

Houghton Mifflin Harcourt Company
Consolidated Balance Sheets (Unaudited)

	March 31, 2017	December 31, 2016
<i>(in thousands of dollars, except share information)</i>		
Assets		
Current assets		
Cash and cash equivalents.....	\$ 149,540	\$ 226,102
Short-term investments	14,460	80,841
Accounts receivable, net of allowance for bad debts and book returns	167,194	216,006
Inventories	209,105	162,415
Prepaid expenses and other assets	23,339	20,356
Total current assets	563,638	705,720
Property, plant, and equipment, net	169,273	175,202
Pre-publication costs, net.....	318,061	314,784
Royalty advances to authors, net	46,791	43,977
Goodwill.....	783,073	783,073
Other intangible assets, net	664,175	685,649
Deferred income taxes	3,458	3,458
Other assets.....	19,598	19,608
Total assets	\$ 2,568,067	\$ 2,731,471
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long-term debt	\$ 8,000	\$ 8,000
Accounts payable	99,446	76,181
Royalties payable	53,243	72,233
Salaries, wages, and commissions payable	19,085	41,289
Deferred revenue.....	251,250	272,828
Interest payable.....	105	193
Severance and other charges	5,606	8,863
Accrued postretirement benefits.....	1,928	1,928
Other liabilities.....	25,572	23,635
Total current liabilities.....	464,235	505,150
Long-term debt, net of discount and issuance costs.....	763,602	764,738
Long-term deferred revenue	420,301	436,627
Accrued pension benefits.....	28,202	28,956
Accrued postretirement benefits	21,053	22,084
Deferred income taxes	85,059	71,381
Other liabilities	22,196	22,495
Total liabilities.....	1,804,648	1,851,431
Commitments and contingencies		
Stockholders' equity		
Preferred stock, \$0.01 par value: 20,000,000 shares authorized; no shares issued and outstanding at March 31, 2017 and December 31, 2016	—	—
Common stock, \$0.01 par value: 380,000,000 shares authorized; 147,741,279 and 147,556,804 shares issued at March 31, 2017 and December 31, 2016, respectively; 123,164,245 and 122,979,770 shares outstanding at March 31, 2017 and December 31, 2016, respectively	1,477	1,475
Treasury stock, 24,577,034 shares as of March 31, 2017 and December 31, 2016, respectively, at cost (related parties of \$193,493 at 2017 and 2016).....	(518,030)	(518,030)
Capital in excess of par value.....	4,870,966	4,868,230
Accumulated deficit	(3,538,998)	(3,418,340)
Accumulated other comprehensive loss	(51,996)	(53,295)
Total stockholders' equity	763,419	880,040
Total liabilities and stockholders' equity	\$ 2,568,067	\$ 2,731,471

Houghton Mifflin Harcourt Company
Consolidated Statements of Operations (Unaudited)

	Three Months Ended March 31,	
	2017	2016
<i>(in thousands of dollars, except share and per share information)</i>		
Net sales	\$ 221,917	\$ 205,816
Costs and expenses		
Cost of sales, excluding publishing rights and pre- publication amortization.....	107,536	105,518
Publishing rights amortization	13,398	17,793
Pre-publication amortization.....	27,577	28,281
Cost of sales	148,511	151,592
Selling and administrative.....	156,352	168,675
Other intangible asset amortization.....	8,076	6,176
Restructuring	3,875	—
Severance and other charges	1,206	1,577
Operating loss.....	(96,103)	(122,204)
Other income (expense)		
Interest expense.....	(10,208)	(9,333)
Change in fair value of derivative instruments	45	784
Loss before taxes	(106,266)	(130,753)
Income tax expense.....	14,392	34,395
Net loss.....	\$ (120,658)	\$ (165,148)
Net loss per share attributable to common stockholders		
Basic	\$ (0.98)	\$ (1.34)
Diluted	\$ (0.98)	\$ (1.34)
Weighted average shares outstanding		
Basic	122,777,615	122,897,601
Diluted.....	122,777,615	122,897,601

Houghton Mifflin Harcourt Company
Consolidated Statements of Cash Flows (Unaudited)

<i>(in thousands of dollars)</i>	Three Months Ended March 31,	
	2017	2016
Cash flows from operating activities		
Net loss	\$ (120,658)	\$ (165,148)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization expense	68,321	70,594
Amortization of debt discount and deferred financing costs	1,046	1,046
Deferred income taxes	13,678	33,298
Stock-based compensation expense	2,544	3,003
Change in fair value of derivative instruments	(45)	(784)
Changes in operating assets and liabilities		
Accounts receivable	48,812	72,709
Inventories	(46,690)	(50,620)
Other assets	(3,366)	(3,090)
Accounts payable and accrued expenses	2,057	(12,744)
Royalties payable and author advances, net	(21,804)	(25,516)
Deferred revenue	(37,904)	(37,981)
Interest payable	(88)	—
Severance and other charges	(3,546)	(469)
Accrued pension and postretirement benefits	(1,785)	(1,574)
Other liabilities	3,550	4,526
Net cash used in operating activities	(95,878)	(112,750)
Cash flows from investing activities		
Proceeds from sales and maturities of short-term investments	66,240	130,339
Additions to pre-publication costs	(27,860)	(32,784)
Additions to property, plant, and equipment	(17,170)	(24,837)
Net cash provided by investing activities	21,210	72,718
Cash flows from financing activities		
Payments of long-term debt	(2,000)	(2,000)
Repurchases of common stock	—	(30,998)
Tax withholding payments related to net share settlements of restricted stock units and awards	(789)	(1,039)
Proceeds from stock option exercises	—	7,582
Issuance of common stock under employee stock purchase plan	895	1,113
Net cash used in financing activities	(1,894)	(25,342)
Net decrease in cash and cash equivalents	(76,562)	(65,374)
Cash and cash equivalent at the beginning of the period	226,102	234,257
Cash and cash equivalent at the end of the period	\$ 149,540	\$ 168,883

Houghton Mifflin Harcourt Company
Non-GAAP Reconciliations (Unaudited)

Adjusted EBITDA
Consolidated
(in thousands of dollars)

	Three Months Ended March 31,	
	2017	2016
Net loss	\$ (120,658)	\$ (165,148)
Interest expense	10,208	9,333
Provision for income taxes	14,392	34,395
Depreciation expense	19,270	18,344
Amortization expense	49,051	52,250
Non-cash charges—stock-compensation	2,544	3,003
Non-cash charges—gain on derivative instruments	(45)	(784)
Purchase accounting adjustments	—	1,852
Fees, expenses or charges for equity offerings, debt or acquisitions	516	167
Restructuring/Integration	3,783	3,816
Severance, separation costs and facility closures	1,347	1,577
Legal settlement	(4,500)	—
Adjusted EBITDA	<u>\$ (24,092)</u>	<u>\$ (41,195)</u>

Free Cash Flow
Consolidated
(in thousands of dollars)

	Years Ended March 31,	
	2017	2016
Cash flows from operating activities		
Net cash used in operating activities	\$ (95,878)	\$ (112,750)
Cash flows from investing activities		
Additions to pre-publication costs	(27,860)	(32,784)
Additions to property, plant, and equipment	(17,170)	(24,837)
Free Cash Flow	<u>\$ (140,908)</u>	<u>\$ (170,371)</u>

Houghton Mifflin Harcourt Company
Calculation of Billings (Unaudited)

Billings
Consolidated

(in thousands of dollars)

	Three Months Ended	
	March 31,	
	2017	2016
Net sales	\$ 221,917	\$ 205,816
Change in deferred revenue	(37,904)	(37,981)
Billings	<u>\$ 184,013</u>	<u>\$ 167,835</u>

Billings is an operating measure utilized by the company derived as shown above.