

Houghton Mifflin Harcourt Company
Consolidated Balance Sheets

	March 31, 2019 (Unaudited)	December 31, 2018
<i>(in thousands of dollars, except share information)</i>		
Assets		
Current assets		
Cash and cash equivalents	\$ 74,185	\$ 253,365
Short-term investments	9,999	49,833
Accounts receivable, net	183,125	203,574
Inventories	261,924	184,209
Prepaid expenses and other assets	20,953	15,297
Total current assets	550,186	706,278
Property, plant, and equipment, net	116,095	125,925
Pre-publication costs, net	321,837	323,641
Royalty advances to authors, net	47,544	47,993
Goodwill	716,845	716,073
Other intangible assets, net	511,963	520,892
Operating lease assets	144,695	—
Deferred income taxes	3,259	3,259
Deferred commissions	21,861	22,635
Other assets	27,180	28,428
Total assets	<u>\$ 2,461,465</u>	<u>\$ 2,495,124</u>
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long-term debt	\$ 8,000	\$ 8,000
Accounts payable	115,762	76,313
Royalties payable	42,085	66,893
Salaries, wages, and commissions payable	17,120	50,225
Deferred revenue	234,014	251,944
Interest payable	377	136
Severance and other charges	1,717	6,020
Accrued postretirement benefits	1,512	1,512
Operating lease liabilities	14,326	—
Other liabilities	22,018	26,649
Total current liabilities	456,931	487,692
Long-term debt, net of discount and issuance costs	754,513	755,649
Operating lease liabilities	142,441	—
Long-term deferred revenue	373,749	395,500
Accrued pension benefits	29,140	29,320
Accrued postretirement benefits	13,268	14,300
Deferred income taxes	32,972	27,075
Other liabilities	5,780	17,118
Total liabilities	<u>1,808,794</u>	<u>1,726,654</u>
Commitments and contingencies		
Stockholders' equity		
Preferred stock, \$0.01 par value: 20,000,000 shares authorized; no shares issued and outstanding at March 31, 2019 and December 31, 2018	—	—
Common stock, \$0.01 par value: 380,000,000 shares authorized; 148,687,581 and 148,164,854 shares issued at March 31, 2019 and December 31, 2018, respectively; 124,110,547 and 123,587,820 shares outstanding at March 31, 2019 and December 31, 2018, respectively	1,487	1,481
Treasury stock, 24,577,034 shares as of March 31, 2019 and December 31, 2018, respectively, at cost	(518,030)	(518,030)
Capital in excess of par value	4,895,556	4,893,174
Accumulated deficit	(3,679,608)	(3,562,971)
Accumulated other comprehensive loss	(46,734)	(45,184)
Total stockholders' equity	<u>652,671</u>	<u>768,470</u>
Total liabilities and stockholders' equity	<u>\$ 2,461,465</u>	<u>\$ 2,495,124</u>

Houghton Mifflin Harcourt Company
Consolidated Statements of Operations (Unaudited)

	Three Months Ended March 31,	
	2019	2018
<i>(in thousands of dollars, except share and per share information)</i>		
Net sales	\$ 194,635	\$ 199,759
Costs and expenses		
Cost of sales, excluding publishing rights and pre-publication amortization	96,055	99,733
Publishing rights amortization	7,605	10,090
Pre-publication amortization	33,082	25,621
Cost of sales	136,742	135,444
Selling and administrative	151,983	145,527
Other intangible asset amortization	6,524	6,866
Severance and other charges	1,221	3,943
Loss on sale of assets	—	884
Operating loss	(101,835)	(92,905)
Other income (expense)		
Retirement benefits non-service income	42	320
Interest expense	(11,582)	(10,936)
Interest income	1,092	506
Change in fair value of derivative instruments	(450)	372
Income from transition services agreement	1,826	—
Loss from continuing operations before taxes	(110,907)	(102,643)
Income tax expense for continuing operations	6,455	3,243
Loss from continuing operations	(117,362)	(105,886)
Income from discontinued operations, net of tax	—	4,575
Net loss	\$ (117,362)	\$ (101,311)
Net loss per share attributable to common stockholders		
Basic and diluted:		
Continuing operations	\$ (0.95)	\$ (0.86)
Discontinued operations	—	0.04
Net loss	\$ (0.95)	\$ (0.82)
Weighted average shares outstanding		
Basic	123,798,641	123,222,353
Diluted	123,798,641	123,222,353

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

	Three Months Ended March 31,	
	2019	2018
<i>(in thousands of dollars)</i>		
Cash flows from operating activities		
Net loss	\$(117,362)	\$(101,311)
Adjustments to reconcile net loss to net cash used in operating activities		
Income from discontinued operations, net of tax	—	(4,575)
Loss on sale of assets	—	884
Depreciation and amortization expense	68,402	61,022
Amortization of debt discount and deferred financing costs	1,046	1,046
Deferred income taxes	5,897	4,230
Stock-based compensation expense	3,551	2,893
Change in fair value of derivative instruments	450	(372)
Changes in operating assets and liabilities, net of acquisitions		
Accounts receivable	20,482	34,679
Inventories	(77,715)	(51,978)
Other assets	(2,771)	1,991
Accounts payable and accrued expenses	787	3,433
Royalties payable and author advances, net	(24,359)	(18,218)
Deferred revenue	(39,870)	(34,715)
Interest payable	241	19
Severance and other charges	(59)	3
Accrued pension and postretirement benefits	(1,212)	(1,311)
Other liabilities	(13,571)	2,791
Net cash used in operating activities – continuing operations	(176,063)	(99,489)
Net cash provided by operating activities – discontinued operations	—	2,803
Net cash used in operating activities	(176,063)	(96,686)
Cash flows from investing activities		
Proceeds from sales and maturities of short-term investments	40,000	86,539
Additions to pre-publication costs	(25,898)	(24,317)
Additions to property, plant, and equipment	(10,375)	(11,483)
Acquisition of business, net of cash acquired	(5,447)	—
Net cash (used in) provided by investing activities – continuing operations	(1,720)	50,739
Net cash used in investing activities – discontinued operations	—	(1,976)
Net cash (used in) provided by investing activities	(1,720)	48,763
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	(1,756)	(1,073)
Issuance of common stock under employee stock purchase plan	505	681
Net collections (remittances) under transition services agreement	1,854	—
Net cash used in financing activities – continuing operations	(1,397)	(2,392)
Net decrease in cash and cash equivalents	(179,180)	(50,315)
Cash and cash equivalents at the beginning of the period	253,365	148,979
Cash and cash equivalents at the end of the period	\$ 74,185	\$ 98,664

Houghton Mifflin Harcourt Company
Non-GAAP Reconciliations (Unaudited)

Adjusted EBITDA from continuing operations

Consolidated

(in thousands of dollars)

	Three Months Ended March 31,	
	2019	2018 ⁽¹⁾
Net loss from continuing operations	\$ (117,362)	\$ (105,886)
Interest expense	11,582	10,936
Interest income	(1,092)	(506)
Provision for income taxes	6,455	3,243
Depreciation expense	16,179	18,445
Amortization expense – film asset	5,012	—
Amortization expense	47,211	42,577
Non-cash charges – stock compensation	3,551	2,893
Non-cash charges – loss (gain) on derivative instrument	450	(372)
Fees, expenses or charges for equity offerings, debt or acquisitions/dispositions	287	182
Severance, separation costs and facility closures	1,221	3,943
Loss on sale of assets	—	884
Adjusted EBITDA from continuing operations	<u>\$ (26,506)</u>	<u>\$ (23,661)</u>

Free Cash Flow

Consolidated

(in thousands of dollars)

	Three Months Ended March 31,	
	2019	2018 ⁽¹⁾
Cash flows from operating activities		
Net cash used in operating activities	\$ (176,063)	\$ (99,489)
Cash flows from investing activities		
Additions to pre-publication costs	(25,898)	(24,317)
Additions to property, plant, and equipment	(10,375)	(11,483)
Free Cash Flow	<u>\$ (212,336)</u>	<u>\$ (135,289)</u>

¹ All amounts have been adjusted to eliminate the impact of the Riverside Standardized Testing business which has been removed from continuing operations and classified as discontinued operations.

Houghton Mifflin Harcourt Company
Calculation of Billings (Unaudited)

Billings *(in thousands of dollars)*

Consolidated

	Three Months Ended March 31,	
	2019	2018 ⁽¹⁾
Net sales	\$ 194,635	\$ 199,759
Change in deferred revenue	(39,681)	(34,590)
Billings	<u>\$ 154,954</u>	<u>\$ 165,169</u>

Education

	Three Months Ended March 31,	
	2019	2018 ⁽¹⁾
Core Solutions net sales	\$ 51,994	\$ 61,230
Change in deferred revenue	(30,252)	(24,822)
Core Solutions Billings	<u>\$ 21,742</u>	<u>\$ 36,408</u>
Extensions net sales	\$ 101,850	\$ 101,793
Change in deferred revenue	(8,608)	(10,064)
Extensions Billings	<u>\$ 93,242</u>	<u>\$ 91,729</u>
Education Billings	<u>\$ 114,984</u>	<u>\$ 128,137</u>

HMH Books & Media

	Three Months Ended March 31,	
	2019	2018
Net sales	\$ 40,791	\$ 36,736
Change in deferred revenue	(821)	296
HMH Books & Media Billings	<u>\$ 39,970</u>	<u>\$ 37,032</u>

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

¹ All amounts have been adjusted to eliminate the impact of the Riverside Standardized Testing business which has been removed from continuing operations and classified as discontinued operations.