

Houghton Mifflin Harcourt Company
Consolidated Balance Sheets

<i>(in thousands of dollars, except share information)</i>	(Unaudited) March 31, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	\$ 98,664	\$ 148,979
Short-term investments	—	86,449
Accounts receivable, net	164,435	201,080
Inventories	206,444	154,644
Prepaid expenses and other assets	27,418	29,947
Total current assets	496,961	621,099
Property, plant, and equipment, net	150,648	153,906
Pre-publication costs, net	335,791	324,897
Royalty advances to authors, net	47,446	46,469
Goodwill	783,073	783,073
Other intangible assets, net	593,332	610,663
Deferred income taxes	3,593	3,593
Deferred commissions	23,704	—
Other assets	23,564	19,891
Total assets	<u>\$ 2,458,112</u>	<u>\$ 2,563,591</u>
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long-term debt	\$ 8,000	\$ 8,000
Accounts payable	120,461	61,502
Royalties payable	53,973	72,992
Salaries, wages, and commissions payable	14,929	54,970
Deferred revenue	225,726	275,111
Interest payable	341	322
Severance and other charges	7,219	6,926
Accrued postretirement benefits	1,618	1,618
Other liabilities	23,579	22,788
Total current liabilities	455,846	504,229
Long-term debt, net of discount and issuance costs	759,058	760,194
Long-term deferred revenue	401,585	419,096
Accrued pension benefits	23,810	24,133
Accrued postretirement benefits	19,297	20,285
Deferred income taxes	26,499	22,269
Other liabilities	19,038	18,192
Total liabilities	1,705,133	1,768,398
Commitments and contingencies		
Stockholders' equity		
Preferred stock, \$0.01 par value: 20,000,000 shares authorized; no shares issued and outstanding at March 31, 2018 and December 31, 2017	—	—
Common stock, \$0.01 par value: 380,000,000 shares authorized; 147,974,285 and 147,911,466 shares issued at March 31, 2018 and December 31, 2017, respectively; 123,397,251 and 123,334,432 shares outstanding at March 31, 2018 and December 31, 2017, respectively	1,479	1,479
Treasury stock, 24,577,034 shares as of March 31, 2018 and December 31, 2017, respectively, at cost (related parties of \$193,493 at 2018 and 2017)	(518,030)	(518,030)
Capital in excess of par value	4,882,458	4,879,793
Accumulated deficit	(3,570,127)	(3,521,527)
Accumulated other comprehensive loss	(42,801)	(46,522)
Total stockholders' equity	752,979	795,193
Total liabilities and stockholders' equity	<u>\$ 2,458,112</u>	<u>\$ 2,563,591</u>

Houghton Mifflin Harcourt Company
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended March 31,	
	2018	2017
<i>(in thousands of dollars, except share and per share information)</i>		
Net sales		
.....	\$ 219,768	\$ 221,917
Costs and expenses		
Cost of sales, excluding publishing rights and pre-publication amortization		
.....	106,909	107,536
Publishing rights amortization		
.....	10,090	13,398
Pre-publication amortization		
.....	26,716	27,577
Cost of sales		
.....	143,715	148,511
Selling and administrative		
.....	150,534	156,352
Other intangible asset amortization		
.....	7,241	8,076
Restructuring		
.....	—	3,875
Severance and other charges		
.....	3,943	1,206
Loss on sale of assets		
.....	884	—
Operating loss		
.....	(86,549)	(96,103)
Other income (expense)		
Interest expense		
.....	(10,936)	(10,453)
Interest income		
.....	506	245
Change in fair value of derivative instruments		
.....	372	45
Loss before taxes		
.....	(96,607)	(106,266)
Income tax expense		
.....	4,704	14,392
Net loss		
.....	\$ (101,311)	\$ (120,658)
Net loss per share attributable to common stockholders		
Basic		
.....	\$ (0.82)	\$ (0.98)
Diluted		
.....	\$ (0.82)	\$ (0.98)
Weighted average shares outstanding		
Basic		
.....	123,222,353	122,777,615
Diluted		
.....	123,222,353	122,777,615

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

	Three Months Ended March 31,	
	2018	2017
<i>(in thousands of dollars)</i>		
Cash flows from operating activities		
Net loss	\$ (101,311)	\$ (120,658)
Adjustments to reconcile net loss to net cash used in operating activities		
Loss on sale of assets	884	—
Depreciation and amortization expense	63,285	68,321
Amortization of debt discount and deferred financing costs	1,046	1,046
Deferred income taxes	4,230	13,678
Stock-based compensation expense	2,923	2,544
Change in fair value of derivative instruments	(372)	(45)
Changes in operating assets and liabilities		
Accounts receivable	36,645	48,812
Inventories	(51,800)	(46,690)
Other assets	1,680	(3,366)
Accounts payable and accrued expenses	2,683	2,057
Royalties payable and author advances, net	(20,217)	(21,804)
Deferred revenue	(38,224)	(37,904)
Interest payable	19	(88)
Severance and other charges	3	(3,546)
Accrued pension and postretirement benefits	(1,311)	(1,785)
Other liabilities	3,151	3,550
Net cash used in operating activities	<u>(96,686)</u>	<u>(95,878)</u>
Cash flows from investing activities		
Proceeds from sales and maturities of short-term investments	86,539	66,240
Additions to pre-publication costs	(25,536)	(27,860)
Additions to property, plant, and equipment	(12,240)	(17,170)
Net cash provided by investing activities	<u>48,763</u>	<u>21,210</u>
Cash flows from financing activities		
Payments of long-term debt	(2,000)	(2,000)
Tax withholding payments related to net share settlements of restricted stock units and awards	(1,073)	(789)
Issuance of common stock under employee stock purchase plan	681	895
Net cash used in financing activities	<u>(2,392)</u>	<u>(1,894)</u>
Net decrease in cash and cash equivalents	(50,315)	(76,562)
Cash and cash equivalents at the beginning of the period	148,979	226,102
Cash and cash equivalents at the end of the period	<u>\$ 98,664</u>	<u>\$ 149,540</u>

Houghton Mifflin Harcourt Company
Non-GAAP Reconciliations (Unaudited)

Adjusted EBITDA

Consolidated

(in thousands of dollars)

	Three Months Ended March 31,	
	2018	2017
Net loss	\$ (101,311)	\$ (120,658)
Interest expense	10,936	10,453
Interest income	(506)	(245)
Provision for income taxes	4,704	14,392
Depreciation expense	19,238	19,270
Amortization expense	44,047	49,051
Non-cash charges—stock compensation	2,923	2,544
Non-cash charges—loss (gain) on derivative instrument	(372)	(45)
Fees, expenses or charges for equity offerings, debt or acquisitions	182	565
2017 Restructuring Plan	—	3,875
Severance, separation costs and facility closures	3,943	1,206
Legal reimbursement	—	(4,500)
Loss on sale of assets	884	—
Adjusted EBITDA	<u>\$ (15,332)</u>	<u>\$ (24,092)</u>

Free Cash Flow

Consolidated

(in thousands of dollars)

	Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities		
Net cash used in operating activities	\$ (96,686)	\$ (95,878)
Cash flows from investing activities		
Additions to pre-publication costs	(25,536)	(27,860)
Additions to property, plant, and equipment	(12,240)	(17,170)
Free Cash Flow	<u>\$ (134,462)</u>	<u>\$ (140,908)</u>

Houghton Mifflin Harcourt Company
Calculation of Billings (Unaudited)

Billings *(in thousands of dollars)*

Consolidated

	Three Months Ended March 31,	
	2018	2017
<i>(in thousands of dollars)</i>		
Net sales	\$ 219,768	\$ 221,917
Change in deferred revenue	(38,225)	(37,904)
Billings (1)	<u>\$ 181,543</u>	<u>\$ 184,013</u>

Education

	Three Months Ended March 31,	
	2018	2017
<i>(in thousands of dollars)</i>		
Core Solutions net sales	\$ 61,234	\$ 65,375
Change in deferred revenue	(24,810)	(19,161)
Core Solutions Billings	<u>\$ 36,424</u>	<u>\$ 46,214</u>
Extensions net sales	\$ 121,798	\$ 120,009
Change in deferred revenue	(13,711)	(18,457)
Extensions Billings	<u>\$ 108,087</u>	<u>\$ 101,552</u>
Education Billings (1)	<u>\$ 144,511</u>	<u>\$ 147,766</u>

Trade Publishing

	Three Months Ended March 31,	
	2018	2017
<i>(in thousands of dollars)</i>		
Net sales	\$ 36,736	\$ 36,533
Change in deferred revenue	296	(286)
Billings (1)	<u>\$ 37,032</u>	<u>\$ 36,247</u>

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

- (1) Prior to the third quarter of 2017, the Company only reported consolidated billings. To facilitate comparisons, the Company has revised its historical presentation for the first quarter of 2017 to also present Education and Trade Publishing billings.