

**Houghton Mifflin Harcourt Company**  
**Consolidated Balance Sheets**

	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
<i>(in thousands of dollars, except share information)</i>		
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 226,102	\$ 234,257
Short-term investments	80,841	198,146
Accounts receivable, net of allowance for bad debts and book returns	216,006	256,099
Inventories	162,415	171,446
Prepaid expenses and other assets	20,356	22,877
Total current assets	<u>705,720</u>	<u>882,825</u>
Property, plant, and equipment, net	175,202	149,680
Pre-publication costs, net	314,784	321,931
Royalty advances to authors, net	43,977	44,736
Goodwill	783,073	783,073
Other intangible assets, net	685,649	912,955
Deferred income taxes	3,458	3,540
Other assets	19,608	23,210
Total assets	<u>\$ 2,731,471</u>	<u>\$ 3,121,950</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities		
Current portion of long-term debt	\$ 8,000	\$ 8,000
Accounts payable	76,181	94,483
Royalties payable	72,233	85,766
Salaries, wages, and commissions payable	41,289	45,340
Deferred revenue	272,828	231,172
Interest payable	193	106
Severance and other charges	8,863	4,894
Accrued postretirement benefits	1,928	1,910
Other liabilities	23,635	34,937
Total current liabilities	<u>505,150</u>	<u>506,608</u>
Long-term debt, net of discount and issuance costs	764,738	769,283
Long-term deferred revenue	436,627	440,625
Accrued pension benefits	28,956	23,726
Accrued postretirement benefits	22,084	23,657
Deferred income taxes	71,381	139,810
Other liabilities	22,495	19,920
Total liabilities	<u>1,851,431</u>	<u>1,923,629</u>
Commitments and contingencies		
Stockholders' equity		
Preferred stock, \$0.01 par value: 20,000,000 shares authorized; no shares issued and outstanding at December 31, 2016 and 2015	—	—
Common stock, \$0.01 par value: 380,000,000 shares authorized; 147,556,804 and 145,613,978 shares issued at December 31, 2016 and 2015, respectively; 122,979,770 and 123,940,510 shares outstanding at December 31, 2016 and 2015, respectively	1,475	1,456
Treasury stock, 24,577,034 and 21,673,468 shares as of December 31, 2016 and 2015, respectively, at cost (related parties of \$193,493 in 2015)	(518,030)	(463,013)
Capital in excess of par value	4,868,230	4,833,388
Accumulated deficit	(3,418,340)	(3,133,782)
Accumulated other comprehensive loss	(53,295)	(39,728)
Total stockholders' equity	<u>880,040</u>	<u>1,198,321</u>
Total liabilities and stockholders' equity	<u>\$ 2,731,471</u>	<u>\$ 3,121,950</u>

**Houghton Mifflin Harcourt Company**  
**Consolidated Statements of Operations**

	(Unaudited) Three Months Ended December 31,		Years Ended December 31,	
	2016	2015	2016	2015
<i>(in thousands of dollars, except share and per share information)</i>				
<b>Net sales</b> .....	\$ 241,806	\$ 298,000	\$ 1,372,685	\$ 1,416,059
<b>Costs and expenses</b>				
Cost of sales, excluding publishing rights and pre- publication amortization.....	125,554	137,531	610,715	622,668
Publishing rights amortization .....	14,572	19,358	61,351	81,007
Pre-publication amortization.....	36,744	33,697	130,243	120,506
Cost of sales .....	176,870	190,586	802,309	824,181
Selling and administrative (related parties of \$10,489 for the year ended December 31, 2015).....	161,138	175,585	699,544	681,124
Other intangible asset amortization.....	8,626	7,304	26,750	22,038
Impairment charge for intangible assets	139,205	—	139,205	—
Severance and other charges .....	6,755	1,162	15,650	4,767
Operating loss.....	(250,788)	(76,637)	(310,773)	(116,051)
<b>Other income (expense)</b>				
Interest expense.....	(10,435)	(9,735)	(38,663)	(32,045)
Change in fair value of derivative instruments .....	(1,036)	(469)	(614)	(2,362)
Loss on extinguishment of debt .....	—	—	—	(3,051)
Loss before taxes .....	(262,259)	(86,841)	(350,050)	(153,509)
Income tax expense (benefit) .....	(81,218)	10,426	(65,492)	(19,640)
Net loss.....	\$ (181,041)	\$ (97,267)	\$ (284,558)	\$ (133,869)
Net loss per share attributable to common stockholders				
Basic.....	\$ (1.48)	\$ (0.75)	\$ (2.32)	\$ (0.98)
Diluted.....	\$ (1.48)	\$ (0.75)	\$ (2.32)	\$ (0.98)
Weighted average shares outstanding				
Basic.....	122,622,832	130,176,536	122,418,474	136,760,107
Diluted.....	122,622,832	130,176,536	122,418,474	136,760,107

**Houghton Mifflin Harcourt Company**  
*Consolidated Statements of Cash Flows*

	<u>2016</u>	<u>2015</u>
<i>(in thousands of dollars)</i>		
<b>Cash flows from operating activities</b>		
Net loss	\$ (284,558)	\$ (133,869)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization expense	298,169	296,609
Amortization of debt discount and deferred financing costs	4,181	7,216
Deferred income taxes	(68,347)	48,214
Stock-based compensation expense	10,567	12,452
Loss on extinguishment of debt	—	3,051
Impairment charge for intangible assets	139,205	—
Change in fair value of derivative instruments	614	2,362
Changes in operating assets and liabilities, net of acquisitions		
Accounts receivable	40,094	30,808
Inventories	9,031	26,228
Other assets	6,673	(2,562)
Accounts payable and accrued expenses	(23,685)	13,145
Royalties, net	(12,774)	6,238
Deferred revenue	37,658	124,489
Interest payable	87	59
Severance and other charges	4,315	(3,615)
Accrued pension and postretirement benefits	3,675	(4,869)
Other liabilities	(21,154)	(77,597)
Net cash provided by operating activities	<u>143,751</u>	<u>348,359</u>
<b>Cash flows from investing activities</b>		
Proceeds from sales and maturities of short-term investments	197,724	286,732
Purchases of short-term investments	(81,086)	(198,633)
Additions to pre-publication costs	(124,031)	(103,709)
Additions to property, plant, and equipment	(105,553)	(82,987)
Acquisition of business, net of cash acquired	—	(578,190)
Investment in preferred stock	(1,000)	—
Net cash used in investing activities	<u>(113,946)</u>	<u>(676,787)</u>
<b>Cash flows from financing activities</b>		
Proceeds from term loan, net of discount	—	796,000
Payments of long-term debt	(8,000)	(247,125)
Payments of deferred financing fees	—	(15,255)
Repurchases of common stock (related parties of \$193,493 in 2015)	(55,017)	(463,013)
Tax withholding payments related to net share settlements of restricted stock units	(1,672)	(658)
Proceeds from stock option exercises	24,532	36,155
Issuance of common stock under employee stock purchase plan	2,197	—
Net cash (used in) provided by financing activities	<u>(37,960)</u>	<u>106,104</u>
Net (decrease) increase in cash and cash equivalents	<u>(8,155)</u>	<u>(222,324)</u>
Cash and cash equivalent at the beginning of the period	<u>234,257</u>	<u>456,581</u>
Cash and cash equivalent at the end of the period	<u>\$ 226,102</u>	<u>\$ 234,257</u>

**Houghton Mifflin Harcourt Company**  
**Non-GAAP Reconciliations (Unaudited)**

**Adjusted EBITDA**  
**Consolidated**  
*(in thousands of dollars)*

	<b>Three Months Ended December 31,</b>		<b>Years Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Net loss .....	\$ (181,041)	\$ (97,267)	\$ (284,558)	\$ (133,869)
Interest expense .....	10,435	9,735	38,663	32,045
Provision (benefit) for income taxes .....	(81,218)	10,426	(65,492)	(19,640)
Depreciation expense .....	20,866	19,289	79,825	72,639
Amortization expense .....	59,942	60,359	218,344	223,551
Non-cash charges—stock-compensation .....	1,813	2,524	10,567	12,452
Non-cash charges—loss on derivative instruments .....	1,036	469	614	2,362
Non-cash charges—asset impairment charges .....	139,205	—	139,205	—
Purchase accounting adjustments .....	831	2,367	5,116	7,487
Fees, expenses or charges for equity offerings, debt or acquisitions .....	52	6,538	1,123	25,562
Restructuring/Integration .....	2,166	—	14,364	4,572
Severance, separation costs and facility closures .....	6,755	1,162	15,650	4,767
Loss on extinguishment of debt .....	—	—	—	3,051
Legal settlement .....	—	—	10,000	—
Adjusted EBITDA .....	<u>\$ (19,158)</u>	<u>\$ 15,602</u>	<u>\$ 183,421</u>	<u>\$ 234,979</u>

**Free Cash Flow**

**Consolidated**  
*(in thousands of dollars)*

	<b>Years Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities</b>		
Net cash provided by operating activities .....	\$ 143,751	\$ 348,359
<b>Cash flows from investing activities</b>		
Additions to pre-publication costs .....	(124,031)	(103,709)
Additions to property, plant, and equipment .....	<u>(105,553)</u>	<u>(82,987)</u>
Free Cash Flow .....	<u>\$ (85,833)</u>	<u>\$ 161,663</u>

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**Houghton Mifflin Harcourt Company**  
**Forward-Looking Non-GAAP Reconciliations (Unaudited)**

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**Forward-Looking Adjusted EBITDA Margin and Free Cash Flow**

Management has presented certain forward-looking statements about the Company's expected future performance on a non-GAAP basis, including adjusted EBITDA margin and free cash flow. Management is unable to present a quantitative reconciliation of these forward-looking non-GAAP financial measures to their most directly comparable forward-looking GAAP financial measures of net income/loss margin and net cash provided by operating activities because management cannot reliably predict all of the necessary components of such GAAP measures on a forward-looking basis.

The adjusted EBITDA component of adjusted EBITDA margin (which we calculate as adjusted EBITDA over net sales) is derived by excluding and/or including certain items required to be included in/excluded from the most directly comparable GAAP financial measure of net income/loss. The determination of the items excluded from/included in adjusted EBITDA is a matter of management judgment and depends upon, among other things, the nature of the underlying items recognized in a given period. Historically, management has excluded/included the following items from adjusted EBITDA (a component of adjusted EBITDA margin), and such items may also be excluded/included in future periods and could be significant in amount.

- Interest expense, tax benefit/expense, depreciation and amortization expense
- Non-cash charges related to stock compensation, asset impairments and unrealized gains and losses for derivative instruments
- Fees, expenses or charges related to the acquisition of other businesses, including purchase accounting adjustments, integration costs and transaction costs
- Fees, expenses or charges related to securities offerings and debt refinancings
- Charges associated with restructuring and cost saving initiatives, including severance, separation and facility closure costs
- Certain legal settlements or awards
- Non-routine charges or gains

Our inability to present a quantitative reconciliation of adjusted EBITDA, and consequently adjusted EBITDA margin, to net income/loss and net income/loss margin, respectively, on a forward-looking basis also prevents us from being able to present a quantitative reconciliation of free cash flow to net cash provided by operating activities on a forward-looking basis.

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**Houghton Mifflin Harcourt Company**  
**Calculation of Billings (Unaudited)**

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**Billings**  
**Consolidated**  
*(in thousands of dollars)*

	<u>Three Months Ended December 31,</u>		<u>Years Ended December 31,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Net sales.....	\$ 241,806	\$ 298,000	\$ 1,372,685	\$ 1,416,059
Change in deferred revenue .....	<u>(32,095)</u>	<u>(23,128)</u>	<u>37,658</u>	<u>124,455</u>
Billings.....	<u>\$ 209,711</u>	<u>\$ 274,872</u>	<u>\$ 1,410,343</u>	<u>\$ 1,540,514</u>

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