

Houghton Mifflin Harcourt Company
Consolidated Balance Sheets (Unaudited)

<i>(in thousands of dollars, except share information)</i>	June 30, 2017	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	\$ 78,735	\$ 226,102
Short-term investments	—	80,841
Accounts receivable, net	304,301	216,006
Inventories	197,903	162,415
Prepaid expenses and other assets	26,147	20,356
Total current assets	607,086	705,720
Property, plant, and equipment, net	157,083	175,202
Pre-publication costs, net	317,336	314,784
Royalty advances to authors, net	48,965	43,977
Goodwill	783,073	783,073
Other intangible assets, net	645,180	685,649
Deferred income taxes	3,458	3,458
Other assets	21,813	19,608
Total assets	<u>\$ 2,583,994</u>	<u>\$ 2,731,471</u>
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long-term debt	\$ 8,000	\$ 8,000
Accounts payable	91,953	76,181
Royalties payable	69,389	72,233
Salaries, wages, and commissions payable	43,931	41,289
Deferred revenue	242,793	272,828
Interest payable	110	193
Severance and other charges	15,854	8,863
Accrued postretirement benefits	1,928	1,928
Other liabilities	38,219	23,635
Total current liabilities	512,177	505,150
Long-term debt, net of discount and issuance costs	762,466	764,738
Long-term deferred revenue	431,151	436,627
Accrued pension benefits	27,451	28,956
Accrued postretirement benefits	20,616	22,084
Deferred income taxes	90,409	71,381
Other liabilities	20,879	22,495
Total liabilities	<u>1,865,149</u>	<u>1,851,431</u>
Commitments and contingencies		
Stockholders' equity		
Preferred stock, \$0.01 par value: 20,000,000 shares authorized; no shares issued and outstanding at June 30, 2017 and December 31, 2016	—	—
Common stock, \$0.01 par value: 380,000,000 shares authorized; 147,836,621 and 147,556,804 shares issued at June 30, 2017 and December 31, 2016, respectively; 123,259,587 and 122,979,770 shares outstanding at June 30, 2017 and December 31, 2016, respectively	1,478	1,475
Treasury stock, 24,577,034 shares as of June 30, 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	4,873,638	4,868,230
Accumulated deficit	(3,585,865)	(3,418,340)
Accumulated other comprehensive loss	(52,376)	(53,295)
Total stockholders' equity	<u>718,845</u>	<u>880,040</u>
Total liabilities and stockholders' equity	<u>\$ 2,583,994</u>	<u>\$ 2,731,471</u>

Houghton Mifflin Harcourt Company
Consolidated Statements of Operations (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
<i>(in thousands of dollars, except share and per share information)</i>				
Net sales	\$ 393,051	\$ 392,042	\$ 614,968	\$ 597,858
Costs and expenses				
Cost of sales, excluding publishing rights and pre- publication amortization.....	175,693	173,466	283,229	278,984
Publishing rights amortization.....	10,867	14,413	24,265	32,206
Pre-publication amortization.....	29,758	31,315	57,335	59,596
Cost of sales.....	216,318	219,194	364,829	370,786
Selling and administrative.....	166,165	184,479	322,517	353,154
Other intangible asset amortization.....	8,128	5,968	16,204	12,144
Restructuring.....	33,393	—	37,268	—
Severance and other charges.....	213	3,553	1,419	5,130
Operating loss.....	(31,166)	(21,152)	(127,269)	(143,356)
Other income (expense)				
Interest expense.....	(10,432)	(9,402)	(20,640)	(18,735)
Change in fair value of derivative instruments.....	851	(619)	896	165
Loss before taxes.....	(40,747)	(31,173)	(147,013)	(161,926)
Income tax expense (benefit).....	6,120	(2,782)	20,512	31,613
Net loss.....	\$ (46,867)	\$ (28,391)	\$ (167,525)	\$ (193,539)
Net loss per share attributable to common stockholders				
Basic.....	\$ (0.38)	\$ (0.23)	\$ (1.36)	\$ (1.58)
Diluted.....	\$ (0.38)	\$ (0.23)	\$ (1.36)	\$ (1.58)
Weighted average shares outstanding				
Basic.....	122,919,853	122,143,971	122,849,127	122,520,786
Diluted.....	122,919,853	122,143,971	122,849,127	122,520,786

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

	Six Months Ended June 30,	
	2017	2016
<i>(in thousands of dollars)</i>		
Cash flows from operating activities		
Net loss.....	\$ (167,525)	\$ (193,539)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization expense	136,188	141,680
Amortization of debt discount and deferred financing costs.....	2,090	2,090
Deferred income taxes.....	19,028	29,252
Stock-based compensation expense	5,475	6,673
Restructuring charges related to property, plant, and equipment.....	10,035	—
Change in fair value of derivative instruments	(896)	(165)
Changes in operating assets and liabilities		
Accounts receivable.....	(88,295)	(91,073)
Inventories	(35,488)	(47,478)
Other assets.....	(7,997)	(9,800)
Accounts payable and accrued expenses	11,505	12,137
Royalties payable and author advances, net	(7,832)	(3,422)
Deferred revenue	(35,511)	(17,365)
Interest payable.....	(83)	—
Severance and other charges.....	9,859	328
Accrued pension and postretirement benefits.....	(2,973)	(3,014)
Other liabilities	12,218	4,919
Net cash used in operating activities.....	<u>(140,202)</u>	<u>(168,777)</u>
Cash flows from investing activities		
Proceeds from sales and maturities of short-term investments.....	80,690	197,724
Additions to pre-publication costs	(57,294)	(65,232)
Additions to property, plant, and equipment	<u>(26,534)</u>	<u>(56,238)</u>
Net cash (used in) provided by investing activities	<u>(3,138)</u>	<u>76,254</u>
Cash flows from financing activities		
Payments of long-term debt.....	(4,000)	(4,000)
Repurchases of common stock.....	—	(51,018)
Tax withholding payments related to net share settlements of restricted stock units and awards.....	(1,434)	(1,039)
Proceeds from stock option exercises.....	512	11,220
Issuance of common stock under employee stock purchase plan.....	895	1,113
Net cash used in financing activities.....	<u>(4,027)</u>	<u>(43,724)</u>
Net decrease in cash and cash equivalents.....	(147,367)	(136,247)
Cash and cash equivalent at the beginning of the period.....	226,102	234,257
Cash and cash equivalent at the end of the period.....	<u>\$ 78,735</u>	<u>\$ 98,010</u>

Houghton Mifflin Harcourt Company
Non-GAAP Reconciliations (Unaudited)

Adjusted EBITDA

Consolidated

(in thousands of dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net loss	\$ (46,867)	\$ (28,391)	\$ (167,525)	\$ (193,539)
Interest expense	10,432	9,402	20,640	18,735
Provision (benefit) for income taxes	6,120	(2,782)	20,512	31,613
Depreciation expense	19,115	19,390	38,385	37,734
Amortization expense	48,753	51,696	97,804	103,946
Non-cash charges—stock compensation	2,931	3,670	5,475	6,673
Non-cash charges—(gain) loss on derivative instrument	(851)	619	(896)	(165)
Purchase accounting adjustments	—	1,236	—	3,088
Fees, expenses or charges for equity offerings, debt or acquisitions	(288)	812	277	979
2017 Restructuring Plan	33,393	—	37,268	—
Restructuring/Integration	—	6,198	—	10,014
Severance, separation costs and facility closures	213	3,553	1,419	5,130
Legal settlement	—	10,000	(4,500)	10,000
Adjusted EBITDA	\$ 72,951	\$ 75,403	\$ 48,859	\$ 34,208

Free Cash Flow

Consolidated

(in thousands of dollars)

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities		
Net cash used in operating activities	\$ (140,202)	\$ (168,777)
Cash flows from investing activities		
Additions to pre-publication costs	(57,294)	(65,232)
Additions to property, plant, and equipment	(26,534)	(56,238)
Free Cash Flow	\$ (224,030)	\$ (290,247)

Houghton Mifflin Harcourt Company
Calculation of Billings (Unaudited)

Billings

Consolidated

(in thousands of dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
<i>(in thousands of dollars)</i>				
Net sales	\$ 393,051	\$ 392,042	\$ 614,968	\$ 597,858
Change in deferred revenue	2,393	20,616	(35,511)	(17,365)
Billings	\$ 395,444	\$ 412,658	\$ 579,457	\$ 580,493

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