



we're  
starting  
something...

Borders  
is shaping  
a new  
future as...





- A premier bookseller, because that's what we are at heart.
- A headquarters not only for books, music and movies, but for knowledge and entertainment in all formats—traditional and digital.
- A vital community gathering place where people come together to see, touch, talk and learn—online and in store.
- A retailer that creates memorable customer experiences through people and technology.
- A clear voice guiding our customers to the items, services, resources and partners we believe in.
- A place where people with a passion for knowledge and entertainment want to work and shop.

That transformation has already begun.  
We're starting something...  
at Borders Group.

# shareholders' letter



**George Jones**

President and Chief Executive Officer

Dear fellow shareholders:

I joined Borders Group in July 2006 because I believe in its brand and its people.

Over the past decades, the company has built a strong and enviable bond with millions of customers. Borders superstores represent an important place in people's lives. They are a vital community within their communities.

Even in today's fast-paced world, customers spend nearly an hour of their personal time on an average store visit—shopping for books, music and movies; relaxing in our cafes; or buying stationery and gifts.

Unfortunately, the company has not done enough to leverage that strength. Nor has it moved fast enough to keep up with rapid changes in how consumers access information and entertainment. As a result, same-store sales growth has stalled and consolidated earnings per share have declined for two straight years, falling to \$0.39 per share (on an operating basis) in fiscal 2006.

To confront these realities, Borders can't afford to simply work harder. We need to change as a company and as a business. Over the past nine months, my team and I have developed and launched a plan to set the stage for that transformation.

Our aim goes far beyond  
incremental improvement.  
We're starting something  
bigger... something bolder...  
and something we can  
build on for years to come:  
To be a headquarters  
for knowledge and  
entertainment.

# we're starting something...

by refocusing our investments.

Borders Group's disciplined domestic and international expansion strategy guided its consistent growth for years. That strategy wasn't enough to deliver compelling results in 2005, and despite investments and programs to drive returns, 2006 was another year of disappointment as all three of the company's business segments struggled:

- Investments in store remodels and the Borders Rewards® loyalty program in 2006, while successful in some ways, failed to boost store traffic and transactions sufficiently to meet projected sales targets within our Borders domestic superstore segment. For the year, sales increased only modestly to \$2.8 billion, while comparable store sales declined 2.2%.
- The International segment continued to lose money despite topping \$650 million in sales for the year, a 9.6% increase over 2005, excluding the impact of foreign currency translation.
- Despite efforts to rationalize and improve the company's Waldenbooks Specialty Retail business, the segment's operating income for 2006 also dipped into the red, as sales declined 10.9% to \$663.9 million.

These results underscore the need for a clear change in direction. Rather than investing in the past, we must refocus our company's talent, money and resources on a new plan to reshape the future.

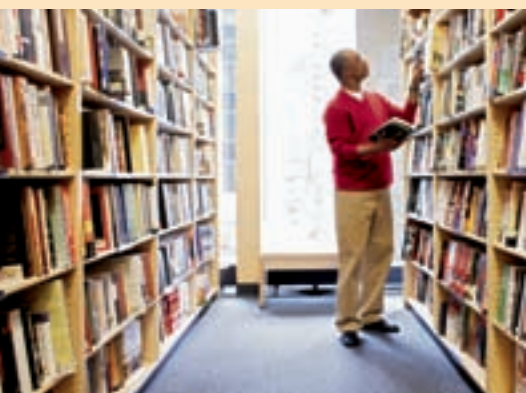




During the second half of 2006, we began this process by taking steps to focus on our U.S. superstore business. Actions included closing more than 100 mall stores in our Waldenbooks Specialty Retail segment, which we will continue to downsize aggressively. At the same time, we have begun to explore strategic alternatives for the majority of our International segment, including our superstores in the U.K., Ireland, Australia and New Zealand, as well as our Books etc. business. This process does not include our stores in Puerto Rico and does not include the Paperchase business. We will also retain our Singapore operations to support the successful franchise operations in Malaysia and the United Arab Emirates. We continue to believe in the power of the Borders brand outside of the U.S. and will, as appropriate, look to the franchise model for expansion into new global markets.

To support this new focus, we took non-operating charges of \$2.86 per share during the fourth quarter of 2006 to write down the value of our U.K. investments and specialty retail stores, as well as some Borders superstore assets.

By addressing the mall and international businesses, we will be able to focus most of our energies on our core U.S. superstore business. During 2007, we will reduce our investments in domestic store expansion and scale back remodels, so we can focus instead on “getting the business right” in our existing superstores. As part of this plan, we are currently developing a significantly new and different “concept store” prototype, which we plan to debut in the first quarter of 2008.



# we're starting something...

by revitalizing  
our U.S. superstores.

Borders Group has enhanced its superstores over the years. But it hasn't energized them. We need to reach far beyond these efforts to successfully differentiate the Borders shopping experience in consumers' minds.

I inherited a management team composed of many bright and experienced executives who have quickly embraced the need to change. We have moved to strengthen this team by recruiting, among others, new senior executives with extensive retail backgrounds and turnaround experience: Rob Gruen, executive vice president of merchandising and marketing for Borders Group, and Ken Armstrong, executive vice president of our U.S. stores. Having worked with Rob and Ken at other leading retailers, I'm confident that they have the insight and drive needed to bring fresh energy to both our company and our stores.

**BORDERS**  

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**Group**



priority one:

Increasing comparable store sales and profitability at our U.S. superstores by significantly improving execution. We've begun by launching initiatives to improve in-store presentation, merchandising and marketing. Our goal is to present a “clear voice” to consumers, guiding them to products of interest, engaging them through effective promotions, and motivating them to buy more when they visit.









# 17 million members and growing!

Our rapidly growing Borders Rewards® program will be one of the key elements of our marketing efforts. As of this writing, 17 million customers have joined Borders Rewards, making it one of the largest loyalty programs in the specialty retail industry. Based on our first-year experience and customer response to the program, we've modified Borders Rewards for 2007, incorporating payouts at more frequent intervals to a broader range of customers.

The introduction of Seattle's Best Coffee® cafes and Paperchase® gift and stationery shops were successful elements of our remodel program and helped boost sales and profitability of both of these categories in 2006. We will continue to expand these offerings in 2007. To maximize the potential of our Paperchase brand, we have created a dedicated team to manage these operations and direct their growth and development, which includes opening a handful of freestanding Paperchase stores in the U.S. in 2007.

To build on these successes, we are also creating "destination businesses" within our stores that capitalize on some of our most popular categories and give customers a compelling reason to shop with us for a variety of products and services. Additional emphasis is also being placed on localized merchandising opportunities in our stores based on geographic and demographic trends. We are also developing exclusive and proprietary books to differentiate our offering and drive high margin sales. Through this initiative, Borders is leveraging our ability—via the extensive store network, the database of 17 million Borders Rewards members, and ultimately the new Borders.com Web site—to develop bestsellers on our own.

To achieve all of these goals, we must resolve our merchandising systems issues. We have defined a plan for enhancing the buying and replenishment system that supports our Borders domestic superstores as a priority. We're also naming a new chief information officer to develop the technical foundation we'll need to build the Borders of the future.



# we're starting something...

by reinventing our business.

To meet the needs of today's digital world, Borders Group cannot simply retool. We must reinvent our business to connect with customers wherever they are—and to deliver our products and services in the forms they most desire. That's why we've decided to launch our own e-commerce site—Borders.com. We've already completed the first phase of this initiative by enhancing our in-store Borders Search capabilities. Throughout 2007, we will continue this intensive development and testing effort, laying the groundwork for Borders.com's launch in early 2008.

When completed, the site will become far more than a place to buy products online. It will facilitate "special order" sales in our stores and help make key partnerships possible, as well as help us enrich programs such as Borders Rewards. Ultimately, it will also become an electronic gathering place for our customers to learn about new products, interact with Borders' experts, and meet other customers with similar interests. Borders.com will be a community that extends our dialogue with customers, helping us to improve our service by understanding what's most important to them.



By developing creative cross-channel content and promotions, we will link our in-store and online environments to stimulate customer interest and sales. We also aim to create new revenue streams by building relationships with online partners whose products and services deliver meaningful value to our customers.





Once the site is launched, customers will be able to earn valuable Borders Rewards incentives for both online and in-store purchases, providing an extra incentive to choose Borders. We believe our revamped loyalty program will ultimately help us to drive sales through both channels, and create a valuable database of information that will allow us to tailor offers that meet our customers' specific interests.

Longer term, our new "concept store" will provide an enhanced in-store experience. Among the ideas we are introducing are new digital centers within Borders superstores that will enable our customers to learn about, interact with, and purchase new digital products—such as audio books, e-books and MP3 players—and services such as downloading and personal publishing that complement the Borders brand.

**We believe technology is our ally.  
By embracing it, we will position  
ourselves to capture exciting new  
growth opportunities that will be  
created as new digital products  
and media emerge over the  
next decade.**

# we're starting something...

by reinvigorating our company.

Over the past nine months, I've spent a lot of time traveling to Borders locations around the world, speaking to customers and employees, and making new friends. At every stop, people have been eager to meet me, share their stories and talk about the value that Borders brings to their lives.

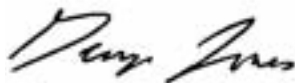
Having spent my adult life in the retail industry, I can tell you that this kind of passionate connection to a retailer is rare—and so is the opportunity we have to build on it over the coming years. To do so, we must reinvigorate our company as a retail innovator and discover new ways to deliver the knowledge and entertainment products and services customers want, through the most convenient means possible.

That process has already begun. Over the next year, you'll begin to see many changes that I've shared with you in this letter. We expect fiscal 2007 to be a transition year, as we pare back the parts of the business that are not delivering, so we can invest in programs to restore our sales and earnings growth in 2008 and beyond.

I'm confident that we have the vision, team and resources to achieve this goal and lead Borders' long-term transformation. We're starting something big at Borders Group...

and that future begins right now.

Sincerely,



George Jones

President and Chief Executive Officer





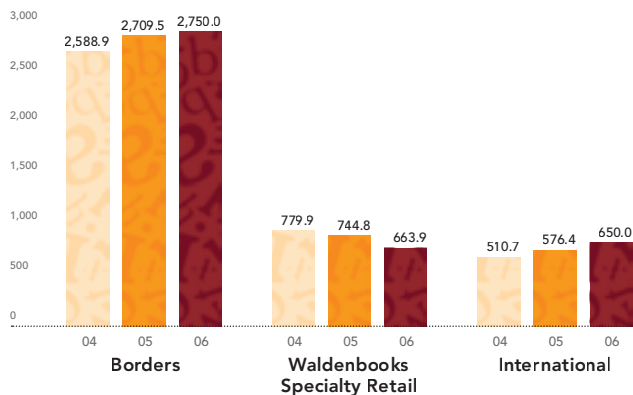
## 2006 financial highlights

	GAAP Basis - fiscal year ended			Operating Basis** - fiscal year ended		
dollars in millions except per share data	Feb 3, 07*	Jan 28, 06*	Jan 23, 05	Feb 3, 07*	Jan 28, 06*	Jan 23, 05
<b>sales</b>	\$4,063.9	\$4,030.7	\$3,879.5	\$4,063.9	\$4,030.7	\$3,879.5
<b>% increase</b>	0.8%	3.9%	4.9%	0.8%	3.9%	4.9%
<b>consolidated net income (loss)</b>	\$(151.3)	\$101.0	\$131.9	\$24.3	\$112.0	\$135.8
<b>consolidated EPS</b>	\$(2.44)	\$1.42	\$1.69	\$0.39	\$1.57	\$1.74
<b>consolidated cash, net of debt</b>	\$(427.4)	\$(130.9)	\$143.2	\$(427.4)	\$(130.9)	\$143.2
<b>return on beginning equity</b>	-16.3%	9.3%	12.0%	2.6%	10.3%	12.3%

\* 53-week year \*\* Operating Basis data is a non-GAAP measure. See facing page for further discussion.

### Segment sales

dollars in millions



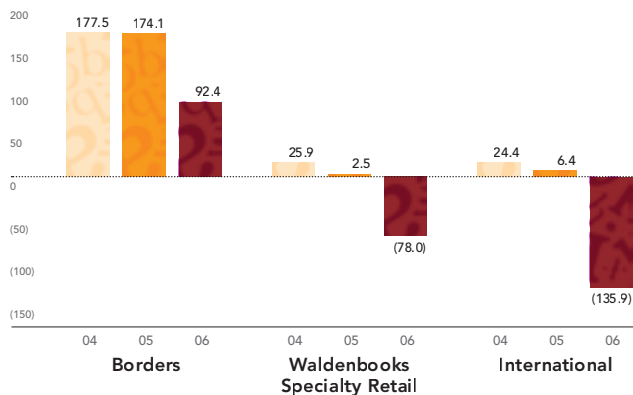
### Consolidated sales

dollars in millions



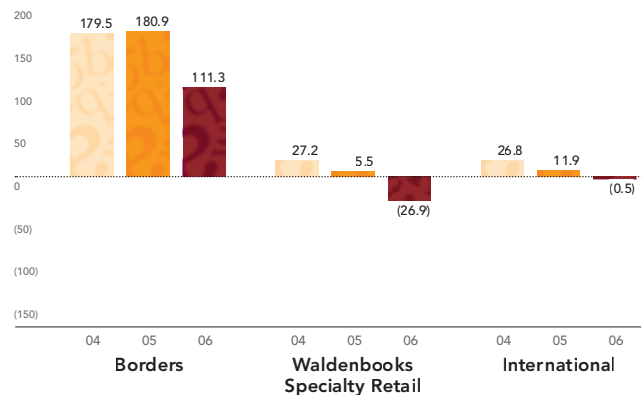
### Operating income (loss)

GAAP Basis dollars in millions



### Operating income (loss)

Operating Basis dollars in millions



## Reconciliation of Operating Basis\* data to GAAP Basis data

<b>Consolidated net income</b>	<b>Feb 3, 07</b>	<b>Jan 28, 06</b>	<b>Jan 23, 05</b>
Net income (loss) on an operating basis	\$24.3	\$112.0	\$135.8
Adjustments:			
UK goodwill impairment	(84.4)	—	—
UK store and corporate asset impairments	(34.1)	(1.2)	(1.0)
Waldenbooks Specialty Retail store and corporate asset impairments	(27.1)	(0.3)	(0.2)
Domestic Borders superstores asset impairments	(5.5)	(1.3)	(2.8)
Store remodel costs	(2.5)	(4.3)	(2.3)
Store closure costs, including asset disposals	(6.9)	(2.5)	(2.0)
Other	(15.1)	(1.4)	4.4
Total adjustments	\$(175.6)	\$(11.0)	\$(3.9)
Net income (loss) on a GAAP basis	\$(151.3)	\$101.0	\$131.9
<b>Consolidated earnings (loss) per share</b>	<b>Feb 3, 07</b>	<b>Jan 28, 06</b>	<b>Jan 23, 05</b>
Earnings (loss) per share on an operating basis	\$0.39	\$1.57	\$1.74
Adjustments:			
UK goodwill impairment	(1.36)	—	—
UK store and corporate asset impairments	(0.55)	(0.02)	(0.01)
Waldenbooks Specialty Retail store and corporate asset impairments	(0.44)	—	—
Domestic Borders superstores asset impairments	(0.09)	(0.02)	(0.04)
Store remodel costs	(0.04)	(0.06)	(0.03)
Store closure costs, including asset disposals	(0.11)	(0.04)	(0.03)
Other	(0.24)	(0.01)	0.06
Total adjustments	\$(2.83)	\$(0.15)	\$(0.05)
Earnings (loss) per share on a GAAP basis	\$(2.44)	\$1.42	\$1.69
<b>Borders operating income (loss)</b>	<b>Feb 3, 07</b>	<b>Jan 28, 06</b>	<b>Jan 23, 05</b>
Operating income (loss) on an operating basis	\$111.3	\$180.9	\$179.5
Adjustments:			
Domestic Borders superstores asset impairments	(9.0)	(2.1)	(4.5)
Store remodel costs	(4.1)	(7.0)	(3.7)
Store closure costs, including asset disposals	(4.1)	(1.0)	—
Other	(1.7)	3.3	6.2
Total adjustments	\$(18.9)	\$(6.8)	\$(2.0)
Operating income (loss) on a GAAP basis	\$92.4	\$174.1	\$177.5
<b>Waldenbooks Specialty Retail operating income (loss)</b>	<b>Feb 3, 07</b>	<b>Jan 28, 06</b>	<b>Jan 23, 05</b>
Operating income (loss) on an operating basis	\$(26.9)	\$5.5	\$27.2
Adjustments:			
Waldenbooks Specialty Retail store and corporate asset impairments	(44.4)	(0.5)	(0.4)
Store closure costs, including asset disposals	(4.9)	(2.4)	(2.2)
Other	(1.8)	(0.1)	1.3
Total adjustments	\$(51.1)	\$(3.0)	\$(1.3)
Operating income (loss) on a GAAP basis	\$(78.0)	\$2.5	\$25.9
<b>International operating income (loss)</b>	<b>Feb 3, 07</b>	<b>Jan 28, 06</b>	<b>Jan 23, 05</b>
Operating income (loss) on an operating basis	\$(0.5)	\$11.9	\$26.8
Adjustments:			
UK goodwill impairment	(84.4)	—	—
UK store and corporate asset impairments	(41.2)	(1.7)	(1.3)
Store closure costs, including asset disposals	(2.1)	(0.5)	(1.1)
Other	(7.7)	(3.3)	—
Total adjustments	\$(135.4)	\$(5.5)	\$(2.4)
Operating income (loss) on a GAAP basis	\$(135.9)	\$6.4	\$24.4

\* Operating Basis data are presented excluding certain items including asset and goodwill impairments, store closure costs and accelerated depreciation and disposals of fixed assets resulting from the remodel program. This data is presented solely for analytical purposes and as an aid to better understand underlying trends.

# directors & officers

## Board of Directors

Donald G. Campbell, Vice Chairman, The TJX Companies, Inc.

Joel J. Cohen, Chairman and Co-Chief Executive Officer, Sagent Advisors, Inc.

George L. Jones, President and Chief Executive Officer, Borders Group, Inc.

Amy B. Lane, Retired Managing Director, Investment Banking Group, Merrill Lynch

Brian T. Light, Executive Vice President and Chief Information Officer, Staples, Inc.

Victor L. Lund, Non-Executive Chairman, DemandTec

Dr. Edna Greene Medford, Associate Professor of History and Director of the Graduate Program in History, Howard University

Lawrence I. Pollock, Non-Executive Chairman, Borders Group, Inc. and Managing Partner, Lucky Stars Partners

Michael Weiss, Retired President and Chief Executive Officer of Express, a subsidiary of Limited Brands, Inc.

## Executive Officers

George L. Jones, President and Chief Executive Officer

Kenneth H. Armstrong, Executive Vice President of U.S. Stores

Robert P. Gruen, Executive Vice President of Merchandising and Marketing

Cedric J. Vanzura, Executive Vice President Emerging Business and Technology, Chief Strategy Officer

Edward W. Wilhelm, Executive Vice President, Chief Financial Officer

Thomas D. Carney, Senior Vice President, General Counsel and Secretary

Daniel T. Smith, Senior Vice President, Human Resources



# proxy statement

relating to annual stockholders' meeting

May 24, 2007



form 10-K

for fiscal year  
ended February 3, 2007

**BORDERS**  

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Group





# stockholders' information

## corporate headquarters

Borders Group, Inc.  
100 Phoenix Drive  
Ann Arbor, MI 48108 734.477.1100

## independent registered public accounting firm

Ernst & Young, LLP  
777 Woodward Avenue, Suite 1000  
Detroit, MI 48226  
313.628.7100

## registrar and stock transfer agent

Computershare Trust Company, N.A.  
P.O. Box 43069  
Providence, RI 02940-3069  
800.446.2617  
[www.computershare.com](http://www.computershare.com)

## common stock

The Company's Common Stock trades on the  
New York Stock Exchange under the symbol BGP.

## annual meeting

Borders Group, Inc.'s annual meeting of stockholders  
will be held on May 24, 2007, 11:30 a.m. local time at:  
The Ritz Carlton, 300 Town Center Drive,  
Fairlane Plaza, Dearborn, MI 48126

## stockholders' inquiries

For information about Borders Group, Inc.  
and its subsidiaries, including Annual Reports,  
Form 10-K and 10-Q documents, and other available  
financial information, please send your request to:

Borders Group, Inc. Investor Relations  
100 Phoenix Drive Ann Arbor, MI 48108  
phone 734.477.4549 fax 734.477.4131  
Information can also be obtained online  
by visiting [www.bordersgroupinc.com](http://www.bordersgroupinc.com)

## additional information

The Company's form 10-K Annual Report for the fiscal year ended February 3, 2007,  
is being delivered to shareholders with this Annual Report and should be read in conjunction  
with it. Information in the Form 10-K Annual Report, including the Company's Financial  
Statements and other financial information, Management's Discussion and Analysis of  
Financial Condition and Results of Operations, and disclosure regarding market risk, is  
important to an understanding of the Company and is incorporated herein by reference.

The Company has filed with the Securities and Exchange Commission, as an exhibit to  
its Form 10-K Reports for fiscal 2005 and 2006, the Sarbanes-Oxley Act Section 302  
Certifications regarding the quality of the Company's public disclosure. During 2006,  
Mr. Jones certified to the New York Stock Exchange that he was not aware of any  
violation by the Company of any NYSE Corporate Governance Listing Standards.

## safe harbor statement

This release contains forward-looking statements within the meaning of the Private Securities  
Litigation Reform Act of 1995. One can identify these forward-looking statements by the use  
of words such as "will," "goal," "continue," "creating," "plan," "become" and other words of  
similar meaning. One can also identify them by the fact that they do not relate strictly to  
historical or current facts. These statements are likely to address matters such as the company's  
future financial performance, its strategic plans and expected benefits relating to such plans  
(including steps to be taken to improve the performance of domestic superstores, the  
exploration of strategic alternatives with respect to certain International operations, the  
downsizing of the Waldenbooks Specialty Retail segment, and the development of a proprietary  
Web site) and its intentions with respect to dividend payments and share repurchases. These  
statements are subject to risks and uncertainties that could cause actual results and plans to  
differ materially from those included in the company's forward-looking statements. Please refer  
to the company's periodic reports filed from time to time with the Securities and Exchange  
Commission, which contain more detailed discussions of these and other risk factors that could  
cause actual results and plans to differ materially from those included in the forward-looking  
statements, and those discussions are incorporated herein by reference. The company does not  
undertake any obligation to update forward-looking statements.

## market price for common stock

The following table sets forth, for the fiscal quarters  
indicated, the high and low closing market prices for  
the Company's Common Stock. As of March 27, 2007  
there were approximately 2,617 holders of record of  
the Company's Common Stock. This number excludes  
individual stockholders holding stock under nominee  
security position listings.

2006	high	low	2005	high	low
Q1	\$25.31	\$23.60	Q1	\$27.47	\$23.59
Q2	\$24.02	\$17.31	Q2	\$26.20	\$23.92
Q3	\$21.00	\$18.50	Q3	\$25.30	\$18.96
Q4	\$24.14	\$20.49	Q4	\$24.70	\$18.71

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