Don’t Judge a Book By Its Cover

November 9, 2006
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Borders Group

Ticker: BGP

Recent price: $21

- 2nd largest U.S. book retailer
  - 13% of U.S. retail book market (versus Barnes and Noble at 17% and Amazon at 10%)

- 2006E Rev of $4.1bn and EBITDA of $235mm

- Year-end Enterprise Value of $1.6bn and Equity Value of $1.1bn (1)
  - EV / ’06 EBITDA: 6.9x
  - EV / ’06 EBITDA – Maint. Capex: 8.8x
  - P / ’06 EPS: 27.2x

Note: BGP fiscal year ends on January 31. Presentation based on a Calendar year.

Forward estimates based on Pershing estimates.

(1) Based on management’s guidance for Net Debt and shares outstanding at year end 2006. Assumes a $21 current stock price for BGP throughout this presentation.
# What is Borders?

<table>
<thead>
<tr>
<th>Superstores</th>
<th>Mall Stores</th>
<th>International</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large format (25,000 sq ft)</td>
<td></td>
<td>U.K. and Australia</td>
</tr>
<tr>
<td>Large selection</td>
<td>Waldenbooks</td>
<td>90 units / mix of large / small format stores</td>
</tr>
<tr>
<td>476 units</td>
<td>Small format, mall-based</td>
<td>Declining profitability</td>
</tr>
<tr>
<td>Most profitable segment</td>
<td>Limited selection</td>
<td></td>
</tr>
<tr>
<td>Positive sales trends</td>
<td>600 units</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Negative sales trends and declining profitability</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>% LTM Rev.</th>
<th>68%</th>
<th>17%</th>
<th>15%</th>
</tr>
</thead>
<tbody>
<tr>
<td>% LTM EBITDA</td>
<td>92%</td>
<td>5%</td>
<td>3%</td>
</tr>
<tr>
<td>% LTM ROA</td>
<td>10%</td>
<td>-1%</td>
<td>-2%</td>
</tr>
</tbody>
</table>
Borders was trading at approximately $27.50 per share in February 2005 but has since traded down primarily due to weakening margins and same store sales trends.
In 2005, Borders’ consolidated Adjusted EBITDA margins fell to 7.4% from the previous four-year average of approximately 8.6%
Traditional Sentiment on Borders

- **Unattractive industry**
  - “Amazon risk”
  - Consumer interest in books is declining
  - Difficult SSS comparisons with *Harry Potter*

- **Second place operator behind Barnes and Noble**
  - More exposure to declining Music category
  - Worse execution (lower working capital turns and sales / sq.ft.)
  - Low margin, legacy mall stores

- **Limited free cash flow due to large, recent cap ex initiatives**
  - Consolidating distribution centers
  - Significant store remodel program
Why Do We Like Borders?
1. The book superstore industry is misunderstood

- “Amazon risk” is largely exaggerated for superstores
- Book superstores are valuable franchises
- Minimal inventory risk because inventory is returnable at cost
- Maintenance capital is significantly less than depreciation because long-lived leasehold improvements are depreciated over initial lease term
2. Borders is a mix of high-quality businesses and several low-ROI, money-losing businesses which are in the process of being rationalized.

- Value of core Superstores business is obscured by declining profitability in the Mall Stores and International Stores.

- In addition, within the Superstores segment, value is being masked by a declining category as well as several recent management initiatives:
  - Rapid decline of Music sales (music was 22% of sales in 2001, now roughly 11%).
  - Recent initiatives, including (1) Remodel program, (2) Rewards program, and (3) Distribution center consolidation, have reduced reported Superstores profitability.
Why Do We Like Borders? (cont’d)

- **Superstores are healthy, growing and improving**
  - Stable EBITDA margins (9.5% - 10+% with high ROIC
  - Expected annual square footage growth of ~6%
  - Remodeling program will reduce Music category exposure
  - Opportunity to increase working capital turns

- **Mall and International segments are low ROIC businesses that can be monetized with minimal disruption**
  - Estimated ~$200mm of Net Working Capital on an estimated ~$15mm of EBITDA contribution
  - Potentially “worth more dead than alive”
  - New Management is focused on rationalizing business
3. Extensive share repurchase program and newly hired CEO should help drive value creation

- ~$500mm of share repurchases in the past 2.5 years
  - Common shares outstanding reduced by ~ 20%

- Company is repurchasing ~14% of market cap in the second half of 2006

- New CEO George Jones joined in July
1. “Misunderstood Industry”
“Amazon Risk?”

Superstores have increased share in tandem with Amazon by focusing on selection and quality of experience

Losers have been Independents, Mall stores, Mass Merchants and Book Clubs with limited selection

U.S. Consumer Book Industry 1993

- Superstores: 5%
- Independents: 19%
- Malls: 10%
- Other (book clubs, mass merchants): 66%
- Internet: 0%

Source: Borders Group management presentation.

U.S. Consumer Book Industry 2005

- Superstores: 27%
- Independents: 12%
- Malls: 1%
- Other (book clubs, mass merchants): 48%
- Internet: 12%
Book Superstores are attractive “anchor” tenants

- Favorable customer demographic – book buyers are well-educated, high-income customers
- Superstores are “Mini Malls” with books as the anchor

High-quality customer experience

- Borders ranked #2 in Overall Quality for Retailers in 2006 Harris Poll
- Not just a book store: café, community events, meeting place
- Customer spends an average of one hour in the store

Opportunity to sell more than books

- Barnes and Noble is the second-largest retailer of coffee in U.S.
- Borders achieving success with Seattle’s Best and Paperchase
Gross Margin Stability at Superstores

- Best sellers are ubiquitous and extremely price competitive, yet they represent less than 5% of typical superstore sales

- Nearly all (~97%) book inventory is returnable to the publishers at cost
  - Increases gross profit margin stability

- Book inventory is non-perishable and generally has limited “fad” risk
Industry Maint. Capex is less than Depreciation

Reported earnings for Book Retailers understates true cash flow

- Book retailers depreciate store assets over initial lease term ~ typically 10-15 years
- Maintenance capital requirements are lower than depreciation expense
  - Fixed assets (book shelves) last longer than lease terms
  - Maintenance costs typically limited to paint and carpeting

<table>
<thead>
<tr>
<th>Borders Group ($ in mm)</th>
<th>2006E</th>
</tr>
</thead>
<tbody>
<tr>
<td>D&amp;A</td>
<td>$130</td>
</tr>
<tr>
<td>Maintenance Capex</td>
<td>50</td>
</tr>
<tr>
<td>Difference</td>
<td>80</td>
</tr>
<tr>
<td>Net Income</td>
<td>$43</td>
</tr>
<tr>
<td>Maintenance FCF (after-tax)</td>
<td>$123</td>
</tr>
</tbody>
</table>

Price to Earnings 27.2x
Price to Maint FCF (after-tax) 9.4x

Based on Pershing estimates. Assumes a $21 stock price for BGP.
2. High-Quality Businesses Obscured by Money-Losing Businesses
Healthy Superstores Obscured by Bad Businesses

Superstores profitability and stability have been obscured by the Mall and International businesses, which are currently being rationalized.

Note: EBITDA Adjusted for non-cash asset impairment associated with store closures.
Within Superstores, there is Opportunity...

Superstores performance has also been masked by declining music sales and certain one-time costs in 2006

- Company has initiated a Store Remodel Program
  - Reduce exposure to declining Music sales
  - Increase high-margin Paperchase and Coffee sales

- Newly launched Rewards program and several one-time expenses have created noise in reported 2006 financials, obscuring results
  - Expenses for consolidating distribution centers, launching rewards program and remodeling store base

- Superstores EBITDA could increase by 40+% by 2008 as result of improved product mix, unit growth and elimination of these one-time expenses
Superstores: “Mini Mall” with several “Tenants”

<table>
<thead>
<tr>
<th>Tenant</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Books</td>
<td>“Anchor tenant.” Stable business</td>
</tr>
<tr>
<td>Café</td>
<td>Seattle’s Best. “Mini-Starbucks.” High margin + growing</td>
</tr>
<tr>
<td>Paperchase</td>
<td>Specialty paper like Kate’s Paperie. High margin + growing</td>
</tr>
<tr>
<td>Music</td>
<td>Deteriorating rapidly</td>
</tr>
<tr>
<td>DVD</td>
<td>Growth slowing</td>
</tr>
</tbody>
</table>
Superstores: Operating Data

- Typical store has 25,000 sq. ft
  - Up to 200,000 titles of books, music, movies plus a Cafe

- Attractive unit growth
  - 476 superstores
  - Current plan is to grow 30 units / year (~6% annually)

- Unit economics:
  - $2.4mm of invested capital ($1.2mm of fixed assets, $1.2mm of NWC)
  - Average unit sales of $5.7mm
  - Avg. 4-Wall EBITDA – Maint. Capex contribution of ~$700k
  - ~29% “stabilized” unlevered ROI \( \frac{700}{2,400} = 29\% \)

Based on Pershing estimates.
Superstores Historical Financials

Over the last five years, the Superstores segment has generated steady Adj. EBITDA margins between 9.6% - 10.3%

<table>
<thead>
<tr>
<th>($ in millions)</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Data:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Units</td>
<td>363</td>
<td>404</td>
<td>445</td>
<td>462</td>
<td>473</td>
</tr>
<tr>
<td>Growth</td>
<td></td>
<td>11.3%</td>
<td>10.1%</td>
<td>3.8%</td>
<td>2.4%</td>
</tr>
<tr>
<td><strong>Reported SSS</strong></td>
<td>2.0%</td>
<td>-1.2%</td>
<td>1.2%</td>
<td>0.6%</td>
<td>1.1%</td>
</tr>
<tr>
<td><strong>Financial Data</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>2,234</td>
<td>2,319</td>
<td>2,470</td>
<td>2,589</td>
<td>2,710</td>
</tr>
<tr>
<td>Growth</td>
<td>3.8%</td>
<td>6.5%</td>
<td>4.8%</td>
<td>4.7%</td>
<td></td>
</tr>
<tr>
<td>Adj. EBITDA</td>
<td>220</td>
<td>239</td>
<td>242</td>
<td>262</td>
<td>261</td>
</tr>
<tr>
<td>Margin</td>
<td>9.8%</td>
<td>10.3%</td>
<td>9.8%</td>
<td>10.1%</td>
<td>9.6%</td>
</tr>
<tr>
<td>Growth</td>
<td>8.5%</td>
<td>1.2%</td>
<td>8.6%</td>
<td>-0.6%</td>
<td></td>
</tr>
</tbody>
</table>

EBITDA adjusted for non-cash asset impairment associated with store closures.
Music Category Exposure Has Hurt

Excluding Music sales, Superstores same store sales ("SSS") trends have averaged 1.5% more than average reported comparable sales, based on our estimates.

<table>
<thead>
<tr>
<th>Year</th>
<th>Reported Superstore SSS</th>
<th>Estimated Music SSS</th>
<th>Music % of Sales</th>
<th>Music Impact on Reported SSS</th>
<th>Est. Superstore SSS (ex-music)</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>2.0%</td>
<td>(4.0%)</td>
<td>22.0%</td>
<td>(0.9%)</td>
<td>2.9%</td>
<td>0.9%</td>
</tr>
<tr>
<td>2002</td>
<td>(1.2%)</td>
<td>(8.0%)</td>
<td>17.0%</td>
<td>(1.4%)</td>
<td>0.2%</td>
<td>1.4%</td>
</tr>
<tr>
<td>2003</td>
<td>1.2%</td>
<td>(11.4%)</td>
<td>16.0%</td>
<td>(1.8%)</td>
<td>3.0%</td>
<td>1.8%</td>
</tr>
<tr>
<td>2004</td>
<td>0.6%</td>
<td>(12.0%)</td>
<td>15.0%</td>
<td>(1.8%)</td>
<td>2.4%</td>
<td>1.8%</td>
</tr>
<tr>
<td>2005</td>
<td>1.1%</td>
<td>(12.0%)</td>
<td>11.0%</td>
<td>(1.3%)</td>
<td>2.4%</td>
<td>1.3%</td>
</tr>
</tbody>
</table>

Avg. 

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>0.7%</td>
<td></td>
<td></td>
<td></td>
<td>2.2%</td>
</tr>
</tbody>
</table>
Remodeling: Improving the Superstore

Remodeling program will reduce Music category exposure by ~50% and improve Coffee and Paperchase sales

- Reducing Music category exposure and replacing with high-margin Paperchase category
  - Music margins are ~20% versus Paperchase margins of ~50%
  - Paperchase has higher sales per square foot than Music

- Upgrading Café offering to Seattle’s Best Coffee (Starbuck’s subsidiary)

- Significant financial benefits in Year 1
  - Estimated storewide 2.6% sales lift
  - 40bps of margin improvement due to mix shift to higher-margin products with minimal maintenance capital requirements

- Remodels one year after conversion continue to outperform
## Remodeling: Attractive Use of Cash Flow

Based on the first year of remodel activity, the New Format Superstores should have over 22% return on remodel cap ex

<table>
<thead>
<tr>
<th></th>
<th>Old Format</th>
<th>New Format</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$5,700</td>
<td>$5,848</td>
<td></td>
</tr>
<tr>
<td>Sales Lift (Year 1)</td>
<td></td>
<td>2.6%</td>
<td></td>
</tr>
<tr>
<td>Incremental Sales</td>
<td>$148</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contribution Margin</td>
<td></td>
<td>35.0%</td>
<td></td>
</tr>
<tr>
<td><strong>Profit on Incremental Sales</strong></td>
<td>$52</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Margin Benefit from Mix (Year 1)</td>
<td>40 bps</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Margin Increase from Mix</td>
<td></td>
<td>$23</td>
<td></td>
</tr>
<tr>
<td>Combined Margin Benefit</td>
<td>$75</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Remodel Cost (net of W/C reduction of $15k)</td>
<td>$335</td>
<td></td>
<td>Note: 40% current contribution margin</td>
</tr>
<tr>
<td>ROIC (Year 1)</td>
<td></td>
<td>22.5%</td>
<td>Seattle's Best Coffee / Specialty Paper</td>
</tr>
</tbody>
</table>

Based on Pershing estimates and management guidance.
Rewards Program Creating “Noise” in Financials

Newly launched Rewards Program has created noise in Superstores financials

► What is the Rewards Program?
  ■ 5% of all purchases (triggered at $200 per Rewards customer) are credited towards a Holiday Spending Account
  ■ “Use it or lose it”

► What is the impact?
  ■ Accrual assuming 100% redemption
  ■ Launch and accrual expenses have reduced YTD Superstores segment EBITDA compared to prior years
    ● Rewards accruals of $8.4mm
    ● Advertising and payroll for launch of $4.2mm
    ● Reduced YTD EBITDA by 18%
Rewards Program Creating “Noise” in Financials

What will be the impact of Rewards going forward?

- **Q3 reported earnings will feel the most impact**
  - Accrual amount likely to accelerate as larger member base exceeds $200 spending level
  - Q3 is historically the weakest quarter, usually breakeven to slightly negative earnings

- **We expect that Q4 will see a positive impact from Rewards**
  - We believe Q4 guidance conservatively assumes high redemption rate and no incremental sales

- **Prior year test markets showed positive impact**
  - Comparable sales in test markets were higher – implying incremental sales
  - Avg. ticket w/ rewards credit was 2x avg. ticket w/o rewards credit
### One-Time Costs Expected in 2006E

#### Superstores Segment Financials

<table>
<thead>
<tr>
<th></th>
<th>2005A</th>
<th>2006E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Same store sales</td>
<td>1.1%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Revenue</td>
<td>$2,710</td>
<td>$2,795</td>
</tr>
<tr>
<td>EBITDA</td>
<td>261</td>
<td>228</td>
</tr>
<tr>
<td>Margins</td>
<td>9.6%</td>
<td>8.2%</td>
</tr>
</tbody>
</table>

#### One time costs:

- Redundant Distribution Center Costs: $10
- Advertising / G&A for Launch of Rewards: 5
- Impact of Remodels: 5
- Total: $20

#### Pro Forma EBITDA

- $249

#### Pro Forma Margins

- 8.9%

*Based on Pershing estimates.*
What Could Superstores EBITDA be in 2008?

Assuming 2% comps and the Company’s unit growth plan, if EBITDA margins were to improve 100bps by 2008 (returning to 5-year average levels), EBITDA could increase by 41% from “reported” levels.

Avg. 5 year margins: 9.9%

41% increase
Working Capital Opportunity

Potential for $130mm of cash flow generation (or ~12% of the current equity market value) through working capital improvements at Superstores over the next 2 years

- Net Working Capital at Superstores currently at ~$550M

- Company can reduce working capital by 10-15% near term and 30-40% in the long term
  - Consolidating distribution centers and new merchandising system
  - Increasing “face outs” / decreasing stock

- Current Superstores inventory turns of ~1.7x

- We have assumed Superstores segment achieves inventory turns equal to 2.2x, a discount to Barnes and Nobles at ~2.4x
  - Equals approximately ~$130mm of free cash flow generation
Mall Stores
Mall Stores: Obsolete Format

Obsolete Format: Mall stores have difficulty competing with Mass Merchants on price and with book superstores on selection / “experience”

- ~600 Waldenbooks stores
- Typical store has 3,000 sq. ft and 30,000 titles
- Best sellers are a higher % of sales
- Weak margins / deteriorating business
  - 2006E Revenues of $615mm and EBITDA of $5m
  - Seasonal Calendar Kiosk business is the main EBITDA contributor
- Barnes and Noble has exited nearly all mall locations…
Mall Stores: Deteriorating Business

Mall segment Adjusted EBITDA margins in 2005 were 3%, having fallen ~60% since 2003.

Adjusted EBITDA ($ in millions)

Note: EBITDA Adjusted for non-cash asset impairment associated with store closures.
Mall Stores: Rationalization Plan

- 410 Mall Stores (~70% of total) have leases expiring in 2006

- Management says that 200 are profitable, 200 are marginal, and 200 are losing money

- Plan to close unprofitable stores as leases expire

- Remaining stores negotiate rent reductions with 1-year renewals
Mall Stores: “Worth More Dead than Alive”

Assuming $150,000 of Net Working Capital on average per Waldenbooks store, we believe there is $90mm of total Net Working Capital trapped in the Mall segment.

<table>
<thead>
<tr>
<th>Waldenbooks Total Units</th>
<th>600</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Working Capital per store ($000)</td>
<td>$150k</td>
</tr>
<tr>
<td>Total Net Working Capital ($ in mm)</td>
<td>$90mm</td>
</tr>
<tr>
<td>2006E EBITDA</td>
<td>~$5mm</td>
</tr>
</tbody>
</table>
International Stores

- **U.K. stores**
  - 37 Borders Superstores
  - 31 Books, Etc. (small format)
  - 90 Paperchase

- **Australia / New Zealand**: 18 Superstores

- **2005 EBITDA margins of 4.3%**

  - Significantly lower than 2005 Superstore margins of 9.6%
  - We estimate International 2006E EBITDA margins of 1.5%
    (assuming revenue of $650mm and EBITDA $10mm)
International May Be Sold if Not Fixed Soon

Management has indicated it would sell the International business (franchising) if it can’t be fixed in a timely manner

- International Segment has seen dramatic deterioration
  - UK Business is struggling
  - Books, Etc. (small format) stores are obsolete and have negative EBITDA
  - UK Superstores challenged, contributing <$10mm of EBITDA

- Aus/NZ business is healthy, contributing ~$10mm of EBITDA

- Management sees no synergy to operating international markets, has ceased additional development
Based on our assumptions, we believe there is approximately $110mm of Net Working Capital in the International Stores

<table>
<thead>
<tr>
<th>Store Type</th>
<th>NWC / Store</th>
<th># of Units</th>
<th>Net Working Capital (mm)</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK Superstores</td>
<td>$2.2mm</td>
<td>37</td>
<td>$80</td>
</tr>
<tr>
<td>Books, Etc. (small format)</td>
<td>$285k</td>
<td>31</td>
<td>9</td>
</tr>
<tr>
<td>Australia / NZ Superstores</td>
<td>$900k</td>
<td>18</td>
<td>16</td>
</tr>
<tr>
<td>Other (Puerto Rico, Singapore, etc…)</td>
<td>$1.2mm</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total (in mm)</strong></td>
<td><strong>$110</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2006E International Stores EBITDA (mm) ~$10
3. Other Factors: Share Repurchase Activity and New CEO
Strong Share Repurchase Focus

Borders management guidance implies ~55mm common shares outstanding by January 2007. This is an approximate 30% reduction from its common share count in March 2004 of 78mm.
New CEO: Focused on Returns

- New CEO, George Jones
  - Joined in July
  - Purchased ~$1mm of stock
  - Retail merchandising and operations expertise (Target, Warner Bros., Saks)
  - Renewed sense of urgency
  - Fixing / rationalizing the business
  - Emphasis on returns
Valuation
Valuation Assumptions

We believe our valuation assumptions are conservative

- No EV / EBITDA multiple expansion

- Mall and International Segments value based on NWC
  - The least these segments are worth
  - Upside at International segment -- it was generating $40mm of EBITDA in 2004 (versus ~$10mm in 2006E)

- Reduced share repurchase rate
  - Current rate of ~$250mm/year
  - We assume $80mm/year (proceeds from Superstores net working capital improvements and FCF after capex)
  - No incremental leverage to fund share repurchases
With no multiple expansion, Borders could be worth $36 in the next 18 months, a 72% premium to the current price (of $21).

<table>
<thead>
<tr>
<th>Segment</th>
<th>Methodology</th>
<th>Commentary</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Superstores</td>
<td>7.0x '08E EBITDA of</td>
<td>Assumes no multiple expansion</td>
<td>$2,257</td>
</tr>
<tr>
<td></td>
<td>$322</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mall Stores</td>
<td>Value of Net Working Capital</td>
<td>The least it's worth</td>
<td>90</td>
</tr>
<tr>
<td>International</td>
<td>Value of Net Working Capital</td>
<td>The least it's worth</td>
<td>110</td>
</tr>
<tr>
<td>Unallocated G&amp;A</td>
<td>7.0x '08E EBITDA of</td>
<td></td>
<td>($175)</td>
</tr>
<tr>
<td></td>
<td>($25)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Enterprise Value**

\[
\text{Less: Net Debt expected at Year End 2006} \quad (450)
\]

**Equals: Equity Value**

\[
\text{FD shares outstanding expected at year end 2006} \quad 55
\]

\[
\text{Less: Shares repurchased using $130mm from NWC improvement at Superstores, net of options}^{(1)} \quad (4)
\]

**Equals: FD shares outstanding**

\[
51
\]

<table>
<thead>
<tr>
<th>Share price</th>
<th>$36.17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premium to current price</td>
<td>72.2%</td>
</tr>
</tbody>
</table>

*(1) Assumes $130mm of proceeds from Net Working Capital improvement and $30mm of FCF generated between 2007 – 2008 used to repurchase shares at $30 per share. Fully diluted calculation based on the treasury stock method and assumes ~7mm of options outstanding by FYE 2008.*
Trading Multiples at Target Valuation

At a $36 share price (adjusting for ~$4 of equity value ascribed to the NWC at the Mall and International Stores), Borders would trade at 7x ’08E EBITDA, 7.5x ’08E EBITDAR and approximately 11x ’08E Maintenance Free Cash Flow

<table>
<thead>
<tr>
<th>BGP Trading Multiple</th>
<th>2008E</th>
</tr>
</thead>
<tbody>
<tr>
<td>EV / EBITDA</td>
<td>7.0 x</td>
</tr>
<tr>
<td>EV / (EBITDA - Maint Capex)</td>
<td>8.4 x</td>
</tr>
<tr>
<td>Adj EV / EBITDAR</td>
<td>7.5 x</td>
</tr>
<tr>
<td>Price / Earnings</td>
<td>14.7 x</td>
</tr>
<tr>
<td>Price / Maint Free Cash Flow</td>
<td>10.9 x</td>
</tr>
</tbody>
</table>
Recent LBO Leverage Levels

At a $36 price, Borders would trade at 7.5x ’08E EBITDAR, only a slight premium to 6.8x, the average of total leverage levels used in several recent retail LBO transactions.

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Purchase Price</th>
<th>Total Leverage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EV / EBITDA</td>
<td>Adj. Debt/ EBITDAR</td>
</tr>
<tr>
<td>Linens 'n Things</td>
<td>7.7 x</td>
<td>6.2 x</td>
</tr>
<tr>
<td>Burlington Coat Factory</td>
<td>7.4 x</td>
<td>6.5 x</td>
</tr>
<tr>
<td>The Sports Authority</td>
<td>7.7 x</td>
<td>6.8 x</td>
</tr>
<tr>
<td>Michael's Stores</td>
<td>11.0 x</td>
<td>7.8 x</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>8.5 x</strong></td>
<td><strong>6.8 x</strong></td>
</tr>
</tbody>
</table>
Concluding Thoughts
Borders is similar to other investments where we have had success

- Value of high-quality segment obscured by performance of low-return segments
- Traditional sentiment on the Company is “negative” or neutral at best
- Market is more focused on consolidated same store sales rather than the underlying business quality
- New CEO is focused on making changes to fix the business
Concluding Thoughts...

Investment requires a long-term view...

- Near-term performance impacted by current business structure and initiatives (Rewards, Remodeling, etc…)

- Near-term risk is somewhat mitigated by an upcoming slate of strong book releases

- We believe it will take time for management to realize full opportunity