NEBRASKA BOOK HOLDINGS, INC.

Rule 144(c) Current Public Information Data Sheet
and
Unaudited Condensed Consolidated Financial Statements

Three Months Ended June 30, 2016 and 2015

The current public information data sheet and unaudited condensed consolidated financial statements have been prepared to fulfill the requirements of (1) Rule 144(c) under the Securities Act of 1933, as amended (2) Rule 15c2-11(a) (5) under the Securities Exchange Act of 1934, as amended and (3) the company's by-laws. It is intended as information to be used by securities brokers and dealers in submitting or publishing quotations on the common stock of the company as contemplated by Rule 15c2-11

No broker, dealer, salesperson, or any other person has been authorized to give any information or to make any representations not contained herein in connection with the company. Any representations not contained herein must not be relied upon as having been made or authorized by the company.

This statement has not been filed by the company with the Securities and Exchange Commission (SEC) or any other regulatory agency.

NEBRASKA BOOK HOLDINGS, INC.

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Introduction

Nebraska Book Holdings, Inc. (the Company or the issuer) is a nonreporting issuer described in Rule 144(c)(2) promulgated under the Securities Act of 1933, as amended and is providing the following information to comply with the current public information requirements set forth under said Rule 144(c). This information is further described in the applicable provisions of Rule 15c2-11 promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Unless the context otherwise requires, the term "Company," as used herein includes the Company and its subsidiaries, including Nebraska Book Company, Inc. (Nebraska Book Company). Unless otherwise indicated, the information set forth below is provided as of August 12, 2016 except for outstanding securities, which is as of March 31, 2016:

(i) The exact name of the issuer and its predecessor (if any):

a. Name of the issuer: Nebraska Book Holdings, Inc.

b. Name of predecessor: NBC Acquisition Corp. Nebraska Book Holdings, Inc. and its subsidiaries succeeded to the business and assets of NBC Acquisition Corp. and its subsidiaries on June 29, 2012, the effective date of the emergence of NBC Acquisition Corp. and its subsidiaries from Chapter 11 (the Effective Date). The Company has adopted the consolidated historical financial information of NBC Acquisition Corp. as its own.

c. The Senior Secured Notes Due 2016, referenced below, are guaranteed by each of the following direct and indirect subsidiaries of Nebraska Book Holdings, Inc.:

- Nebraska Book Intermediate Holdings, Inc., a Delaware corporation
- Nebraska Book Company, Inc., a Delaware corporation
- Nebraska Managed Services, Inc., a Delaware corporation
- NBC Textbooks LLC, a Delaware limited liability company
- Campus Authentic LLC, a Delaware limited liability company
- Net Textstore LLC, a Delaware limited liability company

(ii) The address of the principal executive office of the Company and each subsidiary is:

- 4700 South 19th Street, Lincoln, NE 68512

(iii) The state of incorporation, if it is a corporation: Delaware

(iv) The exact title and class of each security:

a. Common Stock

b. Tranche A Warrants

c. Tranche B Warrants

d. Senior Secured Notes Due 2016

(v) The par or stated value of the security:

a. Common Stock – $0.001 Par Value

b. Tranche A Warrants – Exercisable for 1 share of Common Stock at a price of $14.88

c. Tranche B Warrants – Exercisable for 1 share of Common Stock at a price of $22.32

d. Senior Secured Notes Due 2016 – N/A

(vi) The number of shares or total amount of the securities outstanding for each class of securities as of the end of the issuer's most recent fiscal year:

a. Common Stock – 6,721,765 shares

b. Tranche A Warrants – 693,054 warrants

c. Tranche B Warrants – 1,485,135 warrants

d. Senior Secured Notes Due 2016 – $110,000,000

(vii) The name and address of the transfer agent:

a. Common Stock – Transfer Agent:

- American Stock Transfer & Trust Company LLC
  6201 15th Avenue, Brooklyn, New York 11219
  PH: 718-921-8210

b. Tranche A Warrants – Warrant Agent:

- American Stock Transfer & Trust Company LLC
  6201 15th Avenue, Brooklyn, New York 11219
  PH: 718-921-8210

c. Tranche B Warrants – Warrant Agent:

- American Stock Transfer & Trust Company LLC
  6201 15th Avenue, Brooklyn, New York 11219
  PH: 718-921-8210

d. Senior Secured Notes Due 2016 – Indenture Trustee, Registrar, Paying Agent and Collateral Agent:

- Wilmington Trust, National Association
  Attn: Nebraska Book Company Account Manager
  50 South Sixth Street, Suite 1290, Minneapolis, MN 55402
  PH: 302-651-8103

(viii) The nature of the issuer's business: The Company is a holding company and the beneficial owner of Nebraska Book Company. Nebraska Book Company participates in the college bookstore industry, offering the products and services described in item (ix) below.

(ix) The nature of products or services offered: Nebraska Book Company participates in the college bookstore industry primarily by providing used textbooks to college bookstore operators, and by providing proprietary college bookstore information and e-commerce systems, consulting and other services. Nebraska Book Company also provides the college bookstore industry with a variety of services including in-store promotions, and buying programs.

(x) The nature and extent of the issuer's facilities:

Corporate Offices:

4700 South 19th Street (leased)
Lincoln, Nebraska 68512

Nebraska Book Company leases its two Textbooks warehouses (totaling 253,000 square feet) in Lincoln, Nebraska (one of which is also the location of its headquarters). Nebraska Book Company also owns a building that is operated as college book store by a third party.

(xi) The name of the chief executive officer and members of the board of directors:

a. Interim Chief Executive Officer: Ben Riggsby

b. Board of Directors:

- Peter Reed
- Justin Bonner
- Adam Kleinman
- Benjamin Ng
- Steven Clemente
- Ben Riggsby

(xii) The issuer's most recent balance sheet and profit and loss and retained earnings statements: See the unaudited condensed consolidated financial statements included herein and available on the Company's website at http://nebook.com.

(xiii) Similar financial information for such part of the two preceding fiscal years the issuer or its predecessor has been in existence: See the Company's most recent consolidated financial statements available on the Company's website at http://nebook.com.

NEBRASKA BOOK HOLDINGS, INC.

Unaudited Condensed Consolidated Financial Statements

Three Months Ended June 30, 2016 and 2015

NEBRASKA BOOK HOLDINGS, INC.

Condensed Consolidated Balance Sheets

(Unaudited where noted)

(In thousands, except share amounts and par value)

Assets		**June 30, 2016** (Unaudited)	**March 31, 2016**
Current assets:			
Cash	$	3,778	9,238
Receivables, less allowance for doubtful accounts of $329 at June 30, 2016, and $375 at March 31, 2016		14,398	7,966
Inventories		33,157	24,554
Income tax receivable		77	65
Prepaid expenses and other assets		2,114	5,932
Assets held for sale		—	630
Total current assets		53,524	48,385
Property and equipment, net		9,605	9,971
Identifiable intangibles, net		30,317	31,509
Other assets		5,357	5,683
Total assets	$	98,803	95,548
Liabilities and Stockholders' Deficit			
Current liabilities:			
Accounts payable	$	6,278	5,697
Accrued employee compensation and benefits		1,829	2,278
Accrued interest		13,261	8,475
Accrued incentives		2,502	2,405
Accrued expenses		123	90
Deferred revenue		86	1,319
Current maturities of long-term debt		176,843	165,266
Total current liabilities		200,922	185,530
Long-term debt, net of current maturities		5,909	5,956
Total liabilities		206,831	191,486
Stockholders' deficit:			
Common stock, $0.001 par value, 14,000,000 shares authorized, 6,721,765 issued and outstanding at June 30, 2016 and March 31, 2016		7	7
Additional paid-in capital		86,951	86,758
Retained deficit		(194,986)	(182,703)
Total stockholders' deficit		(108,028)	(95,938)
Total liabilities and stockholders 'deficit	$	98,803	95,548

See accompanying notes to condensed consolidated financial statements.

NEBRASKA BOOK HOLDINGS, INC.

Condensed Consolidated Statements of Operations

(In thousands, unaudited)

	Three months ended June 30, 2016	Three months ended June 30, 2015
Revenues, net of returns	$ 18,959	19,159
Costs of sales	13,508	12,144
Gross profit	5,451	7,015
Operating expenses:		
Selling, general, and administrative	9,002	14,515
Depreciation	344	485
Amortization	1,525	2,519
Total operating expenses	10,871	17,519
Loss from operations	(5,420)	(10,504)
Other (income) expenses:		
Interest expense	6,562	7,064
Interest income	(3)	(5)
Total other expenses	6,559	7,059
Loss from continuing operations before income taxes	(11,979)	(17,563)
Income tax expense	15	15
Loss from continuing operations	(11,994)	(17,578)
Gain (loss) from discontinued operations, net of income tax	(289)	712
Net loss	$ (12,283)	(16,866)

NEBRASKA BOOK HOLDINGS, INC.

Condensed Consolidated Statements of Changes in Stockholders' Deficit

(Unaudited)

(In thousands, except share amounts)

	Common stock			Additional paid-in capital	Retained deficit	Total Stockholders' Deficit
	Shares		Value			
Balance, March 31, 2015	6,721,765	$	7	85,809	(99,094)	(13,278)
Share-based compensation attributable to stock options	—		—	422	—	422
Net loss	—		—	—	(16,866)	(16,866)
Balance, June 30, 2015	6,721,765	$	7	86,231	(115,960)	(29,722)
Balance, March 31, 2016	6,721,765	$	7	86,758	(182,703)	(95,938)
Share-based compensation attributable to stock options	—		—	193	—	193
Net loss	—		—	—	(12,283)	(12,283)
Balance, June 30, 2016	6,721,765	$	7	86,951	(194,986)	(108,028)

See accompanying notes to condensed consolidated financial statements.

NEBRASKA BOOK HOLDINGS, INC.

Condensed Consolidated Statements of Cash Flows

(In thousands, unaudited)

		Three months ended	
		June 30, 2016	June 30, 2015
Cash flows from (used in) operating activities:			
Net loss	$	(12,283)	(16,866)
Adjustments to reconcile net loss to net cash flows used in operating activities:			
Share-based compensation		193	422
Provision for losses on receivables		120	233
Depreciation		346	513
Amortization		1,525	2,575
Amortization of debt issue costs and bond discount		158	1,401
Gain on disposal of assets		31	1,498
Accretion of debt premium		353	353
Changes in operating assets and liabilities net of effect of acquisitions:			
Receivables		(6,552)	8,326
Inventories		(8,603)	(11,955)
Income tax receivable		(12)	(47)
Prepaid expense and other assets		3,818	(1,346)
Other assets		327	(4,797)
Accounts payable		581	(15,078)
Accrued employee compensation and benefits		(449)	(1,755)
Accrued interest		4,786	4,323
Accrued incentives		97	375
Accrued expense		33	347
Deferred revenue		(1,234)	(8,397)
Other long-term liabilities		—	(5)
Net cash flows used in operating activities		(16,765)	(39,880)
Cash flows from (used in) investing activities:			
Purchases of property and equipment		(32)	(794)
Acquisitions, net of cash acquired		—	(47)
Proceeds from sale of College Stores		—	45,128
Proceeds from sale of property and equipment		630	30
Software development costs		(312)	(516)
Net cash flows from investing activities		286	43,801
Cash flows from (used in) financing activities:			
Proceeds from issuance of debt		11,438	—
Payment of financing costs		(326)	(1,543)
Principal payments on long-term debt		(93)	—
Borrowings under term loan credit and security agreement		—	41,660
Payments under term loan credit and security agreement		—	(32,173)
Net cash flows from financing activities		11,019	7,944
Change in cash balances included in assets held for sale		—	(49)
Net increase (decrease) in cash		(5,460)	11,816
Cash, beginning of period		9,238	2,117
Cash, end of period	$	3,778	13,933
Supplemental disclosures of cash flows information:			
Cash paid during the period for:			
Interest	$	827	710
Income taxes		79	179
Noncash investing and financing activities:			
Accretion of debt premium		(353)	(353)
Interest paid in kind		438	278

See accompanying notes to condensed consolidated financial statements.

(1) Business

Nebraska Book Company, Inc. (NBC), a Delaware corporation, is a wholly owned subsidiary of Nebraska Book Intermediate Holdings, Inc., which in turn is a wholly owned subsidiary of Nebraska Book Holdings, Inc. (the "Company", "we", "our", "ours" or "us"). The Company does not conduct significant activities apart from its investment in Nebraska Book Intermediate Holdings, Inc. and NBC. Operational matters discussed in this report refer to the operations of NBC.

We participate in the college bookstore industry primarily by supplying used textbooks to college store operators, by selling proprietary college store information and e-commerce systems, consulting, and other services. We believe we are one of the largest wholesale distributors of used college textbooks in North America, offering over 150,000 textbook titles and selling or renting over 3.3 million books annually, primarily to college bookstores serving campuses located in the United States.

Our wholesale operations experience two distinct selling periods and two distinct buying periods. The peak selling periods occur prior to the beginning of each school semester in July/August and November/December. The buying periods for the wholesale operations occur at the end of each school semester in May and December. A significant portion of our annual net sales are recognized during the second and fourth fiscal quarters.

Basis of Presentation

The financial statements include the condensed consolidated results of the Company. The condensed consolidated financial statements contained herein have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). All intercompany balances and transactions are eliminated in consolidation. Certain reclassifications have been made in our financial statements of the prior year to conform to the current year presentation.

Accordingly, certain information and footnote disclosures typically included in Company's annual financial statements have been condensed or omitted for this quarterly report. The accompanying condensed consolidated financial statements are unaudited. However, in the opinion of management, such financial statements include all adjustments, which consist of only normal recurring adjustments, necessary for a fair presentation of the results for the periods presented. Interim results are not necessarily indicative of results for a full year.

We have included the following condensed consolidated financial statements for the Company: The condensed consolidated balance sheets as of June 30, 2016 and March 31, 2016 and the condensed consolidated statements of operations, condensed consolidated statements of changes in stockholders' deficit and the condensed consolidated statements of cash flows for the three months ended June 30, 2016 and 2015.

Recent Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-03, *Interest-Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs*, which requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The Company has adopted this standard for the fiscal year ending March 31, 2017 and interim reporting periods therein on a retrospective basis. As a result, the Company's debt balances have been reduced by the amount of the unamortized debt issuance cost, which reduced both total assets and total liabilities for each of the periods presented in the condensed consolidated balance sheets; however, the net asset balance remains unchanged.

Going Concern

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. For the three months ended June 30, 2016 and 2015, the Company generated net losses of $12.3 million, and $16.9 million, respectively. We also had negative working capital of $147.4 million, and a stockholders' deficit of $108.0 million as of June 30, 2016. In addition, the Company is currently in forbearance related to our Senior Secured Notes which matured on June 30, 2016 and our Term Loan Credit and Security Agreement which matured on April 1, 2016 due to the fact that the Senior Secured Notes have not yet been refinanced or exchanged and the Term Loan Credit and Security Agreement has not been repaid (Note 9). These factors, among others, raise substantial doubt that the Company will be able to continue as a going concern for a reasonable period of time. The financial statements do not include any adjustments that might result from the uncertainty.

The Company's management and Board of Directors continue to actively assess the Company's operating structure with an objective to reduce ongoing expenses, increase sources of recurring revenue as well as seeking to refinance existing debt. The Company currently has an offer outstanding to exchange up to $125 million in principal amount of 2% Convertible Senior PIK Notes due 2026 for any and all Senior Secured Notes. If the exchange offer is successful, annual interest expense on the new senior notes would be reduced from approximately $16.5 million to approximately $2.5 million. In addition, the Company's cash requirements will be significantly reduced because interest on the new senior notes for the first two years will be paid in kind. After the first two years, all interest will be paid in cash only if there are available funds at the Company. In addition, should the exchange be successful, the due date of the Term Loan Credit and Security Agreement will revert to the earlier of 90 days before the maturity of the notes issued in the exchange or November 13, 2019. Management has also been, and continues to be, assessing and executing on operational changes. With the sale of the College Stores (note 2) management has focused on a new strategy related to expanding our support for the independent bookstores which will help us in multiple ways. It anticipates new streams of revenue and margin by developing new services and enhancing our current offerings. This strategy anticipates not only new revenue streams from technology offerings but also stabilized and increased revenues received from our existing wholesale business. Also, the new strategic focus allows us to streamline our cost structure. We have made progress in reducing our workforce and overhead after the College Stores sale but the full benefits of these moves will be more fully recognized on a go forward basis.

(in thousands, Unaudited)

(2) Sale of College Stores

On June 11, 2015, the Company sold the majority of its on-campus and off-campus stores (College Stores), including the correlating assets and inventory owned or leased by the Company to Follett Higher Education Group, Inc. (Follett) for an aggregate purchase price of $45.3 million, before closing costs, resulting in a loss of $30.2 million, of which $28.5 million was recorded as an impairment loss during the fiscal year ended March 31, 2015 and a loss of $1.7 million during the fiscal year ended March 31, 2016 which is reflected in Gain (loss) from discontinued operations, net of income tax.

(3) Ownership and Capital Structure

The Company is authorized to issue up to 14,000,000 shares of common stock with a par value of $.001. At June 30, 2016 and March 31, 2016, the number of shares issued and outstanding was 6,721,765.

On June 29, 2012, the Company issued warrants for up to 2,178,189 shares of common stock in two tranches: (x) up to 693,054 shares of common stock in the form of seven year warrants with a strike price determined based on an equity value of $100.0 million; and (y) up to 1,485,135 shares of common stock in the form of seven year warrants with a strike price determined based on an equity value of $150 million.

(4) Receivables

Receivables are summarized as follows:

		June 30, 2016	March 31, 2016
Trade receivables, less allowance for doubtful accounts at of $0.3 million at June 30, 2016 and $0.4 million at March 31, 2016, respectively	$	12,190	6,133
Advances for book buy-backs		1,000	329
Other		1,208	1,504
	$	14,398	7,966

Trade receivables include the effect of estimated product returns. The amount of estimated product returns at June 30, 2016 and March 31, 2016 was $3.6 million and $4.8 million, respectively.

(5) Inventories

Inventories are summarized as follows:

		June 30, 2016	March 31, 2016
Textbooks	$	32,994	24,281
Complementary Services		163	273
	$	33,157	24,554

(in thousands, Unaudited)

(6) Assets Held for Sale

On March 8, 2016, the company entered into a purchase and sales agreement to sell its land and building and improvements located in Des Moines, Iowa for $0.63 million to Drake University. As of March 31, 2016, this property was reported in the condensed consolidated balance sheets as assets held for sale. The net book value for this property was $0.65 million, net of accumulated depreciation of $.05 million, resulting in an impairment charge being recorded of $0.02 million during the fiscal year ended March 31, 2016.

On May 19, 2016, the Company sold the property owned in Des Moines, IA, including land and building and improvements, for $0.63 million; net proceeds were used to fund operations.

(7) Property, Plant, and Equipment

Fixed assets consisted of the following:

		June 30, 2016	March 31, 2016
Land	$	2,444	2,444
Buildings and improvements		6,608	6,608
Leasehold improvements		34	34
Furniture and fixtures		3,148	3,148
Information systems		4,426	4,447
Automobile and trucks		75	75
Machinery		441	441
Projects in process		—	—
		17,176	17,197
Less accumulated depreciation and amortization		(7,571)	(7,226)
	$	9,605	9,971

(in thousands, Unaudited)

(8) Identifiable Intangibles

Identifiable intangible assets consisted of the following:

	June 30, 2016		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Customer relationships	$ 32,007	(14,957)	17,050
Trade name	8,151	(4,838)	3,313
Other intangibles:			
Developed technology	20,739	(11,178)	9,561
Contract-managed relationships	526	(170)	356
Other	38	(1)	37
Total other intangibles	21,303	(11,349)	9,954
Total intangibles	$ 61,461	(31,144)	30,317

	March 31, 2016		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Customer relationships	$ 32,007	(14,519)	17,488
Trade name	8,151	(4,700)	3,451
Other intangibles			
Developed technology	20,428	(10,261)	10,167
Contract-managed relationships	506	(138)	368
Other	35	—	35
Total other intangibles	20,969	(10,399)	10,570
Total intangibles	$ 61,127	(29,618)	31,509

Information regarding aggregate amortization expense for identifiable intangibles subject to amortization is presented in the following table.

(in thousands, Unaudited)

		Amortization expense
Estimated future amortization expense for the fiscal years ending March 31:		
2017	$	4,538
2018		5,246
2019		4,399
2020		3,610
2021		2,318

(9) Debt

Debt outstanding consisted of the following:

		June 30, 2016	March 31, 2016
Senior Secured Notes		115,500	115,147
Term loan credit and security agreement	$	63,777	52,339
Sale leaseback obligations		6,374	6,467
Prepaid loan costs, net		(2,899)	(2,731)
Total Debt		182,752	171,222
Current maturities of long term debt		176,843	165,266
Long term debt, net of current maturities	$	5,909	5,956

(a) The Senior Secured Notes

On June 29, 2012 (the Effective Date), the Company (the Notes Issuer) issued $100.0 million aggregate principal amount of our 15% Senior Secured Notes (the Senior Secured Notes). The Senior Secured Notes were issued by the Notes Issuer pursuant to an Indenture (the Indenture) with Wilmington Trust, National Association, as Trustee and collateral agent. A significant portion of the Senior Secured Notes is currently held by MAST Capital Management, LLC (MAST).

On May 31, 2013, funds managed by MAST acquired additional shares of the Company's common stock that increased its beneficial ownership of such shares above 50%, prompting a Steering Committee Change of Control. As a result of this acquisition and in accordance with the Indenture, the Company automatically increased the principal amount of the 15.0% Senior Secured Notes by $10.0 million (an amount equal to 10% of the principal amount outstanding on May 31, 2013) and issued them to the then existing holders of the 15.0% Senior Secured Notes on a pro rata basis consistent with such holders' holdings at such time.

(Continued)

The Senior Secured Notes are guaranteed by all of our subsidiaries (the Notes Guarantors) and are secured by liens on, and a security interest in, substantially all the assets of the Notes Issuer and the assets of the Notes Guarantors, including all of the capital stock of substantially all of the direct and indirect subsidiaries of the Company and all intercompany debt, which liens and security interest are junior to the liens and security interests securing the obligations under the Term Loan Agreement. The security interests are evidenced by a Pledge and Security Agreement (the Notes Security Agreement) by the Notes Issuer and the Notes Guarantors in favor of the collateral agent, and other related agreements, including certain intellectual property security agreements, deposit account control agreements, and mortgages (together with the Notes Security Agreement, the Notes Documents).

Interest on the Senior Secured Notes accrued at an annual rate equal to 15% prior to an event of default. Interest is payable in cash semiannually on September 30 and March 31 of each year. An additional 1% default rate also applies in certain instances described in the Indenture. On March 31, 2016, the required semiannual interest payment was not made, and it remained unpaid through April 30, 2016, at which time it became an event of default under the Indenture pursuant to which the Senior Secured Notes were issued. This resulted in an increase in the interest rate on the Senior Secured Notes to 16% per annum as of April 30, 2016, as well as interest beginning to accrue on the unpaid semiannual interest payment at a rate of 16% per annum as of March 31, 2016.

The Senior Secured Notes matured on June 30, 2016 (the Notes Maturity Date). On the Notes Maturity Date, the Company was required to pay to the holders of the Senior Secured Notes a principal amount equal to 105% of the face amount of the Senior Secured Notes, plus accrued and unpaid interest. The Company did not make the required payments as of June 30, 2016, at which time the annual interest rate increased by an additional 1% default rate to 17% per annum.

The Indenture contained affirmative and negative covenants, representations and warranties, and events of default customarily applicable to Senior Secured Notes facilities of this type. In addition, the Indenture contained a financial covenant that requires the Company to maintain a certain consolidated net leverage ratio. The consolidated net leverage ratio, as defined in the Indenture, is the ratio of (1) (a) total debt minus (b) unrestricted cash, to (2) consolidated EBITDA (earnings before interest, taxes, depreciation, and amortization with further adjustments made for the effect of deferred rent, restructuring related charges, and other noncash charges). The Indenture did not permit the consolidated net leverage ratio to be in excess of (a) 6.5 to 1.0 for the first year following the Effective Date, (b) 5.5 to 1.0 for the second year following the Effective Date, (c) 4.5 to 1.0 for the third year following the Effective Date, and (d) 4.0 to 1.0 for the fourth year following the Effective Date. At June 30, 2016, the Company was not in compliance with the consolidated net leverage ratio.

Upon request by the Company, holders of the Senior Secured Notes representing over 75% of the outstanding principal provided forbearance from payment of the required principal at the maturity of the Senior Secured Notes and interest due on March 31, 2016 and at the maturity of the Senior Secured Notes as well as, the Term Loan default described below at Note (9)(b) until the earliest of (i) the occurrence of any event of default under sections 6.1 (7) or 6.1 (8) of the Indenture, or a bankruptcy default, (ii) 5 p.m. eastern time on August 31, 2016 and (iii) the occurrence of a forbearance default as described in the forbearance agreement. In addition, forbearance was received related to the net leverage ratio requirements and the anticipated default arising from the failure to have the quarterly conference call with respect to the quarter ended June 30, 2016.

On March 18, 2016 the Company announced the commencement of a private offer to exchange (Exchange Offer) up to $125 million in principal amount of 2.0% Convertible Senior PIK Notes (New Notes) due in 2026 for any and all outstanding Senior Secured Notes due June 30, 2016 upon the terms and subject to the conditions set forth in the Company's Offering Memorandum. Settlement of the exchange offer was originally set to occur in April 2016 but has been extended on three occasions and is currently set to occur on or before August 30, 2016. Closing of the Exchange Offer is contingent on holders of 90.0% of the aggregate principal amount of outstanding Senior Secured Note holders participating in the Exchange Offer. If successful, for each $1.00 of Senior Secured Notes tendered a holder will receive $1.05 principal amount of New Notes plus an additional amount of principal of New Notes equal to any accrued and unpaid interest due of the Senior Secured Notes up to but not including the closing date.

The Company incurred fees of $0.1 million associated with the issuance of the Senior Secured Notes, which was being amortized over the term of the debt using the straight-line method and was fully amortized as of June 30, 2016.

(b) The Term Loan Credit and Security Agreement

On November 13, 2014, Nebraska Book Company, Inc. and its wholly-owned subsidiaries entered into a revolving credit facility with a new lender (Term Loan Agreement). The Term Loan Agreement provided for both revolving advances and delayed draw term loans which mature on the earlier of November 13, 2019 or ninety days before the maturity of the Senior Secured Notes (or the maturity of any facility which refinances the Senior Secured Notes). Therefore, the Term Loan Agreement technically matured on April 1, 2016. Upon request of NBC, the requisite holders of the delayed draw term loans provided forbearance (Forbearance Agreements) related to the April 1, 2016 maturity date for a limited period beginning on March 31, 2016 and ending on August 31, 2016. The Forbearance Agreements provide that the original maturity date (the earlier of November 13, 2019 or ninety days before the maturity date of the New Notes issued in Exchange Offer) will be reinstated should the Senior Secured Notes exchange be implemented.

Concurrently with the closing of the sale to Follett (see note 2) PNC Bank (PNC) assigned to certain funds managed by MAST all of its rights and obligations under the Term Loan Agreement. The Term Loan Agreement was subsequently amended by the lenders and the Company into an $80 million delayed draw term loan facility and eliminated revolving advances. Approximately, $24.8 million of the proceeds from the sale to Follett were used to repay in full all obligations to PNC under the Term Loan Agreement. Borrowings under the Term Loan Agreement as of June 30, 2016 totaled $63.8 million, which includes commitment fees and interest paid-in-kind of $4.3 million described below, leaving $20.5 million available.

The Term Loan Agreement permits up to $80.0 million in delayed draw term loans upon consent by the lenders. Once repaid, delayed draw term loans cannot be borrowed again. Various conditions, as defined in the Term Loan Agreement, must be met before delayed draw term loans can be repaid.

Delayed draw term loans accrue interest at an annual rate of 8.0%, of which 5.0% is due and payable in arrears on the first day of each calendar month for the immediately preceding calendar month and 3.0% is paid-in-kind and added to the principal balance of the delayed draw term loans on the last day of each month. Interest paid-in-kind as of June 30, 2016 totaled approximately $0.4 million.

There are $2.3 million commitment fees associated with the delayed draw term loans that became due and payable upon maturity of the Term Loan Agreement. The commitment fees accrue interest in the same manner as the delayed draw term loans and are subject to the same repayment conditions which exist for the delayed draw term loans. Interest paid-in-kind on these fees as of June 30, 2016 totaled approximately $0.02 million.

NBC and each of its wholly-owned subsidiaries, as borrowers and guarantors, have guaranteed the obligations under the Term Loan Agreement. The Term Loan Agreement is secured by first-priority liens on, and a first-priority security interest in, substantially all of the non-real estate assets of Nebraska Book Company, Inc. and each of its wholly-owned subsidiaries, including all of the capital stock of such subsidiaries and all intercompany debt. The security interests are evidenced by the Term Loan Agreement and other related agreements, including certain intellectual property security agreements, deposit account control agreements, and a pledge agreement.

The Term Loan Agreement contains representations, warranties, affirmative covenants, negative covenants, information requests, and events of default customarily applicable to Term Loan facilities.

Pursuant to a certain Intercreditor Agreement (Intercreditor Agreement) dated as of November 13, 2014, among the agent of the Term Loan Agreement and the trustee for the Senior Secured Notes, the liens securing our obligations under the Term Loan Agreement are senior to the liens securing our obligations under the Senior Secured Notes. The Intercreditor Agreement also requires that, after an event of default under any of the Term Loan Agreement or the Senior Secured Notes, any proceeds of enforcement with respect to collateral will be applied, first, to the obligations under the Term Loan Agreement until paid in full and then to the obligations under the Senior Secured Notes.

Costs incurred in conjunction with establishing the Term Loan Agreement and amendments thereto are capitalized and amortized to interest expense using the straight-line method over the life of the Term Loan Agreement. Such costs totaled $3.9 million, which includes the $2.3 million delayed draw commitment fees described above, and accumulated amortization which totaled approximately $2.0 million, at June 30, 2016.

(in thousands, Unaudited)

(c) Sale leaseback obligations

On October 19, 2015, the Company sold its headquarters property and related warehouse in Lincoln, Nebraska to B&J Partnership, Ltd., a Nebraska Limited partnership (Purchaser) for $6.7 million. The Company also entered into lease agreements with the Purchaser, executed on October 19, 2015, to lease those sold properties with the initial terms between one and two years. Based on the terms of the sale and lease agreements, the transaction is being treated as a financing. The net book value of the buildings was $7.4 million, net of accumulated depreciation of $1.7 million, resulting in an impairment charge being recorded of $.7 million in the third quarter of fiscal year ended March 31, 2016. The interest rate used to calculate the amount representing interest is 8%.

Future minimum payments for the fiscal years ending June 30:

		Sale Leaseback Obligations
For fiscal years ending March 31:		
2017	$	717
2018		562
		1,279
Less: amount representing interest		649
Present value of minimum lease payments	$	630

(10) Leases

Total rent expense for all operating leases was as follows

		Three months ended June 30, 2016	Three months ended June 30, 2015
Total rent expense	$	101	102

(in thousands, Unaudited)

Future aggregate minimum lease payments under non-cancelable operating leases in effect at June 30, 2016 were as follows for the following fiscal years:

		Operating leases
Fiscal year:		
2017	$	206
2018		244
2019		233
2020		71
Total minimum lease payments	$	754

(11) Income Taxes

For interim financial reporting purposes, tax expense or benefit is calculated based on the estimated effective tax rate, adjusted to give effect to anticipated permanent differences. The effective tax rates for the three months ended June 30, 2016 and 2015 were 0.1% and 0.08%, respectively. The difference in the effective rate and the federal statutory rate for the three months ended June 30, 2016 and 2015 is primarily due to a valuation allowance.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management determines its estimates of future taxable income based upon the scheduled reversal of deferred tax liabilities, projected future taxable income exclusive of reversing temporary differences, and tax planning strategies. The Company establishes valuation allowances for deferred tax assets when it is estimated to be more likely than not that the tax assets will not be realized. At June 30, 2016 and 2015 the Company had valuation allowances of $72.2 million and $43.3 respectively.

(12) Discontinued Operations

The financial results for the College Stores closed or sold to Follett have been classified as discontinued operations. College bookstores are considered discontinued and the results of operations for these stores are reflected in our consolidated statements of operations as Gain (loss) from discontinued operations, net of income tax.

All corresponding prior period operating results presented in our condensed consolidated statements of operations and the accompanying notes have been reclassified to reflect the operations of these stores as discontinued operations.

(in thousands, Unaudited)

Results of discontinued operations are summarized as follows:

		Three months ended	
		June 30, 2016	**June 30, 2015**
Revenue from discontinued operations	$	—	32,248
Gain (loss) from discontinued operations before income tax	$	(289)	712
Income tax expense		—	—
Gain (loss) from discontinued operations, net of income tax	$	(289)	712

(13) Fair Value Measurements

ASC 820, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The standard excludes lease classification or measurement (except in certain instances).

A three-level hierarchal disclosure framework that prioritizes and ranks the level of market price observability is used in measuring assets and liabilities at fair value on a recurring basis in the statement of financial position. Market price observability is impacted by a number of factors, including the type of asset or liability and its characteristics. Assets and liabilities with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

The three levels are defined as follows: Level 1 – inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets; Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument; and Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

ASC 820 also applies to disclosures of fair value for all financial instruments disclosed under ASC 825, *Financial Instruments*. ASC 825 requires disclosures about fair value for all financial instruments, whether recognized or not recognized in the statement of financial position. For financial instruments recognized at fair value on a recurring basis in the statement of financial position, the three-level hierarchal disclosure requirements also apply.

Due to the relatively short maturity of these financial instruments, including cash, accounts receivable, short-term financing, and accounts payable, carrying values approximate fair value as of June 30, 2016 and March 31, 2016.

(Continued)

As described in Note 9, the Company is currently in default on, but has received forbearance related to, the Senior Secured Notes and Term Loan Agreement. Based on the current status of the long and short-term debt, management has concluded that determining the fair value of such debt as of June 30, 2016 is not practical.

(14) Segment Information

Our operating segments are determined based on the way that management organizes the segments for making operating decisions and assessing performance. Management has organized our operating segments based upon differences in products and services provided. We have three operating segments: Textbooks, Complementary Services and College Stores. Textbooks qualifies as a reportable operating segment, while separate disclosure of Complementary Services and College Stores is provided as management believes that information about these operating segments is useful to the readers of our condensed consolidated financial statements. The Textbooks segment consists primarily of selling used textbooks to college bookstores, buying them back from students or college bookstores at the end of each college semester, and then reselling them to college bookstores. The Complementary Services segment includes book-related services such as computer hardware and software systems, e-commerce technology and consulting services. The College Stores segment includes certain costs related to the operations of College Stores that did not qualify as discontinued operations. The operating results of the College Stores that were closed or sold to Follett and classified as discontinued operations are excluded from the segment information presented for the three months ended June 30, 2016 and 2015.

We primarily account for intersegment sales as if the sales were to third parties (at current market prices). Certain assets, net interest expense, and taxes (excluding interest and taxes incurred by the Company's 100% owned subsidiaries, NBC Textbooks LLC, Net Textstore LLC, Campus Authentic LLC, and Nebraska Managed Services, Inc.) are not allocated between our segments; instead, such balances are accounted for in a Corporate Administrative division.

(in thousands, Unaudited)

Selected information about profit or loss on a segment basis is summarized as follows:

		Textbooks	Complementary Services	Corporate Administration	College Stores	Intercompany Eliminations	Total
Three months ended:							
June 30, 2016							
External customer revenues	$	15,284	3,675	—	—	—	18,959
Intersegment revenues		—	68	—	—	(68)	—
Depreciation and amortization expense		818	510	541	—	—	1,869
Income (loss) from operations		368	1,059	(6,847)	—	—	(5,420)
Three months ended:							
June 30, 2015							
External customer revenues	$	17,313	1,846	—	—	—	19,159
Intersegment revenues		1,248	222	—	—	(1,470)	—
Depreciation and amortization expense		1,652	583	696	73	—	3,004
Income (loss) from operations		1,006	666	(10,849)	(782)	(545)	(10,504)

Our revenues are attributed to countries based on the location of the customer. Substantially all revenues generated are attributable to customers located within the United States.

(15) Commitments and Contingencies

From time to time, we are involved in certain claims and litigation arising in the normal course of business. Management assesses the probability of loss for such contingencies and recognizes a liability when a loss is probable and estimable. We are not currently a party to any legal or regulatory proceedings, the adverse outcome of which, individually or in the aggregate, would have a material adverse effect on the Company's financial position or results of operations.

(16) Subsequent Events

The Company has evaluated subsequent events through August 12, 2016 and concluded there are no other material subsequent events to be disclosed.