NEBRASKA BOOK HOLDINGS, INC.

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

Three and Nine Months Ended December 31, 2017 and 2016

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 February 16, 2018 except for outstanding securities, which is as of March 31, 2017:

(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 2% Convertible Senior PIK Notes Due 2026, referenced below, are not guaranteed either directly or indirectly by any subsidiaries of Nebraska Book Holdings, Inc.

(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: Delaware

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

a. Common Stock

b. Tranche A Warrants

c. Tranche B Warrants

d. 2.00% Convertible Senior PIK Notes due 2026.

(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. 2.00% Convertible Senior PIK Notes Due 2026 – 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. 2.00% Convertible Senior PIK Notes Due 2026 - $101,481,563

(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. 2.00% Convertible Senior PIK Notes Due 2026 – Indenture Trustee, Registrar and Paying 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 strategic business services and technology offerings, including localized e-commerce capabilities and back-end system access and support. 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 Textbook warehouse (totaling 168,000 square feet) in Lincoln, Nebraska, which is also the location of its headquarters. Nebraska Book Company also owns a building that is operated as a college bookstore by a third party.

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

a. Chief Executive Officer: Rick Bunka

b. Board of Directors:

- David Steinberg
- Gary Shapiro
- Rick Bunka
- Jay Amond

(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 condensed consolidated financial statements available on the Company's website at http://nebook.com.

NEBRASKA BOOK HOLDINGS, INC.

Unaudited Condensed Consolidated Financial Statements

Three and Nine Months Ended December 31, 2017 and 2016

NEBRASKA BOOK HOLDINGS, INC.

Condensed Consolidated Balance Sheets

(Unaudited where noted)

(In thousands, except share amounts and par value)

Assets		**December 31, 2017**	**March 31, 2017**	**December 31, 2016**
		(Unaudited)		(Unaudited)
Current assets:				
Cash and restricted cash	$	22,904	15,680	11,610
Receivables, less allowance for doubtful accounts of $1,150 at December 31, 2017, $1,090 at March 31, 2017 and $824 at December 31, 2016		9,717	6,667	15,916
Inventories		22,289	23,793	19,112
Income tax receivable		124	67	32
Prepaid expenses and other assets		4,884	4,033	9,649
Current maturities of participation receivable		—	38,928	577
Total current assets		59,918	89,168	56,896
Property and equipment, net		2,755	2,590	2,832
Identifiable intangibles, net		20,127	26,225	27,753
Participation receivable		—	—	33,347
Other assets		511	827	442
Total assets	$	83,311	118,810	121,270
Liabilities and Stockholders' Deficit				
Current liabilities:				
Accounts payable	$	5,556	4,894	5,924
Accrued employee compensation and benefits		1,796	1,429	1,675
Accrued interest		387	385	407
Accrued incentives		1,571	1,987	2,116
Accrued expenses		179	390	137
Deferred revenue		2,279	1,473	2,105
Current maturities of long-term debt		14,198	39,668	1,331
Total current liabilities		25,966	50,226	13,695
Long-term debt, net of current maturities		167,969	184,104	221,329
Total liabilities		193,935	234,330	235,024
Stockholders' deficit:				
Common stock, $0.001 par value, 712,000,000 shares authorized, 6,721,765 issued and outstanding at December 31, 2017, March 31, 2017 and December 31, 2016		7	7	7
Additional paid-in capital		86,731	86,725	86,719
Retained deficit		(197,362)	(202,252)	(200,480)
Total stockholders' deficit		(110,624)	(115,520)	(113,754)
Total liabilities and stockholders' deficit	$	83,311	118,810	121,270

See accompanying notes to condensed consolidated financial statements.

NEBRASKA BOOK HOLDINGS, INC.

Condensed Consolidated Statements of Operations

(In thousands, unaudited)

	Three months ended		Nine months ended	
	December 31, 2017	**December 31, 2016**	**December 31, 2017**	**December 31, 2016**
Revenues, net of returns	$ 14,589	17,831	60,878	72,000
Costs of sales	9,563	11,445	39,786	47,884
Gross profit	5,026	6,386	21,092	24,116
Operating expenses:				
Selling, general, and administrati	7,475	8,842	23,516	29,090
Depreciation	151	183	486	827
Amortization	1,104	1,508	4,012	4,534
Impairment	3,526	—	3,544	116
Total operating expenses	12,256	10,533	31,558	34,567
Loss from operations	(7,230)	(4,147)	(10,466)	(10,451)
Other (income) expenses:				
Gain on troubled debt restructuring, n	—	35	—	(1,985)
Gain on early payoff of participation receivab	(7,102)	—	(8,081)	—
Interest expense	2,589	3,101	8,134	16,073
Interest income	(3,105)	(6,584)	(15,433)	(7,371)
Total other (income) expenses	(7,618)	(3,448)	(15,380)	6,717
Income (loss) from continuing operations before income taxes	388	(699)	4,914	(17,168)
Income tax expense	6	15	24	45
Income (loss) from continuing operations	382	(714)	4,890	(17,213)
Gain (loss) from discontinued operations, net of income tax	—	—	—	(564)
Net Income (loss)	$ 382	(714)	4,890	(17,777)

See accompanying notes to condensed consolidated financial statements.

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, 2016	6,721,765	$ 7	86,758	(182,703)	(95,938)
Share-based compensation attributable to stock options	—	—	(39)	—	(39)
Net loss	—	—	—	(17,777)	(17,777)
Balance, December 31, 2016	6,721,765	$ 7	86,719	(200,480)	(113,754)
Balance, March 31, 2017	6,721,765	$ 7	86,725	(202,252)	(115,520)
Share-based compensation attributable to stock options	—	—	6	—	6
Net income	—	—	—	4,890	4,890
Balance, December 31, 2017	6,721,765	$ 7	86,731	(197,362)	(110,624)

See accompanying notes to condensed consolidated financial statements.

NEBRASKA BOOK HOLDINGS, INC.

Condensed Consolidated Statements of Cash Flows

(In thousands, unaudited)

		Nine months ended	
		December 31, 2017	**December 31, 2016**
Cash flows from (used in) operating activities:			
Net income (loss)	$	4,890	(17,777)
Adjustments to reconcile net income (loss) to net cash flows used in operating activities:			
Share-based compensation		6	(39)
Provision for losses on receivables		314	603
Depreciation		486	828
Depreciation included in cost of sales		19	—
Amortization on identifiable intangibles		4,012	4,534
Amortization of debt issue costs and bond discount		417	734
Accretion of participation receivable discount		(12,559)	(6,013)
Interest paid-in-kind		4,258	16,086
Gain on troubled debt restructuring		—	(4,971)
Loss on disposal of assets		—	92
Gain on early payoff of participation receivable		(8,081)	—
Accretion of debt premium		—	353
Impairment		3,544	116
Changes in operating assets and liabilities net of effect of acquisitions:			
Receivables		(3,507)	(8,552)
Inventories		1,504	5,443
Income tax receivable		(57)	33
Prepaid expense and other assets		(851)	(3,716)
Other assets		316	5,241
Accounts payable		662	227
Accrued employee compensation and benefits		367	(603)
Accrued interest		2	(8,068)
Accrued incentives		(416)	(288)
Accrued expense		(211)	47
Deferred revenue		806	786
Net cash flows used in operating activities		(4,079)	(14,904)
Cash flows from (used in) investing activities:			
Purchases of property and equipment		(695)	(30)
Proceeds from sale of property and equipment		—	630
Proceeds from investments		29,875	—
Software development costs		(1,434)	(874)
Net cash flows from (used in) investing activities		27,746	(274)
Cash flows from (used in) financing activities:			
Proceeds from issuance of debt		—	28,464
Payment of financing costs		—	375
Principal payments on long-term debt		(16,443)	(11,289)
Net cash flows from (used in)financing activities		(16,443)	17,550
Net increase in cash and restricted cash		7,224	2,372
Cash and restricted cash, beginning of period		15,680	9,238
Cash and restricted cash, end of period	$	22,904	11,610
Supplemental disclosures of cash flows information:			
Cash paid during the period for:			
Interest	$	3,457	3,145
Income taxes		159	304
Noncash investing and financing activities:			
Accretion of debt premium		—	(353)
Accretion of participation discount		12,559	6,013
Interest paid in kind		4,258	16,086
Acquire participation receivable for debt		—	28,200
Transfer property in settlement of debt		—	(6,228)
Apply participation receivable receipts against debt		29,693	228

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. (Holdco), which in turn is a wholly owned subsidiary of Nebraska Book Holdings, Inc. (the "Company", "we", "our", or "us"). The Company does not conduct significant activities apart from its investment in Holdco 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 and with strategic business services and technology offerings, including localized e-commerce capabilities and back-end system access. We believe we are one of the largest wholesale distributors of used college textbooks in North America, offering approximately 152,000 textbook titles and selling or renting over 2.6 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 June/July and December/January. 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 is 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 the 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 December 31, 2017, March 31, 2017 and December 31, 2016, the condensed consolidated statements of operations for the three and nine months ended December 31, 2017 and 2016, and the condensed consolidated statements of changes in stockholders' deficit and the condensed consolidated statements of cash flows for the nine months ended December 31, 2017 and 2016.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers,* which requires an entity to recognize the amount

(Continued)

of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The effective date for the new standard is for annual reporting periods beginning after December 15, 2016. The Company adopted this standard effective April 1, 2017, which is in our fiscal year ending March 31, 2018. The Company has elected to apply this standard retrospectively through a cumulative effect adjustment as of April 1, 2017. The cumulative effect adjustment was not material.

In April 2015, the 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 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 were 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.

In July 2015, the FASB issued ASU 2015-11, *Inventory-Simplifying the Measurement of Inventory*, which requires inventory to be measured at the lower of cost or net realizable value. Net realizable value is the estimated price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This standard is effective for the Company for fiscal years beginning after December 15, 2016. The Company adopted this standard effective April 1, 2017, which is in our fiscal year ending March 31, 2018. The adoption of ASU 2015-11 is not expected to have a material effect on the condensed consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases,* which requires that, among other changes to current practice, a lessee's rights and obligations under almost all leases, including existing and new arrangements, be recognized as right-of-use assets and liabilities on the consolidated financial balance sheet. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018. The Company intends to adopt this standard upon the effective date noted above, which is our fiscal year ending March 31, 2020. The Company is currently in the process of evaluating the impact that ASU 2016-02 will have on our condensed consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, *Compensation-Stock Compensation-Improvements to Employee Share-Based Payment Accounting*, which simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classifications of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016. The Company adopted this standard upon the effective date noted above, which is our fiscal year ending March 31, 2018. The adoption of ASU 2016-09 is not expected to have a material effect on the condensed consolidated financial statements.

In August 2016, The FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which addressed eight specific cash flow issues that have created diversity in practice, providing definitive guidance on classification of certain cash receipts and payments. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017. The Company intends to adopt this standard upon the effective date noted above, which is our fiscal year ending March 31, 2019.

The Company is currently in the process of evaluating the impact that ASU 2016-15 will have on our condensed consolidated financial statements and related disclosures.

In December 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230):- Restricted Cash* which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning of the period and end of the period total amounts shown on the statement of cash flows. The guidance must be applied retrospectively to all periods presented. Management adopted this ASU beginning April 1, 2017. All prior periods have been adjusted to conform to the current period presentation, which resulted in no changes to the statement of cash flows for the nine months ended December 31, 2016.

In May 2017, the FASB issued ASU 2017-09, *Compensation – Stock Compensation (Topic 718)*: Scope of Modification Accounting, which provided clarity as to what changes to the terms of conditions of share-based payment awards require an entity to apply modification accounting for Topic 718. ASU 2017-09 is effective for fiscal years beginning after December 15, 2017. The Company intends to adopt this standard upon the effective date noted above, which is our fiscal year ending March 31, 2019. The Company is currently in the process of evaluating the impact that ASU 2017-09 will have on our condensed consolidated financial statements and related disclosures

(2) Ownership and Capital Structure

The Company is authorized to issue up to 712,000,000 shares of common stock with a par value of $.001 and 1,000,000 shares of preferred stock with a par value of $.001. At December 31, 2017, March 31, 2017 and December 31, 2016, the number of common shares issued and outstanding was 6,721,765. There was no preferred stock outstanding at December 31, 2017, March 31, 2017 and December 31, 2016.

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.

(3) Cash and Restricted Cash

Cash and restricted cash are summarized as follows:

		December 31, 2017	March 31, 2017	December 31, 2016
Cash	$	9,473	15,680	11,610
Restricted cash		13,431	0	0
	$	22,904	15,680	11,610

Restricted cash at December 31, 2017 represents the remaining excess cash received when the participation receivable paid off in November 2017 after paying down the Specialty Asset Term Loan and Tranche A of the NBC Term Loan (see note 8). By agreement, these excess funds must be used to pay down the NBC Term Loan.

(4) Receivables

Receivables are summarized as follows:

		December 31, 2017	March 31, 2017	December 31, 2016
Trade receivables, less allowance for doubtful accounts of $1.2 million at December 31, 2017, $1.1 million at March 31, 2017 and $0.8 million at December 31, 2016, respectively	$	7,727	4,005	11,673
Advances for book buy-backs		1,471	463	2,104
Interest from participation receivable		—	1,204	1,204
Other		519	995	935
	$	9,717	6,667	15,916

Trade receivables include the effect of estimated product returns. The amount of estimated product returns at December 31, 2017, March 31, 2017 and December 31, 2016 was $5.9 million, $4.6 million and $5.3 million, respectively.

(5) Inventories

Inventories are summarized as follows:

		December 31, 2017	March 31, 2017	December 31, 2016
Textbooks	$	22,055	23,609	18,848
Complementary Services		234	184	264
	$	22,289	23,793	19,112

(6) Property, Plant, and Equipment

Fixed assets consisted of the following:

	December 31, 2017	March 31, 2017	December 31, 2016
Land	$ 200	200	200
Buildings and improvements	510	510	510
Leasehold improvements	86	70	30
Furniture and fixtures	2,958	2,958	3,127
Information systems	4,082	3,931	4,422
Automobile and trucks	75	75	75
Machinery	360	360	441
Projects in process	504	1	—
	8,775	8,105	8,805
Less accumulated depreciation and amortization	(6,020)	(5,515)	(5,973)
	$ 2,755	2,590	2,832

(7) Identifiable Intangibles

Identifiable intangible assets consisted of the following:

	December 31, 2017		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Customer relationships	$ 32,007	(17,579)	14,428
Trade name	8,151	(5,659)	2,492
Other intangibles:			
Developed technology	11,902	(8,900)	3,002
Contract-managed relationships	551	(357)	194
Other	13	(2)	11
Total other intangibles	12,466	(9,259)	3,207
Total intangibles	$ 52,624	(32,497)	20,127

	March 31, 2017			
		Gross carrying amount	Accumulated amortization	Net carrying amount
Customer relationships	$	32,007	(16,268)	15,739
Trade name		8,151	(5,248)	2,903
Other intangibles				
Developed technology		20,678	(13,384)	7,294
Contract-managed relationships		526	(266)	260
Other		30	(1)	29
Total other intangibles		21,234	(13,651)	7,583
Total intangibles	$	61,392	(35,167)	26,225

	December 31, 2016			
		Gross carrying amount	Accumulated amortization	Net carrying amount
Customer relationships	$	32,007	(15,831)	16,176
Trade name		8,151	(5,111)	3,040
Other intangibles				
Developed technology		21,185	(12,977)	8,208
Contract-managed relationships		526	(234)	292
Other		38	(1)	37
Total other intangibles		21,749	(13,212)	8,537
Total intangibles	$	61,907	(34,154)	27,753

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

		Amortization expense
Estimated future amortization expense for the fiscal years ending March 31:		
2018	$	895
2019		3,285
2020		2,926
2021		2,407
2022		2,298

(8) Participation Receivable

On September 19, 2016, NBC Specialty Asset Company, Inc. (Specialty Asset), a subsidiary of NBC, acquired a participation interest in Tranche A term loans of Sonifi Solutions, Inc. (Sonifi), with a face value of $60.0 million for $28.2 million. The participation receivable at December 31, 2017, March 31, 2017 and December 31, 2016 was $0.0 million, $38.9 million and $33.9 million, respectively,

The Tranche A term loans for Sonifi required quarterly amortization payments of which Specialty Asset's participation was $0.1 million, plus interest

On May 26, 2017, Sonifi paid down $3.3 million of the Tranche A term loans, at par plus interest. Principal proceeds from this payment were used to pay down the Specialty Asset Term Loan. A gain of $1.0 million was recognized on the payment and is included in Gain on early payoff of participation receivable in Other (income) expense.

On November 17, 2017, Sonifi paid off the remaining outstanding Tranche A term loans of $55.9 million, at par, plus interest. Principal proceeds from this payment were used to pay off $26.1 million owed on the Specialty Asset Term Loan on November 17, 2017 and $16.4 million owed on Tranche A of the NBC Term Loan on December 28, 2017. The remaining $13.4 million was held as restricted cash to be used to pay down Tranche B of the NBC Term Loan (see note 16). A gain of $7.1 million was recognized on the payment and is included in Gain on early payoff of participation receivable in Other (income) expense. For the nine months ended December 31, 2017 and 2016, Specialty Asset recorded $12.6 million and $6.0 million of discount accretion. This accretion is included in Interest income in Other (income) expense in the condensed consolidated statements of operations.

(9) Debt

Debt outstanding consisted of the following:

	December 31, 2017	March 31, 2017	December 31, 2016
Senior PIK Notes	103,008	101,482	101,481
NBC Term Loan			
Tranche A	—	15,956	15,801
Tranche B	80,224	78,996	78,605
Specialty Asset Term Loan	—	28,821	28,395
Prepaid loan costs, net	(1,065)	(1,483)	(1,622)
Total debt	182,167	223,772	222,660
Current maturities of long term debt	14,198	39,668	1,331
Long term debt, net of current maturities	$ 167,969	184,104	221,329

On or prior to September 19, 2016, the Company completed the repurchase of, and/or the offer to exchange outstanding 15% Senior Secured Notes (Senior Secured Notes) with a carrying value of $133.1 million, including principal, premium and accrued interest, for a combination of 2.00% Convertible Senior PIK Notes (Senior PIK Notes) due in 2026, additional borrowings on the Term Loan Credit and Security Agreement (NBC Term Loan) and cash. The exchange qualified as a Troubled Debt Restructuring (TDR) under Accounting Standards Codification (ASC) 470-60, "Debt-Troubled Debt Restructurings by Debtors". ASC 470-60-35-5 states that "a debtor in a TDR involving only modification of terms of a payable that is not involving a transfer of assets or grant of an equity interest, shall account for the effects of the restructuring prospectively from the time of the restructuring and shall not change the carrying amount of the payable unless the carrying amount exceeds the total future cash payments specified by the new terms. Interest expense shall be computed in such a way that a constant effective interest rate is applied to the carrying amount of the payable at the beginning of each period between restructuring and maturity. The new effective interest rate shall be the discount rate that equates the present value of the future cash payments specified by the new terms with the carrying amount of the payable." The exchange consisted of the following:

		2% Senior Secured PIK Notes	NBC Term Loan Agreement - Tranche B	Cash	Total Senior Secured Notes
Senior Secured Notes exchanged/repurchased (Includes $110 million principal, $5 million premium and $18 million accrued interest	$	100,909	13,778	18,437	133,124
Negotiated exchange amount	$	100,909	11,385	13,446	
Gain on exchange recognized	$	-	-	4,971	
Gain deferred in new carrying amount	$	-	2,393	-	
Carrying amount of new debt	$	100,909	13,778	NA	
Stated interest rate		2.00%	8.00%	NA	
Effective interest rate		2.00%	1.56%	NA	

A $5.0 million gain was recognized on the Senior Secured Notes repurchased with cash in September 2016 and is included in Other (income) expense.

(a) Senior Secured Notes

At March 31, 2016, the Company had $115.1 million of Senior Secured Notes outstanding. The Senior Secured Notes accrued interest at an annual rate equal to 15% prior to an event of default. Interest was payable in cash semiannually on September 30 and March 31 of each year. An additional 1% default rate also applied in certain instances. On March 31, 2016, the required semiannual interest payment was not made, and it remained unpaid through April 30, 2016, at that time it became an event of default under the indenture pursuant to which the Senior Secured Notes were issued, resulting in an increase in the interest rate to 16%.

The Senior Secured Notes matured on June 30, 2016 (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 payment that resulted in the annual interest rate being increased by an additional 1% to 17%. On September 19, 2016, all outstanding Senior Secured Notes were either paid off or exchanged for Senior PIK Notes or NBC Term Loans.

(b) Senior PIK Notes

On September 19, 2016, the Company issued $100.9 million aggregate principal amount of Senior PIK Notes. The Senior PIK Notes were issued by the Company pursuant to an Indenture (Indenture) with Wilmington Trust, National Association, as Trustee. As of December 31, 2017, $103.0 million was outstanding, which included $2.6 million interest paid-in-kind (PIK).

The Senior PIK Notes mature on April 1, 2026 (Maturity Date). The Company may, at its option, redeem the Senior PIK Notes in whole or in part at any time for a purchase price equal to the redemption price specified in the Indenture, plus accrued and unpaid interest as of the redemption date by providing notice to the Trustee in writing of the redemption date. Redemptions prior to March 15,

2021 require that the greater of (a) 1% of the outstanding principal amount of the Senior PIK Notes, and (b) the excess of (1) the present value at the redemption date of (A) 101% of the outstanding principal amount of the Senior PIK Notes, plus (B) all scheduled interest payments due on such Senior PIK Notes from the redemption date though March 15, 2021 (excluding accrued and unpaid interest through the redemption date), over (2) the principal amount of the outstanding Senior PIK Notes, be paid in addition to outstanding principal and accrued and unpaid interest as of the redemption date. Notice of redemption shall be given at least 35 days, but not more than 60 days before the redemption date. The Senior PIK Note holders may convert the Senior PIK Notes that have been redeemed, at the option of the company, to equity at any time prior to the close of business on the second business day immediately preceding the redemption date.

Senior PIK Note holders have the right, at their own option, at any time prior to the close of business on the second business day immediately prior to the Maturity Date to convert the principal amount of any such Senior PIK Note into shares of common stock subject to restrictions that no Restricted Person shall be entitled to acquire shares of common stock unless such Restricted Person has received approval of the Board of Directors. A Restricted Person is defined as any note holder who is or was a 4.95% stockholder with respect to the Company during the Section 382 Testing Period, as defined by the Internal Revenue Code, ending on the applicable conversion date or would, as a result of the acquisition of common stock in connection with the conversion become a 4.95% stockholder. Such conversion shall initially be for 4,420 shares of common stock per $1,000 of principal amount of Senior PIK Notes subject to adjustment if certain events stated in the Indenture occur.

If a fundamental change, as defined in the Indenture, occurs each Senior PIK Note holder would have the option to require the Company purchase any or all of such holder's Senior PIK Notes on a date specified by the Company that is no earlier than the 20th and not later than the 35th calendar day following such fundamental change at a price equal to 101% of the principal amount plus any accrued and unpaid interest.

In January 2017, a holder of Senior PIK Notes offered to sell back to the Company $0.5 million in principal amount of Senior PIK Notes for a cash payment of $.05 million. Based on the repurchase, the Company recognized a Gain on early termination of debt of $0.45 million in the fourth quarter of the fiscal year ended March 31, 2017.

Interest on the Senior PIK Notes accrues at an annual rate of 2%. Interest for the first two years (PIK Only Period) will be paid by increasing the outstanding principal amount of the Senior PIK Notes or by issuing additional Senior PIK Notes. After the PIK Only Period, interest will be paid in kind unless the Company's subsidiaries have the contractual ability to dividend cash to the Company. Interest paid in kind for the nine months ended December 31, 2017 totaled $1.5 million.

The Indenture contains affirmative and negative covenants, representations and warranties, and events of default customarily applicable to this type of facility. As of December 31, 2017, the company was in compliance with all such covenants.

As required by ASC 470-60-35-12, legal costs and other direct costs incurred not related to the granting of an equity interest in the Company are deducted in measuring the gain on restructuring. The

Company expensed $3.0 million of fees and costs related to the troubled debt restructuring during the second quarter of the fiscal year ended March 31, 2016. These costs offset the Gain on troubled debt restructuring, net.

(c) NBC Term Loan

On November 13, 2014, NBC and its wholly owned subsidiaries entered into a revolving credit facility (NBC Term Loan). The NBC Term Loan provided for both revolving advances and delayed draw term loans that mature on the earlier of November 13, 2019 or ninety days before the maturity of the Senior PIK Notes (NBC Term Loan Maturity Date).

On September 19, 2016, NBC amended the NBC Term Loan to establish two separate term loan facilities (Tranches).

Tranche A Delayed Draw Term Loans (Tranche A): Tranche A permits borrowings up to $23 million. Each lender, severally and not jointly, may, in its sole and absolute discretion, make term loans to NBC. NBC may voluntarily prepay Tranche A loans but may not re-borrow any Tranche A loans that are repaid or prepaid. Tranche A loans mature on the earlier of (i) the date that is ninety days prior to the maturity of the Tranche B loans or (ii) September 19, 2020. In September 2016, NBC borrowed $15.6 million and the Company used the proceeds to repurchase a portion of the Senior Secured Notes and to pay costs and fees associated with the exchange. On December 28, 2017, the Company paid $16.4 million to pay off in full all Tranche A loans, including $0.8 million interest paid in kind, using excess funds received from the payoff of the participation receivable. At December 31, 2017, there was $7.4 million available to borrow at the discretion of the lenders. The interest rate payable on Tranche A is 8%, of which 4% shall be paid in cash and 4% shall be paid in kind. Interest paid in kind for the nine months ended December 31, 2017 on outstanding borrowings totaled $0.5million.

Tranche B Term Loans (Tranche B): Borrowings under the existing NBC Term Loan, immediately prior to the September 2016 amendment, totaling approximately $64.4 million, were reclassified as Tranche B. Borrowings as of December 31, 2017, totaled $80.2 million, which includes commitment fees of $2.3 million and interest paid in kind of $4.6 million. No additional borrowings are permitted on Tranche B. NBC could not voluntarily prepay Tranche B until all Tranche A had been paid in full, which occurred on December 28, 2017. Tranche B loans mature on the earlier (i) November 13, 2019 or (ii) the date that is ninety days before the maturity of the Senior PIK notes. NBC may not re-borrow any Tranche B loans that are repaid or prepaid. The interest rate on Tranche B is 8%, of which 5% shall be paid in cash and 3% shall be paid in kind. Interest paid in kind for the nine months ended December 31, 2017 on outstanding borrowings totaled $1.2 million.

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

The NBC Term Loan contains representations, warranties, affirmative covenants, negative covenants, information requests, and events of default customarily applicable to Term Loan facilities. As of December 31, 2017, the Company was in compliance with all such covenants. NBC is not required to make periodic payments of principal prior to the NBC Term Loan Maturity Date but is required to make principal prepayments of the NBC Term Loans from specified excess cash flows from operations and from the net proceeds of specified types of asset sales, insurance recoveries, and equity offerings. The NBC Term Loan requires mandatory prepayments if excess cash flow is generated (as defined in the NBC Term Loan) during the period from February 1 of each year to September 30 of the same year, payable on October 31, commencing on October 31, 2018 and from October 1 of each year to January 31of the following year, payable on February 28, commencing on February 28, 2018.

Costs incurred in conjunction with establishing the NBC Term Loan and amendments thereto are capitalized and amortized to interest expense using the straight-line method over the life of the NBC Term Loan. Such costs totaled $3.9 million, which includes the $2.3 million delayed draw commitment fees described above. Accumulated amortization totaled approximately $2.9 million at December 31, 2017.

(d) Specialty Asset Term Loan

On September 19, 2016 (Closing Date), Specialty Asset, a wholly owned subsidiary of NBC, entered into an agreement with certain lenders and MAST OC I Master Fund, L.P. as Administrative Agent and Collateral Agent for the lenders (Specialty Asset Term Loan). Under the Specialty Asset Term Loan, Specialty Asset borrowed $28.2 million to acquire the Sonifi participation interests pursuant to the Sonifi Participation Agreement (note 7). The Specialty Asset Term Loan was scheduled to mature on the earlier of September 19, 2020 or the maturity date of NBC Term Loan. On November 17, 2017, Sonifi paid off the outstanding Tranche A term loans, at par. Specialty Asset received $55.9 million plus interest. A portion of the principal proceeds from this payment was used to pay off the Specialty Asset Term Loan of $26.1 million.

On May 26, 2017, Sonifi paid down $3.3 million of the Tranche A term loans, at par plus interest. Principal proceeds from this payment were used to pay down the Specialty Asset Term Loan.

Interest on the Specialty Asset Term Loan accrued at a rate of 6% per annum and was paid in kind by adding an amount equal to such interest to the principal amount of the outstanding Specialty Asset Term Loan. Interest paid in kind for the nine months ended December 31, 2017 totaled $1.0 million.

(e) 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 was 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 $0.7 million in the third quarter of the fiscal year ended March 31, 2016. The interest rate used to calculate the amount representing interest is 8%.

In October 2016, The Company received the outstanding escrow funds from B&J Partnership, Ltd related to the sale of the properties in Lincoln, Nebraska. With the receipt of the escrow funds, the transaction was no longer accounted for as a financing but as an asset sale. The land and buildings with a net book value of $6.3 million, net of accumulated depreciation of $2.1 million were removed along with the sale-leaseback obligation with a carrying value of $6.2 million. The Company recognized a net loss of $0.1 million related to this event in the third quarter of the fiscal year ended March 31, 2017. NBC also expensed $0.25 million unamortized prepaid loan costs associated with the sale-leaseback obligation in the third quarter of the fiscal year ended March 31, 2017.

(10) Leases

Total rent expense for all operating leases was as follows

	Three months ended		Nine months ended	
	December 31, 2017	**December 31, 2016**	**December 31, 2017**	**December 31, 2016**
Total rent expense	$ 197	268	570	478

Future aggregate minimum lease payments under non-cancelable operating leases in effect at December 31, 2017 were as follows for the following fiscal years:

	Operating leases
Fiscal year:	
2018	$ 135
2019	508
2020	263
Total minimum lease payments	$ 906

(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 December 31, 2017 and 2016 were 1.4% and 1.9%, respectively. The effective tax rates for the nine months ended December 31, 2017 and 2016 were 0.5% and 0.3%, respectively. The difference in the effective rate and the federal statutory rate for the three and nine months ended December 31, 2017 and 2016 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 December 31, 2017 and 2016, the Company had valuation allowances of $45.2 million and $74.2 million, respectively.

(12) Discontinued Operations

The financial results for the College Stores closed or sold have been classified as discontinued operations. College bookstores are considered discontinued and the results of operations for these stores are reflected in our condensed consolidated statements of operations as 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.

Results of discontinued operations are summarized as follows:

	Three months ended		Nine months ended	
	December 31, 2017	**December 31, 2016**	**December 31, 2017**	**December 31, 2016**
Revenue from discontinued operations	$ —	—	—	—
Loss from discontinued operations before income tax	$ —	—	—	(564)
Income tax expense	—	—	—	—
Loss from discontinued operations, net of tax	$ —	—	—	(564)

(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, and accounts payable, carrying values approximate fair value as of December 31, 2017, March 31, 2017 and December 31, 2016.

(Continued)

Estimated fair values for our short-term participation receivable, short-term and long-term debt as December 31, 2017 and March 31, 2017 are summarized in the following table.

	December 31, 2017		March 31, 2017	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Short-term				
Participation Receivable	$ -	-	38,928	46,373
NBC Term Loan - tranche A	-	-	10,107	10,107
NBC Term Loan - tranche B	13,431	13,431	-	-
Specialty Asset term loan	-	-	28,821	28,821
Long-term				
NBC Term Loan - tranche A	-	-	5,849	5,849
NBC Term Loan - tranche B	65,333	65,333	76,982	76,982
Senior PIK notes	103,008	9,786	101,482	54,800

On September 19, 2016, the Company completed the repurchase and/or exchange of the unpaid Senior Secured Notes for Senior PIK Notes and for funds borrowed under and/or the issuance of new debt under the NBC Term Loan. Based on the events that occurred in September 2016, the Company determined that the carrying value of our long-term debt approximated the fair value as of September 30, 2016.

Nonrecurring Fair Value Measurements

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When a triggering event occurs and it is determined that the assets will not be fully recoverable, based on estimated undiscounted cash flows over the remaining amortization period, their carrying values are reduced to the estimated fair value. Fair value is established using a discounted cash flow analysis. Measurements based on fair value are classified within Level 3 of the fair value hierarchy since they were based on unobservable inputs.

Impairment as of December 31, 2017 was as follows:

	Three months ended			Nine months ended		
	Carrying Value before Impairment	Fair Value	Impairment	Carrying Value before Impairment	Fair Value	Impairment
Developed Technology	$ 3,526	-	3,526	3,526	-	3,526

Impairment as of December 31, 2016 was as follows:

	Three months ended			Nine months ended		
	Carrying Value before Impairment	Fair Value	Impairment	Carrying Value before Impairment	Fair Value	Impairment
Developed Technology	$ -	-	-	116	-	116

(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 two operating segments: Textbooks and Complementary Services. Textbooks qualifies as a reportable operating segment, while separate disclosure of Complementary Services is provided as management believes that information about this operating segment 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.

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, Nebraska Managed Services, Inc., and NBC Specialty Asset Company, Inc.) are not allocated between our segments; instead, such balances are accounted for in a Corporate Administrative division.

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

		Textbooks	Complementary Services	Corporate Administration	Intercompany Eliminations	Total
Three months ended:						
December 31, 2017						
External customer revenues	$	12,377	2,212	—	—	14,589
Intersegment revenues		—	—	—	—	—
Depreciation and amortization expense		656	282	317	—	1,255
Impairment		—	3,126	400	—	3,526
Income (loss) from operations		(902)	(2,981)	(3,347)	—	(7,230)
Three months ended:						
December 31, 2016						
External customer revenues	$	15,717	2,114	—	—	17,831
Intersegment revenues		2	9	—	(11)	—
Depreciation and amortization expense		803	501	387	—	1,691
Impairment		—	—	—	—	—
Income (loss) from operations		(37)	(501)	(3,609)	—	(4,147)
Nine months ended:						
December 31, 2017						
External customer revenues	$	53,996	6,882	—	—	60,878
Intersegment revenues		(20)	—	—	20	—
Depreciation and amortization expense		2,142	1,285	1,071	—	4,498
Impairment		—	3,126	418	—	3,544
Income (loss) from operations		1,398	(3,445)	(8,419)	—	(10,466)
Nine months ended:						
December 31, 2016 `						
External customer revenues	$	63,284	8,716	—	—	72,000
Intersegment revenues		1	78	—	(79)	—
Depreciation and amortization expense		2,416	1,511	1,434	—	5,361
Impairment		—	—	116	—	116
Income (loss) from operations		2,858	(1,233)	(12,076)	—	(10,451)

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

On January 8, 2018, Specialty Asset paid off $13.4 million of the Tranche B NBC Term Loans with the excess funds received from the participation receivable payoff (see note 8).

The Company has evaluated subsequent events through February 16, 2018 and concluded there are no other material subsequent events to be disclosed.

Senior Secured Notes Repurchase and/or Exchange

On or prior to September 19, 2016, Nebraska Book Holdings, Inc. (Company, we or our), completed the repurchase of and/or the offer to exchange the unpaid 15% Senior Secured Notes (Senior Secures Notes). The Senior Secured Notes originally matured on June 30, 2016 but the Company received forbearance from Senior Secured Note holders representing over 75% of the outstanding principal from payment of the required principal, premium and accrued interest until September 19, 2016. The exchange was considered a troubled debt restructuring and followed the accounting prescribed in ASC 470-60 "Debt-Troubled Debt Restructurings by Debtors". In addition, on September 19, 2016, the Term Loan Credit and Security Agreement (NBC Term Loan) was amended to increase the borrowing capacity and to establish two separate term loan facilities (Tranches). In September 2016, Nebraska Book Company, Inc. (NBC) borrowed $15.6 million on the NBC Term Loan. The proceeds were used to repurchase a portion of the Senior Secured Notes and to pay fees and costs associated with the exchange.

The Senior Secured Notes repurchased and/or exchanged consisted of the following:

		2% Senior PIK Notes	NBC Term Loan - Tranche B	Cash	Total Senior Secured Notes
Senior Secured Notes exchanged/repurchased (Includes $110 million principal, $5 million premium and $18 million accrued interest)	$	100,909	13,778	18,437	133,124
Negotiated exchange amount	$	100,909	11,385	13,466	
Gain on exchange recognized	$	-	-	4,971	
Gain deferred in new carrying amount	$	-	2,393	-	
Carrying amount of new debt	$	100,909	13,778	NA	
Stated interest rate		2.00%	8.00%	NA	
Effective interest rate		2.00%	1.56%	NA	

As part of the restructuring transaction, the Company incurred costs totaling $3.0 million. As required in a troubled debt restructuring these costs are expensed and not deferred and amortized over the life of the loan. These costs reduced the amount of gain on troubled debt restructuring, net, in the second quarter of the fiscal year ended March 31, 2017.

Participation in Sonifi Solutions, Inc. Receivable

On September 19, 2016, NBC Specialty Asset Company, Inc. (Specialty Asset), a subsidiary of NBC, acquired a participation interest in Tranche A term loans of Sonifi Solutions, Inc. (Sonifi) with a face value of $60.0 million for $28.2 million. The underlying agreement between Sonifi and the lenders paid interest of 8%, which was credited to Specialty Asset under the participation. In addition, Sonifi was to make quarterly amortization payments of which Specialty Asset's share was $144,000.

The participation receivable was financed with the Term Loan and Security Agreement (Specialty Asset Term Loan) from MAST Capital Management, LLC (MAST) for $28.2 million. The Specialty Asset Term Loan accrued

interest at 6% that was to be paid in kind the first two years by adding to the carrying amount of the Specialty Asset Term Loan. After 2 years the interest due was to be paid in kind unless there was sufficient cash available in Specialty Asset. The Specialty Asset Term Loan was scheduled to mature on the earlier of September 19, 2020 or the maturity date of the NBC Term Loan. Under the terms of the Specialty Asset Term Loan, any principal payments received from Sonifi were required to pay down the Specialty Asset Term Loan and the Term Loan Credit and Security Agreement (NBC Term Loan). The Specialty Asset Term Loan was collateralized by a security interest in all assets of Specialty Asset including the Sonifi participation receivable.

In May 2017, Sonifi elected to pay off early $3.3 million of the Tranche A term loans, at par plus interest. Principal proceeds from this payment were used to pay down the Specialty Asset Term Loan.

On November 17, 2017, Sonifi paid off the outstanding Tranche A term loans, at par, plus interest. Specialty Asset received $55.9 million plus interest. Principal proceeds from this payment were used to pay off $26.1 million owed on the Specialty Asset Term loan and $16.4 million owed on Tranche A of the NBC Term Loan. The remaining $13.4 million was held as restricted cash on December 31, 2017 and used to pay down Tranche B of the NBC Term Loan on January 8, 2018.

Results of Operations

Three and nine months ended December 31, 2017 compared with the three and nine months ended December 31, 2016.

Revenues

Revenues from operations and revenues by reportable business segment for the periods indicated are summarized as follows:

	Three months ended				Nine months ended			
	December 31, 2017	December 31, 2016	Change $	Change %	December 31, 2017	December 31, 216	Change $	Change %
Textbooks	$ 12,377	15,719	(3,342)	(21.3)%	$ 53,976	63,285	(9,309)	(14.7)%
Complementary Services	2,212	2,123	89	4.2	6,882	8,794	(1,912)	(21.7)
Intercompany Eliminations	-	(11)	11	—	20	(79)	99	(125.3)
	$ 14,589	17,831	(3,242)	(18.2)%	$ 60,878	72,000	(11,122)	(15.4)%

Textbooks

Textbooks revenues decreased $3.3 million, or 21.3%, to $12.4 million for the three months ended December 31, 2017, compared to the three months ended December 31, 2016. The revenue decrease was primarily due to a 30.3% decrease in units sold partially offset by a 9.2% increase in average selling price per book. Textbooks revenues decreased $9.3 million, or 14.7%, to $53.9 million for the nine months ended December 31, 2017, compared to the nine months ended December 31, 2016. The revenue decrease was primarily due to a 14.1% decrease in units sold combined with a 2.3% decrease in average selling price. The increase in average selling price per book for the three-month period was the result of selling higher priced inventory combined with reducing the liquidation of overstocked inventory. The decrease in average selling price per book for the nine-month period

was the result of liquidating overstocked inventory at below market prices during the six months ended September 30, 2017.

Complementary Services

Complementary Services revenues increased $0.1 million, or 4.2%, to $2.2 million for the three months ended December 31, 2017, compared to the three months ended December 31, 2016. Complementary Services revenues decreased $1.9 million, or 21.7%, to $6.9 million for the nine months ended December 31, 2017, compared to the nine months ended December 31, 2016. The revenue decrease for the nine-month period was primarily due to a decrease in system installations combined with a decrease in College Store Design revenue due to the timing of large projects.

Gross Profit

Gross profit on a consolidated basis and by reportable business segment for the periods indicated is summarized as follows:

	Three months ended				Nine months ended			
	December 31, 2017	Percent of net revenues	December 31, 2016	Percent of net revenues	December 31, 2017	Percent of net revenues	December 31, 2017	Percent of net revenues
Textbooks	$ 3,306	26.7%	$ 4,914	31.3%	$ 15,815	29.3%	$ 18,671	29.5%
Complementary Services	1,720	77.8	1,472	69.3	5,277	76.7	5,446	61.9
Intercompany Eliminations	-	—	-	—	-	—	(1)	1.3
	$ 5,026	34.5%	$ 6,386	35.8%	$ 21,092	34.6%	$ 24,116	33.5%

Textbooks

Textbooks gross profit decreased $1.6 million, or 32.7%, to $3.3 million for the three months ended December 31, 2017, compared to the three months ended December 31, 2016. Gross profit as a percentage of sales was 26.7% for the three months ended December 31, 2017 as compared to 31.3% for the three months ended December 31, 2016. Textbooks gross profit decreased $2.9 million, or 15.3%, to $15.8 million for the nine months ended December 31, 2017, compared to the nine months ended December 31, 2016. Gross profit as a percentage of sales was 29.3% for the nine months ended December 31, 2017 as compared to 29.5% for the nine months ended December 31, 2016. The decrease in gross profit for the three and nine month periods was due to decreased revenues combined with decreased gross profit as a percentage of sales. The decrease in gross profit as a percentage of sales was primarily due to an increase in costs associated with acquiring a textbook. The increase in textbook costs was driven by increased market competition for used textbooks.

Complementary Services

Complementary Services gross profit increased $0.2 million, or 16.8%, to $1.7 million for the three months ended December 31, 2017, compared to the three months ended December 31, 2016. Gross profit as a percentage of sales

was 77.8% for the three months ended December 31, 2017 as compared to 69.3% for the three months ended December 31, 2016. Complementary Services gross profit decreased $0.2 million, or 3.1%, to $5.3 million for the nine months ended December 31, 2017, compared to the nine months ended December 31, 2016. Gross profit as a percentage of sales was 76.7% for the nine months ended December 31, 2017 as compared to 61.9% for the nine months ended December 31, 2016. The increase in gross profit for the three-month period was primarily due to a shift in mix to more profitable products and services. The decrease in gross profit for the nine-month period is due to decreased revenues that were partially offset by an increase in gross profit as a percentage of sales. The increase in gross profit percentage for the nine-month period was due to a shift in mix to more profitable products and services.

Selling, General, and Administrative Expenses

Selling, general, and administrative expenses include occupancy costs associated with our corporate facility, advertising expenses, commissions, credit costs, and corporate administrative functions.

Selling, general, and administrative expenses on a consolidated basis and by reportable business segment are summarized as follows:

	Three months ended				Nine months ended			
	December 31, 2017	Percent of net revenues	December 31, 2016	Percent of net revenues	December 31, 2017	Percent of net revenues	December 31, 2016	Percent of net revenues
Textbooks	$ 3,558	28.7%	$ 4,148	26.4%	$ 12,281	22.8%	$ 13,399	21.2%
Complementary Services	1,293	58.5	1,471	69.3	4,310	62.6	5,169	58.8
Corporate Administration	2,624	—	3,223	—	6,925	—	10,523	—
	$ 7,475	51.2%	$ 8,842	49.6%	$ 23,516	38.6%	$ 29,090	40.4%

Consolidated selling, general, and administrative expenses decreased $1.4 million, or 15.5%, to $7.5 million for the three months ended December 31, 2017, compared to the three months ended December 31, 2016. Consolidated selling, general and administrative expenses decreased $5.6 million, or 19.2%, to $23.5 million for the nine months ended December 31, 2017, compared to the nine months ended December 31, 2016. The decrease for the three and nine-month periods was driven by lower professional fees and lower personnel costs resulting from a reduction in headcount.

The Textbooks division selling, general, and administrative expenses decreased by $0.6 million, or 14.2%, to $3.6 million for the three months ended December 31, 2017 compared to the three months ended December 31, 2016. The Textbooks division selling, general, and administrative expenses decreased by $1.1 million, or 8.3%, to $12.3 million for the nine months ended December 31, 2017 compared to the nine months ended December 31, 2016. The reduction for the three and nine-month periods was primarily due to decreased personnel costs resulting from a reduction in headcount.

The Complementary Services Division selling, general, and administrative expenses decreased $0.2 million, or 12.1%, to $1.3 million for the three months ended December 31, 2017 compared to the three months ended

December 31, 2016. The Complementary Services Divisions selling, general and administrative expenses decreased by $0.9 million, or 16.6%, to $4.3 million for the nine months ended December 31, 2017 compared to the nine months ended December 31, 2016. The reduction for the three and nine-month periods was primarily due to lower shipping costs, travel and entertainment expense, and professional fees.

Corporate Administration selling, general and administrative expenses decreased by $0.6 million, or 18.6%, to $2.6 million for the three months ended December 31, 2017 compared to the three months ended December 31, 2016. Corporate Administration selling, general and administrative expenses decreased by $3.6 million, or 34.2%, to $6.9 million for the nine months ended December 31, 2017 compared to the nine months ended December 31, 2016. The reduction for the three and nine-month periods was primarily due to lower professional fees and lower personnel costs.

Consolidated selling, general, and administrative expenses, as a percentage of consolidated revenues were 51.2% and 49.6% for the three months ended December 30, 2017 and December 31, 2016, respectively. Consolidated selling, general, and administrative expenses, as a percentage of consolidated revenues were 38.6% and 40.4% for the nine months ended December 31, 2017 and December 31, 2016, respectively.

Other (Income) Expense

Other (income) expense consists of gain on troubled debt restructuring, gain on early payoff of participation receivable and interest (income) expense. Other (income) expense for the periods indicated is summarized as follows:

		Three months ended		Nine months ended	
		December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Gain on troubled debt restructuring, net	$	-	35	-	(1,985)
Gain on early payoff of participation receivable		(7,102)	—	(8,081)	—
Interest expense		2,589	3,101	8,134	16,073
Interest income		(3,105)	(6,584)	(15,433)	(7,371)
	$	(7,618)	(3,448)	(15,380)	6,717

Gain on Troubled Debt Restructuring, net

Gain on troubled Debt restructuring, net decreased by $2.0 million for the nine months ended December 31, 2017 compared to the nine months ended December 31, 2016. The decrease was due to the payoff of a portion of the Senior Secured Notes for cash that was completed in September 2016 and was accounted for as a troubled debt restructuring and resulted in a gain of $5.0 million. To accomplish the troubled debt restructuring the Company incurred $3.0 million in costs and fees related to the troubled debt restructuring, which offset the gain recognized.

Gain on Early Payoff of Participation Receivable

Gain on early payoff of participation receivable increased by $7.1 million for the three months ended December 31, 2017 compared to the three months ended December 31, 2016. The gain was due to the early payoff, in full, of the participation receivable in November 2017. Gain on early payoff of participation receivable increased by $8.1 million for the nine months ended December 31, 2017 compared to the nine months ended December 31, 2016. The gain was due to the early payoff of a portion of the participation receivable for cash that was received in May 2017 and the final payoff of the participation receivable, in full, in November 2017.

Interest Expense

Interest expense decreased $0.5 million, or 16.5%, to $2.6 million for the three months ended December 31, 2017, compared to the three months ended December 31, 2016. The decrease for the three months ended December 31, 2017 compared to the three months ended December 31, 2016 is primarily due to reduced interest expense on the Sonifi Term loan of $0.2 million due to debt being paid off in November 2017 and reduced amortization of prepaid loan costs due to the acceleration of amortization of loan costs related to the sale-leaseback obligation of $0.3 million in October 2016. Interest expense decreased $7.9 million, or 49.4%, to $8.1 million for the nine months ended December 31, 2017, compared to the nine months ended December 31, 2016. The decrease for the nine months ended December 31, 2017 compared to the nine months ended December 31, 2016, is primarily due to a reduction in interest expense on the senior debt of $8.4 million resulting from the reduced interest rate on the senior debt from 15% to 2% due to the exchange finalized in September 2016 and reduced amortization of prepaid loan costs due to the acceleration of amortization of loan costs related to the sale-leaseback obligation of $.3 million in October 2016. This reduction was offset by increased interest expense on the term loan debt of $0.8 million due to increased borrowing resulting from the senior notes exchange and interest paid-in-kind.

Interest Income

Interest income decreased by $3.5 million, or 52.8% to $3.1 million for the three months ended December 31, 2017, compared to the three months ended December 31, 2016. This decrease is due to the early payoff, in full, of the participation receivable in November 2017. Interest income and discount accretion for the three-month period ended December 31, 2017 was $3.1 million compared to $6.5 million for the three-month period ended December 31, 2016. Interest income increased by $8.1 million, or 109.4% to $15.4 million for the nine months ended December 31, 2017, compared to the nine months ended December 30, 2016. This increase was due to interest income and discount accretion recognized on the participation receivable (Sonifi) purchased in September 2016 increasing by $8.1 million for the nine months ended December 31, 2017 compared to the nine months ended December 31, 2016

Income Taxes

The effective tax rates for the nine months ended December 31, 2017 and 2016 were 0.5% and 0.3%, respectively. The difference in the effective rate and the federal statutory rate for the nine months ended December 31, 2017 and 2016 is primarily due to a valuation allowance.

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 December 31, 2017 and 2016, the Company had valuation allowances of $45.2 million and $74.2 million, respectively.

EBITDA and Adjusted EBITDA

The common definition of EBITDA is "Earnings before Interest, Taxes, Depreciation and Amortization". In evaluating financial performance, the Company uses Adjusted EBITDA to evaluate, assess, and benchmark its operational results. Adjusted EBITDA consists of EBITDA adjusted to exclude the effects of certain specified items of revenue or gain and expense or loss. The Company's definition of Adjusted EBITDA is EBITDA adjusted for items that impacted EBITDA yet are not considered a part of our normal operations, such as: discontinued operations, one-time severance and voluntary costs and other miscellaneous one-time costs. Inter-divisional profit impacts are also excluded with respect to each business segment in connection with computing segment Adjusted EBITDA. In addition, we also exclude certain non-cash data, including share-based compensation.

EBITDA and Adjusted EBITDA are not measures of financial performance under generally accepted accounting principles (GAAP). They should not be considered in isolation or as a substitute for net income (loss) or cash flows from operations in accordance with GAAP. Adjusted EBITDA excludes components that are significant in understanding and assessing our results of operations and cash flows. In addition, the Company's measure of Adjusted EBITDA, as presented in this document, may not be comparable to similarly titled measures used by other companies.

However, Adjusted EBITDA is presented, as management believes the measure is relevant and useful information widely used by analysts, investors and other interested parties in our industry. The Company understands certain investors use it to measure the Company's operating performance. Accordingly, management is disclosing this information to permit a more comprehensive analysis of the Company's operating performance. Adjusted EBITDA financial information is comparable to net income (loss). The following is a reconciliation of Adjusted EBITDA to the Company's GAAP disclosure of net income (loss):

		Three months ended		Nine months ended	
		December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
EBITDA:					
Net income (loss)	$	382	(714)	4,890	(17,777)
Interest (income) expense, net		(516)	(3,479)	(7,299)	8,705
Provision for income taxes		6	15	24	45
Depreciation		151	183	486	828
Amortization		1,104	1,508	4,012	4,534
EBITDA	$	1,127	(2,487)	2,113	(3,665)
Adjusted EBITDA:					
EBITDA	$	1,127	(2,487)	2,113	(3,665)
Discontinued operations		—	(3)	—	560
Impairment		3,526	—	3,544	116
Severance and voluntary costs		—	69	—	288
Share-based compensation		—	7	6	(41)
Gain on troubled debt restructuring, net		—	35	—	(1,985)
Gain on early payoff of participation receivable		(7,102)	—	(8,081)	—
Other miscellaneous one-time costs		101	623	389	3,097
Adjusted EBITDA	$	(2,348)	(1,756)	(2,029)	(1,630)

The following table provides Adjusted EBITDA on a consolidated and a segment basis:

		Three months ended		Nine months ended	
		December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Textbooks	$	(246)	1,991	3,540	6,500
Complementary Services		427	1,292	967	1,569
Corporate Administration		(2,529)	(5,039)	(6,536)	(9,699)
Total Adjusted EBITDA	$	(2,348)	(1,756)	(2,029)	(1,630)

Liquidity and Capital Resources

At December 31, 2017, we had $34.0 million of working capital, including cash of $22.9 million (of which $13.4 million was restricted for the pay down of the NBC Term Loan, which occurred on January 8, 2018). For the nine months ended September 30, 2017, net cash used in operating activities was $4.1 million, an improvement of $10.8 million versus the nine months ended December 31, 2016. Net loss, adjusted for non-cash items (share-based compensation, provision for losses, depreciation and amortization, gain on early payoff of participation receivable and loss on disposal of assets, accretion of debt premium) accounted for $2.7 million of the cash used. Working capital and other impacts accounted for $1.4 million of the cash used. The change in accounts receivable used $3.5 million and the change in prepaid expenses and other assets used $0.9 million due to the fall/winter sales cycle. Change in inventory provided $1.5 million, primarily due to fulfillment of winter sales, and deferred revenue

provided $0.8 million, primarily due to deferred contract maintenance fees. Changes in all other operating assets and liabilities provided $0.7 million of cash.

For the nine months ended December 31, 2017, net cash provided by investing activities was $27.7 million. This was due to the payoff of the participation receivable in November 2017 that provided $29.8 million of cash. This was offset by the purchase of property and equipment and software development costs of $2.1 million.

For the nine months ended December 31, 2017, our financing activities used $16.4 million of cash flow. This was the result of the payoff of Tranche A of the NBC Term loan for $16.4 million with a portion of the excess funds received from the participation receivable payment.

At December 31, 2017, our long-term debt, inclusive of current maturities of $14.2 million, totaled $182.2 million. Long-term debt included 2% Convertible Senior PIK Notes in the principal amount of $103.0 million, term loans in the principal amount of $80.2 million on the NBC Term Loan offset by unamortized prepaid loan costs of $1.0 million on the debt obligations. A summary of the terms of these obligations is set forth in note 8 of our condensed consolidated financial statements.

Forward-Looking Statements

Our financial statements and Management's Discussion and Analysis contain forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they do not fully materialize or prove incorrect, could cause our business and results of operations to differ materially from those expressed or implied by such forward-looking statements. You can identify these and other forward-looking statements by the use of words such as "will," "may," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "intends," "potential," "continue," or the negative of such terms, or other comparable terminology.

Risks and uncertainties that may affect our results and could cause results to differ materially from those expressed in such forward-looking statements include the following:

- Our ability to satisfy our future capital and liquidity requirements; our ability to access the credit and capital markets at the times and in the amounts needed and on terms acceptable to us; our ability to comply with covenants applicable to us; and the continuation of acceptable supplier payment terms; in the past we have defaulted on covenants contained in our loan documents and obtained waivers, but there is no guarantee that we will not default again in the future or that we will be able to obtain additional waivers for any such defaults.
- We have generated operating and net losses and negative cash flows from operations over recent periods, and if we are not able to reverse these trends, we may be unable to sustain our business operations.
- Increased competition from other companies that target our markets.
- Increased competition from alternative sources of textbooks for students and alternative media, including the renting of textbooks from both online and local campus marketplace competitors, digital or other educational content sold directly to students, and increased competition for the purchase and sale of used textbooks from student-to-student transactions.
- Deterioration in the economy and credit markets, a decline in consumer spending, and/or changes in general economic conditions in the markets in which we compete or may compete.
- Our inability to purchase a sufficient supply of used textbooks.
- Changes in pricing of new and/or used textbooks or in publisher practices regarding new editions and materials packaged with new textbooks.
- The loss or retirement of key members of management.
- The impact of seasonality in our wholesale operations.
- Impairment of identifiable intangibles resulting in a noncash write down of identifiable intangibles.

NEBRASKA BOOK HOLDINGS, INC.

Management's Discussion and Analysis

December 31, 2017 and 2016

(in thousands, Unaudited)

You should keep in mind that any forward-looking statement made in our financial statements or in our Management's Discussion and Analysis speaks only as of February 16, 2018. New risks and uncertainties arise from time to time, and it is impossible for us to predict these events or how they may affect us. We have no duty to, and do not intend to, update or revise the forward-looking statements in our financial statements or in our Management's Discussion and Analysis, except as may be required by law.