

**BORDERS GROUP, INC.**  
**AUDIT COMMITTEE OF THE BOARD OF DIRECTORS**

**AUDIT COMMITTEE CHARTER**

**Organization**

There shall be a committee of the Board of Directors to be known as the Audit Committee. The Audit Committee shall be comprised of at least three independent Directors who satisfy requirements under New York Stock Exchange rules and any other applicable rules, and are free of any relationship that interferes with their exercise of independence from management and the company. Director compensation must be the sole remuneration from the listed company for Audit Committee members.

**Statement of Purpose**

The primary function of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities with respect to: (1) the integrity of the Company's financial statements, (2) the Company's compliance with legal and financial regulatory requirements, (3) the independent auditor's qualifications and independence, and (4) the performance of the Company's internal audit function and independent auditors. In addition, the Audit Committee will prepare an Audit Committee report as required by the SEC to be included in the Company's annual proxy statement and shall review other financial matters as delegated by the Board of Directors.

While the Audit Committee has the responsibilities and power set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Nor is the duty of the Audit Committee to ensure compliance with laws and regulations. These are the responsibility of management and the independent auditors.

**Responsibilities**

**I. Independent Auditors:**

- 1) The Audit Committee is responsible for the appointment, compensation, retention and oversight of independent auditors, including the resolution of any disagreements between the Company and the auditors regarding financial reporting. The independent auditor is ultimately accountable to the Board of Directors through the Audit Committee.
- 2) Obtain a formal written statement from the independent auditors delineating all relationships between the accountants and the company that may bear on the independence of such auditors and obtain a written statement from the independent auditors confirming their independence at least annually.
- 3) Review the experience and qualifications of the senior members of the independent auditor team.
- 4) Obtain and review a report by the independent auditor describing the firm's internal quality control procedures; any material issues raised by internal or peer review, or any inquiry or investigation by governmental or professional authorities.
- 5) The Audit Committee must be notified of all additional engagements with the company's independent auditors, and must approve in advance any non-audit services, including tax services, performed by the auditor, subject to certain *de minimis* exceptions.

**II. Internal Audit:**

- 1) Review and concur in the appointment, replacement, or dismissal of the Internal Audit Director.
- 2) Review with management and the Internal Audit Director:
  - Any significant findings during the year and management's responses.
  - Any difficulties encountered during their audit, including any restrictions on the scope of their work or access to requested information.
  - The Internal Audit Department's audit plan, budget, and staffing.

- The results of the review of the Company's Policy on Business Conduct and Officer's travel expense.
- Any case of fraud, errors, and illegal acts that involves management or other employees who have a significant role in the company's internal controls

### **III. Control Environment:**

- 1) Review with management and the independent auditor the adequacy of internal controls and procedures to gauge the effectiveness of these controls for financial reporting. Company management must disclose to the audit committee all significant deficiencies and material weaknesses in the design or operation of internal controls.
- 2) Discuss with Company management, the Internal Audit Director and the independent auditor guidelines and policies with respect to risk assessment and risk management.
- 3) Review legal and regulatory matters that may have a material impact on the financial statements.
- 4) Review and discuss with Company management, the independent auditor and the Internal Audit Director any significant recent professional and regulatory pronouncements and their potential impact on the financial statements.
- 5) Establish procedures for the receipt, retention and treatment of complaints received by the company regarding accounting, internal accounting controls, or auditing matters, and the confidential, anonymous submissions by employees of concerns regarding questionable accounting or auditing matters.
- 6) Review with management and the independent auditor any correspondence with regulators or governmental agencies and any employee complaints or published reports which raise material issues regarding the Company's financial statements or accounting policies.
- 7) Set clear hiring policies for employees or former employees of the independent auditor.

### **IV. The Financial Audit:**

- 1) Review the audit approach and scope and assist the Board of Directors in fulfilling its responsibilities relating to the Company's accounting and reporting practices.
- 2) Review with management and the independent auditors (due to the scheduling of Audit Committee meetings, some of these reviews may be performed by faxing the more significant filings and discussing via conference calls):
  - The Company's financial statements filed with the Securities and Exchange Commission and the annual meeting proxy statement.
  - The financial statement audit and their associated report, including any certifications or opinions rendered by the independent auditors in connection with the financial statements. This includes any related management letter, and management's response to the recommendations.
  - The Company's quarterly earnings releases. Review may be performed by Audit Committee Chairman.
  - Any significant changes required in the independent auditor's plan.
  - Any serious difficulties or disputes with management during the audit.
- 3) The independent auditor must report to the Audit Committee (i) all critical accounting policies and practices to be used, (ii) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, the ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor, and (iii) other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.
- 4) The independent auditor should discuss with the Audit Committee their judgment concerning the quality of the Company's financial reporting and degree of conservatism of accounting principles and estimates.
- 5) The independent auditor should report to the Audit Committee any issues discussed with their national office.
- 6) Review with the independent auditor any audit problems or difficulties and management's response.

**V. Committee Meetings:**

- 1) The Audit Committee shall meet at least four (4) times annually.
- 2) The Audit Committee shall meet with the Internal Audit Director and the independent auditor in separate private sessions to discuss any sensitive issues.
- 3) Report the committee's actions to the Board of Directors with any appropriate recommendations.

**VI. Reporting Requirements:**

- 1) Annually prepare a written report to shareholders to be included in the company proxy statement. This report is to include:
  - The Audit Committee reviewed and discussed the audited financial statements with management.
  - The Audit Committee discussed with the independent auditors the matters required by the Statement on Auditing Standards No. 61.
  - The Audit Committee received a written report from the independent auditors delineating all relationships between the independent auditors and the company that may bear on the independence of such auditors and confirms their independence.
  - The Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Annual Report on form 10-K filed with the SEC.
- 2) The Audit Committee Charter must be issued as an appendix to the company proxy statement once every three years.
- 3) The Company proxy statement filed annually with the SEC must indicate, in writing, that the Board of Directors has adopted a written Audit Committee Charter, and the Audit Committee Charter will be reviewed and updated, as necessary, and any proposed changes forwarded to the Board of Directors for approval.
- 4) Report to the Board of Directors on a regular basis.

**VII. Authority:**

- 1) The Audit Committee will perform such other functions as may be assigned by law, the Company's charter, or the Board of Directors.
- 2) The Audit Committee has the authority to engage at the company's expense independent counsel and other advisors, as they determine necessary to carry out their duties, and appropriate funding, as determined by the Audit Committee, for compensating such advisors as well as the accounting firm for its audit services.

**VIII. Annual Evaluation**

In conjunction with the Nominating and Corporate Governance Committee, undertake an annual evaluation of the Audit Committee.