

Contact: Aimee Claeys

**UNIVERSITY OF NORTHERN IOWA BUSINESS ACQUISITION:
UNIVERSITY BOOK AND SUPPLY**

Action Requested: Consider the following actions requested by the University of Northern Iowa related to the acquisition of assets of University Book and Supply:

1. Approve the University's request to purchase from University Book and Supply (UBS) real estate located at 1005 and 1009 W. 23rd Street, Cedar Falls, Iowa and all business assets of the UBS bookstore business operations at the price of \$2.4 million plus the value of textbook and merchandise inventory utilizing the methodology detailed in Attachment B.
2. Delegate to the University the authority to execute the Asset Purchase Agreement and all necessary documents related to the transaction, subject first to final review and approval by the Board office and the Office of the Attorney General.

Executive Summary: The University of Northern Iowa requests approval of the acquisition of substantially all of the assets of University Book and Supply, an Iowa corporation engaged in the operation of University Book and Supply in Cedar Falls, Iowa, and Hawkeye Bookstore on the campus of Hawkeye Community College in Waterloo, Iowa. The proposed acquisition includes UBS real estate; equipment, inventory and supplies; and active business operations. The proposed purchase price of \$2.4 million plus the value of textbook and merchandise inventory will be paid from Treasurer's Temporary Investment funds.

The University of Northern Iowa will be able to provide convenient access to textbooks and course materials for students as well as stronger connections with academic departments. Institutional ownership will allow for lower pricing for students which is consistent with the public university mission of accessibility. Taking advantage of this opportunity is another element of the ongoing UNI initiative of providing high quality education at a reasonable cost.

Real Estate – The University will acquire the real estate and all improvements located at 1005 and 1009 W. 23rd Street, Cedar Falls, Iowa. The property consists of 1.2 acres of land and a 42,491 square foot building that currently houses the business and primary retail operations for University Book and Supply. Two real estate appraisals were obtained and the real estate and business asset purchase price of \$2.4 million is consistent with Regent Policy Manual section 2.3.2.C. A map showing the location of the property is included as Attachment A. Closing is anticipated to occur on February 26, 2018.

Business Assets – The University will acquire substantially all the business assets of UBS, including, business records, goodwill, equipment, inventory, specified contracts and agreements, intellectual property rights, and other assets as specifically agreed by the parties. Consideration for the acquisition of all business assets, other than textbook and merchandise inventory, is included in the purchase price of \$2.4 million.

Prior to closing, a complete physical inventory of UBS textbooks and merchandise shall be conducted by either UBS or, at the University's option, a professional retail inventory service company. The University shall purchase physical inventory from UBS using the methodology

more fully described in Attachment B. Utilizing this methodology, the physical inventory is currently estimated to be valued at a cost of \$575,000.

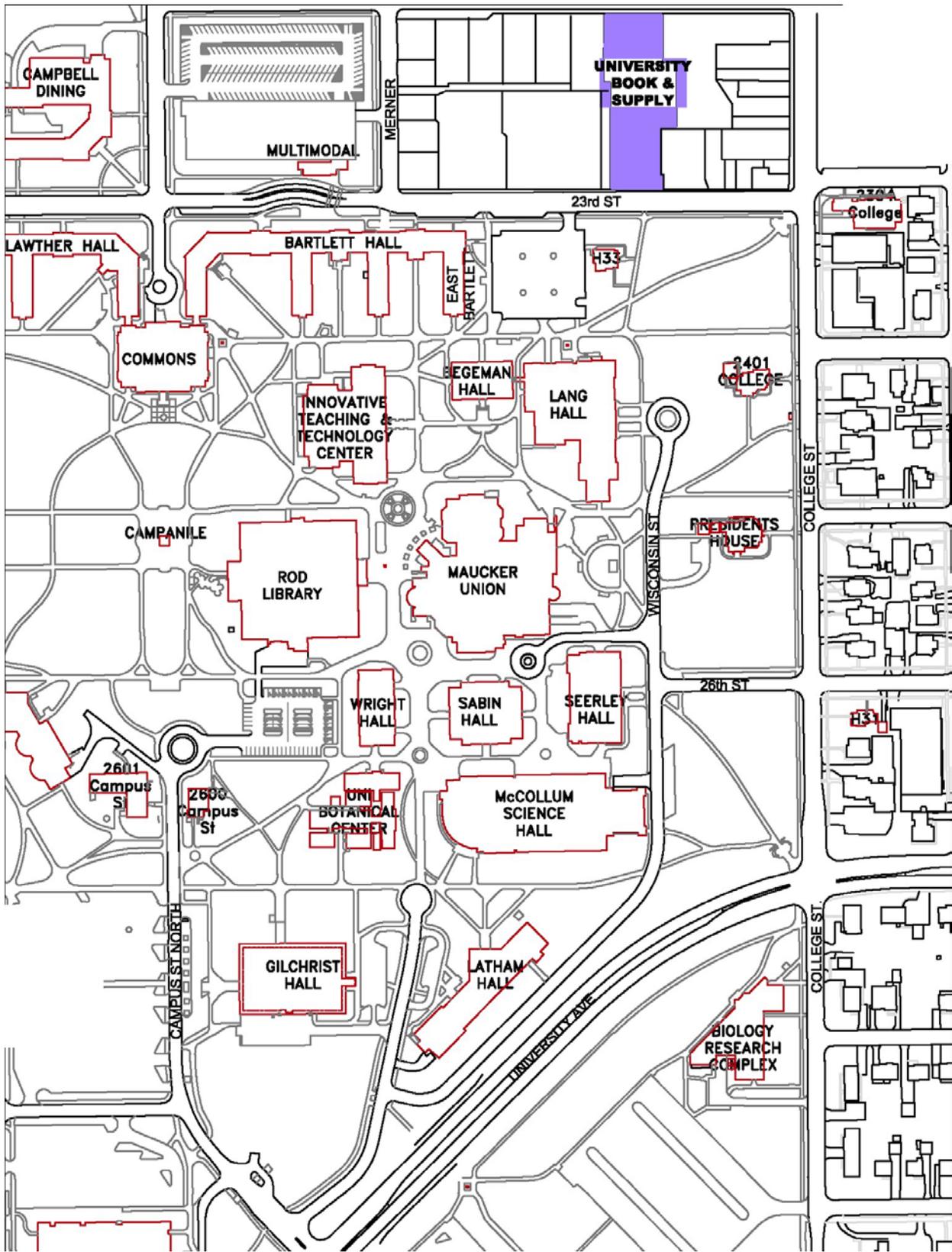
The Asset Purchase Agreement will include the following provisions:

- Detailed descriptions of all acquired and excluded assets.
- A listing of assumed liabilities, contracts, and agreements, with exclusion of the remainder.
- Usual and necessary representations and warranties of the UBS.
- Usual and necessary representations of the UNI.
- Closing date deliverables and conditions.
- UBS and UNI indemnifications.
- UBS confidentiality and covenant not to compete agreements.

Hawkeye Bookstore Assets and Lease – Contingent upon receipt of Board approval for a waiver of the provisions of Iowa Administrative Code section 681-9.4(6)(i), the University shall also acquire the business assets associated with UBS's operation of Hawkeye Bookstore on the campus of Hawkeye Community College. The University shall purchase Hawkeye Bookstore textbook and merchandise inventory from UBS using the methodology more fully described in Attachment B.

Contingent upon receipt of Board approval for a waiver of the provisions of Iowa Administrative Code section 681-9.4(6)(i), the University will assume the current lease agreement between UBS and Hawkeye Community College related to operation of Hawkeye Bookstore. The lease agreement provides approximately 3,176 sf of space in the Hawkeye Center Building at the following annual rental rate: 8% of net sales up to \$3,000,000 and 8.5% of net sales in excess of \$3,000,000. The lease term is from August 1, 2017 through July 31, 2020 with two one-year options to renew.

In the event the Board does not approve a waiver of Iowa Administrative Code section 681-9.4(6)(i), the University will reconsider the proposed acquisition of business assets solely related to Hawkeye Bookstore, including the assumption of the lease agreement.. In the event the University does not agree to acquire the Hawkeye Bookstore business assets, the purchase price will be \$2.4 million plus the value of UBS textbook and merchandise inventory only.



INVENTORY PURCHASE PRICE METHODOLOGY

Under the direction and supervision of UNI and UBS, a complete physical inventory, with audit trail by item and location, shall be conducted by UBS. The physical inventory shall take place at a mutually agreed upon date that is prior to the Closing Date

UNI shall have the right to both observe directly each individual who conducts the UBS inventory, and to conduct sample audits to confirm the results of the UBS inventory. UBS and UNI shall be responsible for their own costs incurred in conducting, observing, or confirming the results of any UBS inventory. If UNI's sample audits conclude that the UBS inventory is materially inaccurate, as determined by the UNI, UNI may have a second inventory conducted by a professional retail inventory service company in which case UNI shall be fully responsible for the entire expense of the second inventory.

UNI and UBS shall have the right to audit the physical inventory. The Bookstore will remain closed until such time as both parties concur with the accuracy of the physical counts, but in no event shall the Bookstore remain closed for a period in excess of two (2) business days.

UNI shall only be obligated to acquire Bookstore inventory that meets one of the conditions in subparagraphs i through iv. UNI shall purchase the Bookstore inventory from UBS at UBS's cost, as follows:

- i. **New Textbooks.** New Textbooks that have been adopted by the University's Faculty for the Summer 2018 sessions and Fall 2018 semester shall be purchased by the University up to the quantity of anticipated enrollment at the actual cost to UBS (i.e., publisher's invoice cost excluding freight), provided such new textbooks are returnable to publishers, distributors, wholesalers, etc., following the Summer 2018 sessions and Fall 2018 semester rush periods. UBS shall provide the University with copies of adoption forms/documentation in order to verify titles that have been adopted by the University's Faculty for the Summer 2018 sessions and Fall 2018 semester. In addition, select New Textbooks adopted for the Spring 2018 semester that are designated for purchase by UNI Students following the transition date shall be purchased by UNI up to the quantity of anticipated unit sales, provided such new textbooks are returnable to publishers, distributors, wholesalers, etc., following the Spring 2018 semester.
- ii. **Used Textbooks.** Used Textbooks that have been adopted by the University's Faculty for the Summer 2018 sessions and Fall 2018 semester shall be purchased by the University up to the quantity of anticipated enrollment at the UBS current new textbook retail price, less the standard industry purchase cost factor (i.e., fifty percent (50%) as of February 2018), provided such used textbooks are returnable to distributors, wholesalers, etc., following the Summer 2018 and Fall 2018 back-to-school rush period. UBS shall provide the University with copies of adoption forms/documentation in order to verify titles that have been adopted by the University's Faculty for the Summer 2018 sessions and Fall 2018 semester. In addition, select Used Textbooks adopted for the Spring 2018 semester that are designated for purchase by UNI Students following the transition date shall be purchased by the University up to the quantity of anticipated unit sales at the UBS current new textbook retail price, less the standard industry purchase cost factor

(i.e., fifty percent (50%) as of February 2018), provided such distributors, wholesalers, etc., have provided written extended returns privileges for the full quantities purchased by the University following the Spring 2018 semester.

- iii. **General Books.** General Books includes trade books, reference books and materials, faculty author books, technical books, bestsellers, etc. All General Books in clean and saleable condition purchased by UBS in the twelve-month period prior to the Transition Date, and in reasonable quantities as determined by the University, shall be purchased by the University at UBS's invoice cost, excluding freight. All General Books purchased by UBS more than twelve months prior to the Transition Date, shall not be purchased by the University.
- iv. **General Merchandise.** General Merchandise includes, but is not limited to, art supplies, school and office supplies, teacher/educational supplies, computer software, computer peripherals, computer supplies, general merchandise, emblematic merchandise, emblematic clothing, gifts, greeting cards, convenience items, health and beauty aids (HBA's), graduation merchandise, etc. All General Merchandise in clean and saleable condition purchased by UBS in the twelve-month period prior to the Transition Date, and in reasonable quantities as determined by the University, shall be purchased by the University at UBS's invoice cost, excluding freight. All General Merchandise purchased by UBS more than twelve months prior to the Transition Date, shall be purchased by the University at a price to be negotiated by the University and UBS.

UBS shall provide UNI with copies of vendor invoices, as requested by UNI, in order to determine purchase cost factors by major sales categories (i.e., new textbooks, used textbooks, general books, art supplies, school and office supplies, teacher/educational supplies, computer software, computer peripherals, computer supplies, general merchandise, emblematic merchandise, emblematic clothing, gifts, greeting cards, convenience items, health and beauty aids (HBA's), graduation merchandise, etc.).