

NEBRASKA BOOK HOLDINGS, INC.

Unaudited Balance Sheets, Statements of Operations, Statements of Changes in
Stockholders' Equity (Deficit) and Statements of Cash Flows

Three and Six Months Ended September 30, 2018 and 2017

NEBRASKA BOOK HOLDINGS, INC.
Condensed Consolidated Balance Sheets
(Unaudited where noted)
(In thousands, except share amounts and par value)

Assets	September 30, 2018 (Unaudited)	March 31, 2018	September 30, 2017 (Unaudited)
Current assets:			
Cash	\$ 5,621	6,393	8,079
Receivables, less allowance for doubtful accounts of \$979 at September 30, 2018, \$1,238 at March 31, 2018 and \$1,145 at September 30, 2017	22,679	4,869	15,385
Inventories	25,205	24,782	21,583
Income tax receivable	74	99	130
Prepaid expenses and other assets	3,276	4,805	3,658
Current maturities of participation receivable	—	—	46,320
Total current assets	56,855	40,948	95,155
Property and equipment, net	3,227	2,667	2,664
Identifiable intangibles, net	22,085	20,114	24,190
Other assets	402	540	960
Total assets	\$ 82,569	64,269	122,969
Liabilities and Stockholders' Equity (Deficit)			
Current liabilities:			
Accounts payable	\$ 11,543	6,546	3,181
Accrued employee compensation and benefits	1,241	1,336	1,377
Accrued interest	13	375	379
Accrued incentives	1,544	1,449	1,728
Accrued expenses	90	123	194
Deferred revenue	4,745	1,474	3,858
Short-term financing debt	15,493	—	—
Current maturities of long-term debt	4,451	643	46,933
Total current liabilities	39,120	11,946	57,650
Long-term debt, net of current maturities	—	168,748	176,325
Total liabilities	39,120	180,694	233,975
Stockholders' equity (deficit):			
Common stock, \$0.001 par value, 8,999,000,000 authorized, 7,896,412,202 issued and outstanding at September 30, 2018, 712,000,000 shares authorized, 6,721,765 issued and outstanding at March 31, 2018 and September 30, 2017	7,896	7	7
Additional paid-in capital	229,683	86,731	86,731
Retained deficit	(195,539)	(203,163)	(197,744)
Total stockholders' equity (deficit) Nebraska Book Holdings, Inc.	42,040	(116,425)	(111,006)
Noncontrolling interest	1,409	—	—
Total stockholders' equity (deficit)	43,449	(116,425)	(111,006)
Total liabilities and stockholders' equity (deficit)	\$ 82,569	64,269	122,969

See accompanying notes to condensed consolidated financial statements.

NEBRASKA BOOK HOLDINGS, INC.
Condensed Consolidated Statements of Operations
(In thousands, unaudited)

	Three months ended		Six months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Revenues, net of returns	\$ 28,838	30,014	44,774	46,289
Costs of sales	18,831	20,348	29,323	30,223
Gross profit	10,007	9,666	15,451	16,066
Operating expenses:				
Selling, general, and administrative	8,433	8,920	16,087	16,042
Depreciation	204	160	378	335
Amortization	1,028	1,400	1,968	2,908
Impairment	—	17	—	17
Total operating expenses	9,665	10,497	18,433	19,302
Gain (loss) from operations	342	(831)	(2,982)	(3,236)
Other (income) expenses:				
(Gain) loss on troubled debt restructuring, net	(4,412)	—	(4,412)	—
Gain on early extinguishment of debt	(8,888)	—	(8,888)	—
Gain on early payoff of participation receivable	—	—	—	(979)
Interest expense	754	2,780	2,671	5,545
Interest income	(8)	(6,097)	(10)	(12,329)
Total other income	(12,554)	(3,317)	(10,639)	(7,763)
Income from continuing operations before income taxes	12,896	2,486	7,657	4,527
Income tax expense	27	6	39	19
Net income	12,869	2,480	7,618	4,508
Net loss attributable to noncontrolling interest	24	—	6	—
Net income attributable to Nebraska Book Holdings, Inc.	\$ 12,893	2,480	7,624	4,508

See accompanying notes to condensed consolidated financial statements.

NEBRASKA BOOK HOLDINGS, INC.
Condensed Consolidated Statements of Changes in Stockholders' equity (Deficit)
(Unaudited)
(In thousands, except share amounts)

	<u>Attributable to Nebraska Book Holdings, Inc.</u>				<u>Noncontrolling Interest</u>	<u>Total Stockholders' Equity (Deficit)</u>
	<u>Common stock</u>		<u>Additional paid-in capital</u>	<u>Retained deficit</u>		
	<u>Shares</u>	<u>Value</u>				
Balance, March 31, 2017	6,721,765	\$ 7	86,725	(202,252)	—	(115,520)
Share-based compensation attributable to stock options	—	—	6	—	—	6
Net loss	—	—	—	4,508	—	4,508
Balance, September 30, 2017	<u>6,721,765</u>	<u>\$ 7</u>	<u>86,731</u>	<u>(197,744)</u>	<u>—</u>	<u>(111,006)</u>
Balance, March 31, 2018	6,721,765	\$ 7	86,731	(203,163)	—	(116,425)
Equity contributed by noncontrolling interest	—	—	—	—	1,415	1,415
Equity from debt conversion	7,889,690,437	7,889	142,952	—	—	150,841
Net income (loss)	—	—	—	7,624	(6)	7,618
Balance, September 30, 2018	<u>7,896,412,202</u>	<u>\$ 7,896</u>	<u>229,683</u>	<u>(195,539)</u>	<u>1,409</u>	<u>43,449</u>

See accompanying notes to condensed consolidated financial statements.

NEBRASKA BOOK HOLDINGS, INC.
Condensed Consolidated Statements of Cash Flows
(In thousands, unaudited)

	Six months ended	
	September 30, 2018	September 30, 2017
Cash flows used in operating activities:		
Net income	\$ 7,618	4,508
Adjustments to reconcile net income to net cash flows used in operating activities:		
Share-based compensation	—	6
Provision for losses on receivables	175	256
Depreciation	378	335
Depreciation included in cost of sales	20	11
Amortization on identifiable intangibles	1,968	2,908
Amortization of debt issue costs and bond discount	927	278
Accretion of participation receivable discount	—	(10,030)
Interest paid-in-kind	759	2,970
Loan costs paid-in-kind	360	—
Gain on troubled debt restructuring	(6,432)	—
Gain on early payoff of participation receivable	—	(979)
Impairment	—	17
Gain on early extinguishment of debt	(8,888)	—
Changes in operating assets and liabilities net of effect of acquisitions:		
Receivables	(17,539)	(9,118)
Inventories	(423)	2,210
Income tax receivable	25	(63)
Prepaid expense and other assets	1,558	375
Other assets	138	(133)
Accounts payable	4,757	(1,713)
Accrued employee compensation and benefits	(170)	(52)
Accrued interest	(362)	(6)
Accrued incentives	95	(259)
Accrued expense	(33)	(196)
Deferred revenue	2,531	2,385
Net cash flows used in operating activities	(12,538)	(6,290)
Cash flows used in investing activities:		
Purchases of property and equipment	(1,832)	(445)
Software development costs	(1,177)	(866)
Net cash flows used in investing activities	(3,009)	(1,311)
Cash flows from financing activities:		
Proceeds from issuance of debt	7,384	—
Principal payments on long-term debt	(7,524)	—
Capital contribution from noncontrolling interest	137	—
Borrowings under loan and security agreement	30,445	—
Payments under loan and security agreement	(15,667)	—
Net cash flows from financing activities	14,775	—
Net decrease in cash and restricted cash	(772)	(7,601)
Cash, beginning of period	6,393	15,680
Cash, end of period	\$ 5,621	8,079
Supplemental disclosures of cash flows information:		
Cash paid during the period for:		
Interest	\$ 1,253	2,303
Income taxes	162	117
Noncash investing and financing activities:		
Accretion of participation discount	—	10,030
Interest paid-in-kind	759	2,970
Loan costs paid-in-kind	360	—
Apply participation receivable receipts against debt	—	3,617
Contribution from noncontrolling interest	1,277	—
Convert long-term debt to equity	168,699	—

See accompanying notes to condensed consolidated financial statements.