

United States Bankruptcy Court
Southern District of New York

	X
In re:	: Chapter 11
	:
Borders Group, Inc. <i>et al.</i>	: Case No. 11-10614
	:
Debtors	:
	X

**Monthly Operating Report for the Period
From August 28, 2011 to September 24, 2011**

Debtors' Address: 100 Phoenix Drive
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This Monthly Operating Report ("MOR") has been prepared solely for the purposes of complying with the monthly reporting requirements applicable in these Chapter 11 cases and is in a format that the Debtors believe is acceptable to the United States Trustee. The financial information contained herein is limited in scope and covers a limited time period. Moreover, such information is preliminary and unaudited, and is not prepared in accordance with accounting principles generally accepted in the United States ("GAAP").

I declare under penalty of perjury that this report and the attached documents are true and correct to the best of my knowledge and belief.

/s/ Ojas Shah
Ojas Shah
Chief Financial Officer / Treasurer
Borders Group, Inc.

10/19/2011

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re BORDERS GROUP INC., et al.
Debtor

Case No. 11-10614
Reporting Period: 8/28/11 - 9/24/11

Federal Tax I.D. # 38-3294588

CORPORATE MONTHLY OPERATING REPORT

REQUIRED DOCUMENTS	FORM NO.	DOCUMENT ATTACHED	EXPLANATION ATTACHED
Schedule of Cash Receipts and Disbursements	MOR-1	x	
Bank Reconciliation (or copies of debtor's bank reconciliations)	MOR-1	x	
Copies of bank statements			x
Cash disbursements journals			x
Statement of Operations	MOR-2	x	
Statement of Net Assets (Liabilities) - Liquidation Basis	MOR-3	x	
Status of Post-Petition Taxes	MOR-4	x	
Copies of IRS Form 6123 or payment receipt			x
Copies of tax returns filed during reporting period			x
Summary of Unpaid Post-Petition Debts	MOR-4	x	
Listing of Aged Accounts Payable	MOR-4	x	
Accounts Receivable Reconciliation and Aging	MOR-5	x	
Taxes Reconciliation and Aging (See MOR-7)			x
Payments to Insiders and Professionals	MOR-6	x	
Post-Petition Status of Secured Notes, Leases Payable	MOR-6	x	
Debtor Questionnaire	MOR-7	x	

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NOTES TO MONTHLY OPERATING REPORT

The Monthly Operating Report includes activity from the following Debtors:

Debtor	Case Number
Borders Group, Inc.	11-10614
Borders, Inc.	11-10615
Borders International Services, Inc.	11-10616
Borders Direct, LLC	11-10617
Borders Properties, Inc.	11-10618
Borders Online, Inc.	11-10619
Borders Online, LLC	11-10620
BGP (UK) Limited	11-10621

General Notes:

The financial statements and supplemental information contained herein are preliminary, unaudited, and may not comply in all material respects with accounting principles generally accepted in the United States ("GAAP"). In addition, the financial statements and supplemental information contained herein represent condensed combined information.

The accompanying unaudited consolidated financial statements have been prepared using the liquidation basis of accounting. Assets are presented at estimated net realizable amounts based on the Debtors' plans for liquidation. Liabilities subject to compromise are presented at amounts expected to be allowed as claims and other liabilities are presented at amounts expected to be paid in settlement of the respective obligations.

The unaudited consolidated financial statements have been derived from the books and records of the Debtors and include the results of operations for non-Debtor affiliates, which amounts are immaterial. This information has not been subject to certain procedures that would typically be applied to financial information in accordance with GAAP, and upon application of such procedures the financial information could be subject to material change.

The financial information contained herein is presented on a preliminary and unaudited basis and remains subject to future adjustment.

The results of operations contained herein are not necessarily indicative of results which may be expected for any other period or for the full year and may not necessarily reflect the consolidated results of operations and financial position of the Debtors in the future.

In re BORDERS GROUP INC., et al.
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NOTES TO MONTHLY OPERATING REPORT

General Notes (continued):

On July 13, 2011, the Company entered into an Agency Agreement (the "Agency Agreement") with Hilco Merchant Resources, LLC, Gordon Brothers Retail Partners, LLC, SB Capital Group, LLC, Tiger Capital Group, LLC and Great American Group, LLC ("JV Parties"). The Agency Agreement provides for the sale in liquidation of the inventory, fixtures and other assets of all or substantially all of the Company's retail book stores as well as certain other assets of the Company and its subsidiaries. On July 21, 2011, the Bankruptcy Court approved the Agency Agreement and authorized the Company to commence its sale in liquidation pursuant to the Agency Agreement.

MOR-1

Cash is received as described in the Debtors' motion to approve their cash management system and is consistent with the Debtors' cash management practices. Cash receipts and disbursements related to intercompany transfers among the Debtor entities have also been excluded from the analysis.

MOR - 4

The Debtors believe they are paying all undisputed taxes and preparing and filing all tax returns when due or obtaining extensions where necessary.

MOR-6

The Debtors have not included any payments of normal course wages, benefits or the payment of board fees to insiders. The Debtors have also not reported payments to professionals utilized in the ordinary course of business.

MOR-7

The Debtors have paid certain pre-petition liabilities in accordance with orders approved by the Bankruptcy Court authorizing such payments. The Debtors believe that all undisputed post-petition accounts payable have been and are being paid according to agreed upon terms specific to each vendor and/or service provider. Any aged amounts represent items subject to valid disputes, and certain items which have been paid subsequent to the end of the reporting period.

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SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS ¹
(\$000s)

Debtor	Cash Receipts
Combined Debtors	\$ 178,628
Total Cash Receipts	<u>\$ 178,628</u>

Debtor	Case Number	Cash Disbursements
Borders Group, Inc.	11-10614	\$ (3,902)
Borders, Inc.	11-10615	(152,402)
Borders International Services, Inc.	11-10616	-
Borders Direct, LLC	11-10617	-
Borders Properties, Inc.	11-10618	(17)
Borders Online, Inc.	11-10619	-
Borders Online, LLC	11-10620	-
BGP (UK) Limited	11-10621	-
Total Cash Disbursements		<u>\$ (156,321)</u>

Notes

1 - Amounts exclude receipts/disbursements made on behalf of the Debtors that did not flow through a Debtor bank account.

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BANK RECONCILIATIONS ^{1, 2, 3}
(\$000s)

Debtor	Case Number	Bank and Account Description	Bank Account No.	Bank Balance
Borders Group, Inc.	11-10614	BGI Concentration Account	1001738167	\$ 19,152
Borders, Inc.	11-10615	Bank of America Corporate Depository	4427082445	-
Borders, Inc.	11-10615	Borders Inc. Concentration Acct	1001744196	27,570
Borders, Inc.	11-10615	Waldenbooks Concentration Acct	66724060	2,352
Borders, Inc.	11-10615	Waldenbooks A/R	66724126	-
Borders, Inc.	11-10615	PNC Lockbox	4600091098	1
Borders, Inc.	11-10615	Sales Tax Reserve	1029086383	20,463
				<u>\$ 69,538</u>

- Notes**
- 1 - The Debtors have not included copies of bank statements or cash disbursement journals due to the voluminous nature of these reports.
 - 2 - The Debtors reconcile their bank accounts on a monthly basis.
 - 3 - The Debtors have excluded accounts with no balance as of the end of the reporting period and have also excluded accounts that receive cash deposits from local stores and corporate/institutional customers which amounts are regularly swept either to the Debtors' primary accounts listed above.
 - 4 - The Debtors have excluded the Ad Valorem Reserve Account and the Professional Fee Carve Out Account, which had balances of \$1,343K and \$51K as of September 24, 2011.

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STATEMENT OF OPERATIONS
(\$MM)

	Sep-11
Sales	\$ 3.3
Other revenue ¹	156.2
Total revenue	159.5
Cost of merchandise sold (includes occupancy)	95.1
Gross margin	64.4
Selling, general and administrative expenses	2.8
Operating income (loss)	61.6
Interest expense (income)	0.1
Total interest expense	0.1
Income (loss) before reorganization items and income taxes	61.5
Reorganization items, net	(4.6)
Income (loss) before income taxes	66.1
Income tax provision (benefit)	-
Net income (loss)	\$ 66.1

Notes

1 - Other revenue includes the write-on of all unredeemed gift cards issued prior to February 16, 2011.

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STATEMENT OF NET ASSETS (LIABILITIES) - LIQUIDATION BASIS
(\$MM)

	Sep-11
Assets:	
Cash and cash equivalents	\$ 75.0
Merchandise inventories	-
Accounts receivable and other assets	95.6
Property and equipment, held for sale	4.6
Total assets in liquidation	<u>175.2</u>
Liabilities:	
Trade accounts payable	3.2
Accrued payroll and other liabilities	61.1
Taxes, including income taxes	27.0
Liabilities subject to compromise	788.8
Total liabilities in liquidation	<u>880.1</u>
Net assets (liabilities) in liquidation	<u>\$ (704.9)</u>

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STATUS OF POST-PETITION TAXES 1,3
(\$000s)

	Beginning Tax	Amount Withheld and/or Accrued	Amount Paid	Ending Tax
Federal				
Withholding	\$ -	\$ 1,603	\$ 1,599	\$ 4
FICA-Employee	-	691	691	-
FICA-Employer	-	933	933	-
Unemployment 4	57	13	-	70
Total Federal Taxes	\$ 57	\$ 3,240	\$ 3,223	\$ 74
State and Local				
Withholding	\$ 78	\$ 463	\$ 433	\$ 108
Sales	-	13,896	13,896	-
Unemployment	48	123	-	171
Business Licenses	-	13	13	-
Real Property 2	-	-	-	-
Personal Property	-	-	-	-
Income/Franchise	-	-	-	-
Total State and Local Taxes	\$ 126	\$ 14,495	\$ 14,342	\$ 279
Total Taxes	\$ 183	\$ 17,735	\$ 17,565	\$ 353

Notes

- 1 - The Debtors have not included copies of Form 6123 and tax returns filed during this period due to the voluminous nature of these reports.
 2 - The Debtors do not own any real property. Real estate taxes paid by the Debtors are paid as part of an underlying lease obligation and the failure to pay such lease payments would not result in claims by the taxing authority against the Debtors.
 3 - The Debtors believe they are paying all undisputed taxes and preparing and filing all tax returns when due or obtaining extensions where necessary.
 4 - The Beginning Tax amount for Federal Unemployment taxes was adjusted to reflect a change in federal unemployment tax rate effective 7/1/2011.

STATUS OF POST-PETITION DEBTS 1
(\$000s)

Description	Aged by Due Date							Total
	Current	0-30	31-60	61-90	91-120	Over 120		
AP Merchandising 2,3	\$ 1,434	\$ (321)	\$ 7,288	\$ (709)	\$ (7,770)	\$ (231)	\$ (309)	
AP Other	620	1,411	446	3,417	(346)	(15)	5,533	
Total Post-Petition Debts	\$ 2,054	\$ 1,090	\$ 7,734	\$ 2,708	\$ (8,116)	\$ (246)	\$ 5,224	

Explain how and when Debtor intends to pay any past due post-petition debts.

Notes

- 1 - The Debtors believe they are paying all undisputed post-petition obligations according to terms. Aged amounts represent items subject to valid disputes, and certain items which have been paid subsequent to the end of the reporting period.
 2 - The amounts in this table include payments made to vendors in advance of our receipt of goods. Because such payments are classified as "Accounts receivable and other assets" in the accompanying Statement of Net Assets (Liabilities) under Form MOR-3, the amounts reported under this table will differ from those reported as "Trade accounts payable" on the Statement of Net Assets (Liabilities). In addition, the "Trade accounts payable" amount includes accruals made for merchandise received prior to the Statement of Net Assets (Liabilities) date, but for which no invoice had been received. Certain of these accruals are not included in the amounts shown under this Form MOR-4.
 3 - The Debtors' net debit accounts payable balance for AP Merchandising is primarily due to prepayments made to publishers for post-petition orders.

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ACCOUNTS RECEIVABLE RECONCILIATION AND AGING ¹
(*\$000s*)

Accounts Receivable Reconciliation	Amount
Total Accounts Receivable at the beginning of the reporting period	\$ 2,056
Plus: Amounts billed during the period	4
Less: Amounts collected during the period	(253)
Less: Amounts written off or returned during the period	(1,015)
Less: Bad Debt Estimate	(316)
Change in store accounts receivable, net	(1,580)
Total Accounts Receivable at the end of the reporting period	\$ 476

Accounts Receivable Aging	Amount
0-30 days old	\$ (11)
31-60 days old	246
61-90 days old	63
91-120 days old	48
121+ days old	446
Total Aged Accounts Receivable	792
Less: Bad Debts (Amounts considered uncollectible)	(316)
Net Accounts Receivable	\$ 476

Notes
1 - "Accounts receivable and other assets" in the accompanying Statement of Net Assets (Liabilities) under Form MOR-3 includes certain items not included in this table.

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PAYMENTS TO INSIDERS ¹

Name	Type of Payment	Amount Paid ²	Total Paid to Date
Scott Henry	Employment Agreement Signing Incentive	\$ -	\$ 100,000
Glen Tomaszewski	Employment Agreement Transition Incentive	-	100,000
Michele Cloutier	Employment Agreement Signing Incentive	-	50,000
Total Payments to Insiders		\$ -	\$ 250,000

Notes
1 - Payments to insiders excludes ordinary wages, severance, board fees, benefits and expense reimbursements that occurred during the reporting period.
2 - Represents payments made from August 28, 2011 - September 24, 2011.

PAYMENTS TO PROFESSIONALS

Name	Date of Court Order Authorizing Payment	Amount Approved ¹	Amount Paid ²	Total Paid To Date ¹	Total Incurred & Unpaid
AP Services, LLC	March 16, 2011	\$ 9,335,106	\$ 1,464,007	\$ 9,335,106	\$ -
Baker & McKenzie	March 15, 2011	641,906	90,014	537,477	104,429
BDO USA, LLP	April 7, 2011	2,106,322	232,881	1,811,739	294,583
Deloitte Tax LLP	April 7, 2011	373,287	3,525	328,964	44,323
Deloitte Consulting LLP	April 7, 2011	517,746	31,034	490,563	27,183
Deloitte Consulting LLP	April 7, 2011	767,787	-	680,589	87,198
Dickinson Wright PLLC	March 15, 2011	605,618	45,232	512,604	93,014
DJM Realty Services, LLC	March 16, 2011	498,384	89,960	419,383	79,001
Ernst & Young LLP	April 7, 2011	317,045	7,671	262,919	54,126
The Garden City Group, Inc.	February 17, 2011	1,466,148	276,868	1,442,431	23,717
Jefferies & Company, Inc.	March 16, 2011	1,064,970	161,538	899,970	165,000
Kasowitz, Benson, Torres & Friedman LLP	March 15, 2011	4,319,437	622,259	3,627,433	692,004
Lowenstein Sandler PC	April 7, 2011	1,804,196	303,120	1,510,777	293,419
Mercer (US) Inc.	April 7, 2011	82,471	15,248	63,889	18,582
Total Payments to Professionals		\$ 23,900,423	\$ 3,343,357	\$ 21,923,844	\$ 1,976,579

Notes
1 - Represents amounts approved and payments made from the date of each firm's retention through September 24, 2011.
2 - Represents payments made from August 28, 2011 - September 24, 2011.

**POST-PETITION STATUS OF SECURED NOTES, LEASES PAYABLE
AND ADEQUATE PROTECTION PAYMENTS
(\$000s)**

Name of Creditor	Scheduled Monthly Payment Due	Amount Paid During Reporting Period
DIP Principal - Term Loan ¹	N/A	N/A
DIP Principal - Revolver ¹	N/A	N/A
DIP Interest - Term Loan	N/A	N/A
DIP Interest - Revolver	N/A	N/A
Leases Payable ²	\$ 6,058	7,268
Adequate Assurance Payments - Utilities	N/A	-
Total Payments		\$ 7,268

Notes
1 - The DIP Term Loan and Revolver were paid off in full in July 2011.
2 - Amounts Paid include CAM, Tax, Utility charges not included in Scheduled Monthly Payment Due.

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DEBTOR QUESTIONNAIRE

Must be completed each month. If the answer to any of the questions is "Yes", provide a detailed explanation of each item. Attach additional sheets if necessary.

	Yes	No
1 Have any assets been sold or transferred outside the normal course of business this reporting period?	X	
2 Have any funds been disbursed from any account other than a debtor in possession account this reporting period?		X
3 Is the Debtor delinquent in the timely filing of any post-petition tax returns?		X
4 Are workers compensation, general liability or other necessary insurance coverages expired or cancelled, or has the debtor received notice of expiration or cancellation of such policies?		X
5 Is the Debtor delinquent in paying any insurance premium payment?		X
6 Have any payments been made on pre-petition liabilities this reporting period?	X	
7 Are any post-petition receivables (accounts, notes or loans) due from related parties?		X
8 Are any post-petition payroll taxes past due?		X
9 Are any post-petition State or Federal income taxes past due?		X
10 Are any post-petition real estate taxes past due?	X	
11 Are any other post-petition taxes past due?		X
12 Have any pre-petition taxes been paid during this reporting period?	X	
13 Are any amounts owed to post-petition creditors delinquent?		X
14 Are any wages payments past due?		X
15 Have any post-petition loans been received by the Debtor from any party?		X
16 Is the Debtor delinquent in paying any US Trustee fees?		X
17 Is the Debtor delinquent with any court ordered payments to attorneys or other professionals?		X
18 Have the owners or shareholders received any compensation outside of the normal course of business?		X

Explanations

- 1 The Debtors have sold assets pursuant to the *Order Approving Agency Agreement, Store Closing Sales and Related Relief* entered under Docket #91 on February 18, 2011, and the *Order Approving Agency Agreement, Store Closing Sales and Related Relief* entered under Docket #1377 on July 21, 2011.
- 6 The Debtors have made payments on account of pre-petition liabilities in accordance with Orders of the Bankruptcy Court specifically authorizing payment of such liabilities.
- 10 There are post-petition real estate taxes that are past due as a result of certain municipalities not accepting partial payments. The Debtors are working with the appropriate landlords to facilitate payments.
- 12 The Debtors have paid certain pre-petition taxes as permitted under the *Final Order Pursuant to 11 U.S.C. Section 105(a), 363(b), 507(a)(8) and 541 and Fed. R. Bankr. P. 6003 and 6004 Authorizing Debtors to Pay Pre-petition Taxes and Assessments* entered under Docket #388 on March 15, 2011.