to the Working Capital Agent, on behalf of itself and the other DIP Lenders, a security interest in and lien upon the L/C Cash Collateral. In accordance with the terms of the Credit Agreement, the Working Capital Agent may, without further notice to or consent from any Borrower, apply such portion of the L/C Cash Collateral as may be required to pay any Obligations of the Borrowers or any Credit Party under the Credit Documents, including, without limitation, any Letter of Credit Obligations. The Working Capital Agent shall, without any demand or notice of any kind, have the rights and remedies of a secured party under the Uniform Commercial Code of the State of New York. The Working Capital Agent

shall return to the Borrowers L/C Cash Collateral or portions thereof in accordance with the provisions of the Credit Agreement relating to the cash collateralization of Letter of Credit Obligations or at such earlier time as determined by the Working Capital Agent. For the avoidance of doubt, such security interest and lien on account of L/C Cash Collateral shall be a first priority lien subject to no other lien or interest.

In addition, the Borrowers and the other Credit Parties acknowledge and agree that, upon the Payoff Effective Time, no Credit Party nor any of their respective Subsidiaries (collectively, the “Group Members”) shall have any defense, counterclaim, offset, recoupment, cross-complaint, claim or demand of any kind or nature whatsoever that can be asserted (a) to reduce or eliminate all of any part of the Group Members’ liability to repay the Working Capital Agent, the Term B Agent or any Lender as provided in the Credit Agreement or (b) to seek affirmative relief or damages of any kind or nature from the Working Capital Agent, the Term B Agent or any Lender. Credit Parties, each in their own right and with respect to the other Credit Parties, on behalf of their bankruptcy estates, and on behalf of all their officers and directors (collectively, the “Releasing Parties”, and each, a “Releasing Party”), hereby fully, finally and forever release and discharge the Working Capital Agent, the Term B Agent and the Lenders and all of the Working Capital Agent’s, the Term B Agent’s and the Lenders’ officers and directors (collectively, the “Released Parties”, and each, a “Released Party”) of and from any and all past, present and future actions, causes of action, demands, suits, claims, liabilities, Encumbrances, lawsuits, adverse consequences, amounts paid in settlement, costs, damages, debts, deficiencies, diminution in value, disbursements, expenses, losses and other obligations of any kind or nature whatsoever, whether in law, equity or otherwise (including, without limitation, any avoidance actions arising under Sections 541 through 550 of the Bankruptcy Code or applicable state law and any interest or other carrying costs, penalties, legal, accounting or other professional fees and expenses, and incidental, consequential and punitive damages payable to third parties), whether known or unknown, fixed or contingent, direct, indirect, or derivative, asserted or unasserted, foreseen or unforeseen, suspected or unsuspected, now existing, heretofore existing or which may hereafter accrue against any of the Released Parties, whether held in a personal or representative capacity, and which are based on any act, fact event or omission or other matter, cause or thing occurring at any time prior to and including the Payoff Effective Time in any way directly or indirectly arising out of, connected with or relating to the Credit Agreement, the other Loan Documents, the Interim Order, the DIP Order and the transactions contemplated thereby, and all other agreements, certificates, instruments and other documents and statements (whether written or oral) related to any of the foregoing; provided, however, that nothing herein shall release any Released Party from any act or omission of such Released Party to the extent that such act or omission is determined in a final, non-appealable order or judgment of the Bankruptcy Court or another court of competent jurisdiction to have constituted gross negligence or willful misconduct.

The Payoff Amount has been calculated assuming that the proceeds of all checks or similar instruments for the payment of money (collectively, “Checks”) that have been received by the Working Capital Agent and credited to the Borrowers’ account with the

Working Capital Agent are good collected funds. In consideration of the Working Capital Agent's, the Term B Agent's and Lenders' release of the Liens and security interests in and to any Property, the Borrowers hereto agree to reimburse the Working Capital Agent, the Term B Agent and the Lenders, as applicable, for all losses and liabilities which the Working Capital Agent, the Term B Agent or any Lender may incur at any time as a result of any nonpayment, claim, refund, or chargeback of any Check together with any expenses or other charges incident thereto. The amount of any such losses or liabilities reimbursed hereunder shall be paid to the Working Capital Agent, the Term B Agent or a Lender, as applicable, promptly by the Borrowers upon demand by the Working Capital Agent, the Term B Agent or such Lender therefor, as applicable, and the amount of such demand shall be conclusive upon the Borrowers in the absence of manifest error.

This Letter shall be governed by the internal laws of the State of New York. No party may assign its rights, duties or obligations under this Payoff Letter without the prior written consent of the other parties. This Payoff Letter may be executed in any number of separate counterparts, each of which shall, collectively and separately, constitute one agreement. The undersigned parties have signed below to indicate their consent to be bound by the terms and conditions of this Payoff Letter.

[Signature Pages Follow]

If you need additional information, please do not hesitate to contact us.

Very truly yours,

**GENERAL ELECTRIC CAPITAL
CORPORATION**, as Working Capital Agent and
Lender

By: _____
Name: Kristina M. Miller
Its: Duly Authorized Signatory

GA CAPITAL, LLC, as Term B Agent

By: _____
Name: Daniel Platt
Title: President and Portfolio Manager

ACCEPTED and AGREED:

BORROWERS:

BORDERS GROUP, INC.

By: _____

Name: Scott D. Henry

Title: Executive Vice President and Chief
Financial Officer

FEIN: 38-3294588

BORDERS, INC.

By: _____

Name: Scott D. Henry

Title: Executive Vice President, Chief
Financial Officer and Treasurer

FEIN: 38-2104285

BORROWER REPRESENTATIVE:

BORDERS, INC.

By: _____

Name: Scott D. Henry

Title: Executive Vice President, Chief
Financial Officer and Treasurer

FEIN: 38-2104285

BORROWER REPRESENTATIVE:

BORDERS GROUP, INC.

By: _____

Name: Scott D. Henry

Title: Executive Vice President and Chief
Financial Officer

FEIN: 38-3294588

GUARANTORS:

BORDERS PROPERTIES, INC.

By: _____

Name: Scott D. Henry

Title: Executive Vice President, Chief
Financial Officer and Treasurer

FEIN: 38-3237978

**BORDERS INTERNATIONAL
SERVICES, INC.**

By: _____

Name: Scott D. Henry

Title: Executive Vice President, Chief
Financial Officer and Treasurer

FEIN: 20-2025075

BORDERS DIRECT, LLC

By: _____

Name: Scott D. Henry

Title: Executive Vice President, Chief
Financial Officer and Treasurer

FEIN: 20-899-0084

Schedule I to Payoff Letter

- A. The following amount shall be sent by federal funds wire transfer in immediately available funds to a segregated account of the Borrowers for funding of the Carve-Out Amount in accordance with the wire instructions set forth below such amount:

1. Carve-Out Amount up to the Carve-Out Cap \$6,500,000.00

Wire Instructions:

PNC Bank, Pittsburgh
ABA No. 043-000-096
Account No. 1029086287
Account Name: Borders, Inc.
Reference: Carve-Out Amount

- B. The following amount shall be sent by federal funds wire transfer in immediately available funds to a segregated account of the Borrowers for funding of the Escrow Account for Ad Valorem Tax Matters in accordance with the wire instructions set forth below such amount:

1. Escrow Account for Ad Valorem Tax Matters \$1,343,000.00

Wire Instructions:

PNC Bank, Pittsburgh
ABA No. 043-000-096
Account No. 1029086375
Account Name: Borders, Inc.
Reference: Ad Valorem Tax Reserve

- C. The following amounts shall be sent by federal funds wire transfer in immediately available funds to an account of the Working Capital Agent in accordance with the wire instructions set forth below such amounts:

1. Outstanding principal amount of Revolving Loans \$97,980,914.79
under the Credit Agreement
2. Accrued but unpaid interest on Revolving Loans \$71,524.68
under the Credit Agreement calculated through July
25, 2011

3. Outstanding principal amount of FILO Loans under the Credit Agreement	\$20,000,000.00
4. Accrued but unpaid interest on FILO Loans under the Credit Agreement calculated through July 25, 2011	\$116,111.11
5. Unused Commitment Fee under Credit Agreement in respect of Revolving Loans calculated through July 25, 2011	\$95,333.28
6. Letter of Credit fees calculated through July 25, 2011	\$124,873.28
7. Wire Transfer and Other Fees	\$0
8. Cash Collateral for Letter of Credit Obligations (including Cash Management Letters of Credit and other Letters of Credit)	\$38,224,316.64
<u>Total Amount to Working Capital Agent:</u>	\$156,613,073.78

Wire Instructions:

Deutsche Bank Trust Company, New York, New York
ABA No. 021-001-033
Account No. 50 285 681
Account Name: General Electric Capital Corporation
Reference: CFK 1550 – Borders, Inc.

D. The following amounts shall be sent by federal funds wire transfer in immediately available funds to an account of the Term B Agent in accordance with the wire instructions set forth below such amounts:

1. Outstanding principal amount of Term B Loans under the Credit Agreement	\$36,615,142.17
2. Accrued but unpaid interest on Term B Loans under the Credit Agreement calculated through July 25, 2011	\$348,841.16
3. Out-of-Pocket Fees and Expenses of Term B Agent and Term B Lenders	\$2,000.00
<u>Total Amount to Term B Agent:</u>	\$36,965,983.33

Wire Instructions:

Wells Fargo Bank, Woodland Hills, GA

ABA No. 121-000-248
Account No. 4124 907445
Account Name: GA Capital Loan Admin
Reference: Borders Payoff

- E. The following amount shall be sent by federal funds wire transfer in immediately available funds to an account of Morgan, Lewis & Bockius LLP, Counsel to Working Capital Agent, in accordance with the wire instructions set forth below such amount:

1. Legal Fees of Counsel to Working Capital Agent \$550,000.00

Wire Instructions:

Wachovia Bank
ABA No. 031-201-467
Account No. 2100010985563
Account Name: Morgan, Lewis & Bockius LLP
Reference: 102504-0036
Swift Code: PNB PUS33

- F. The following amount shall be sent by federal funds wire transfer in immediately available funds to an account of Choate, Hall & Stewart LLP, Counsel to Term B Agent, in accordance with the wire instructions set forth below such amount:

1. Legal Fees of Counsel to Term B Agent \$242,851.97

Wire Instructions:

Bank of America, 100 Federal Street, Boston, MA 02110
ABA No. 026-009-593
Account No. 00000542-2720
Account Name: Choate, Hall & Stewart LLP
Reference: Invoice No. 1374090
Swift Code: BOFAUS3N

- G. The following amount shall be sent by federal funds wire transfer in immediately available funds to an account of FTI Consulting, Inc., Financial Advisor of Working Capital Agent, in accordance with the wire instructions set forth below such amount:

1. Professional Fees of Financial Advisor \$89,710.00

Wire Instructions:

Bank of America, N.A., Rockville, MD 20852

ABA No. 026-009-593
Account No. 003939577164
Account Name: FTI Consulting, Inc.
Reference: Invoice No. 7271765

- H. The following amount shall be sent by federal funds wire transfer in immediately available funds to an account of Matterhorn Retail Consulting Services, LLC, Sales Consultant of Working Capital Agent, in accordance with the wire instructions set forth below such amount:

1. Professional Fees of Sales Consultant \$40,424.00

Wire Instructions:

Fifth Third Bank, 10583 Perry Highway, Wexford, PA 15090
ABA No. 042-000-314
Account No. 7400515123
Account Name: Matterhorn Retail Consulting Services, LLC
Reference: Invoice No. 79