

Houghton Mifflin Harcourt Company
Consolidated Balance Sheets

(in thousands of dollars, except share information)

	June 30, 2018 (Unaudited)	December 31, 2017
Assets		
Current assets.....		
Cash and cash equivalents	\$ 30,709	\$ 148,979
Short-term investments.....	—	86,449
Accounts receivable, net.....	293,693	201,080
Inventories	212,436	154,644
Prepaid expenses and other assets	30,888	29,947
Total current assets	567,726	621,099
Property, plant, and equipment, net.....	149,137	153,906
Pre-publication costs, net.....	341,474	324,897
Royalty advances to authors, net.....	49,964	46,469
Goodwill.....	783,073	783,073
Other intangible assets, net.....	578,133	610,663
Deferred income taxes.....	3,593	3,593
Deferred commissions.....	22,598	—
Other assets.....	28,658	19,891
Total assets	<u>\$ 2,524,356</u>	<u>\$ 2,563,591</u>
Liabilities and Stockholders' Equity		
Current liabilities		
Revolving credit facility	\$ 50,000	\$ —
Current portion of long-term debt	8,000	8,000
Accounts payable	94,920	61,502
Royalties payable	67,085	72,992
Salaries, wages, and commissions payable	39,938	54,970
Deferred revenue	240,355	275,111
Interest payable	293	322
Severance and other charges	6,760	6,926
Accrued postretirement benefits.....	1,618	1,618
Other liabilities.....	30,378	22,788
Total current liabilities	539,347	504,229
Long-term debt, net of discount and issuance costs	757,922	760,194
Long-term deferred revenue	400,803	419,096
Accrued pension benefits	23,476	24,133
Accrued postretirement benefits	19,041	20,285
Deferred income taxes.....	28,144	22,269
Other liabilities	21,364	18,192
Total liabilities.....	<u>1,790,097</u>	<u>1,768,398</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, 2018 and December 31, 2017		—
Common stock, \$0.01 par value: 380,000,000 shares authorized; 148,040,938 and 147,911,466 shares issued at June 30, 2018 and December 31, 2017, respectively; 123,463,904 and 123,334,432 shares outstanding at June 30, 2018 and December 31, 2017, respectively	1,480	1,479
Treasury stock, 24,577,034 shares as of June 30, 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.....	4,885,520	4,879,793
Accumulated deficit.....	(3,593,399)	(3,521,527)
Accumulated other comprehensive loss.....	(41,312)	(46,522)
Total stockholders' equity	734,259	795,193
Total liabilities and stockholders' equity	<u>\$ 2,524,356</u>	<u>\$ 2,563,591</u>

Houghton Mifflin Harcourt Company
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
<i>(in thousands of dollars, except share and per share information)</i>				
Net sales	\$ 375,581	\$ 393,051	\$ 595,349	\$ 614,968
Costs and expenses				
Cost of sales, excluding publishing rights and pre- publication amortization	166,012	175,693	272,921	283,229
Publishing rights amortization	8,148	10,867	18,238	24,265
Pre-publication amortization	27,599	29,758	54,315	57,335
Cost of sales	201,759	216,318	345,474	364,829
Selling and administrative	174,152	167,037	325,006	324,261
Other intangible asset amortization	7,051	8,128	14,292	16,204
Restructuring	—	33,393	—	37,268
Severance and other charges	2,075	213	6,018	1,419
(Gain) loss on sale of assets	(500)	—	384	—
Operating loss	(8,956)	(32,038)	(95,825)	(129,013)
Other income (expense)				
Retirement benefits non-service income	320	872	640	1,744
Interest expense	(11,472)	(10,547)	(22,408)	(21,000)
Interest income	117	115	623	360
Change in fair value of derivative instruments	(1,097)	851	(725)	896
Loss before taxes	(21,088)	(40,747)	(117,695)	(147,013)
Income tax expense	2,184	6,120	6,888	20,512
Net loss	\$ (23,272)	\$ (46,867)	\$ (124,583)	\$ (167,525)
Net loss per share attributable to common stockholders				
Basic	\$ (0.19)	\$ (0.38)	\$ (1.01)	\$ (1.36)
Diluted	\$ (0.19)	\$ (0.38)	\$ (1.01)	\$ (1.36)
Weighted average shares outstanding				
Basic	123,423,911	122,919,853	123,323,688	122,849,127
Diluted	123,423,911	122,919,853	123,323,688	122,849,127

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

	Six Months Ended June 30,	
	2018	2017
<i>(in thousands of dollars)</i>		
Cash flows from operating activities		
Net loss	\$ (124,583)	\$ (167,525)
Adjustments to reconcile net loss to net cash used in operating activities		
Loss on sale of assets	384	—
Depreciation and amortization expense	127,205	136,188
Amortization of debt discount and deferred financing costs	2,091	2,090
Deferred income taxes	5,875	19,028
Stock-based compensation expense	6,122	5,475
Restructuring charges related to property, plant, and equipment	—	10,035
Change in fair value of derivative instruments	725	(896)
Changes in operating assets and liabilities		
Accounts receivable	(92,613)	(88,295)
Inventories	(57,792)	(35,488)
Other assets	(5,472)	(7,997)
Accounts payable and accrued expenses	(1,462)	11,505
Royalties payable and author advances, net	(9,623)	(7,832)
Deferred revenue	(24,378)	(35,511)
Interest payable	(29)	(83)
Severance and other charges	(1,274)	9,859
Accrued pension and postretirement benefits	(1,901)	(2,973)
Other liabilities	12,911	12,218
Net cash used in operating activities	<u>(163,814)</u>	<u>(140,202)</u>
Cash flows from investing activities		
Proceeds from sales and maturities of short-term investments	86,539	80,690
Additions to pre-publication costs	(62,182)	(57,294)
Additions to property, plant, and equipment	(24,901)	(26,534)
Proceeds from sale of assets	500	—
Net cash used in investing activities	<u>(44)</u>	<u>(3,138)</u>
Cash flows from financing activities		
Proceeds from revolving credit facility	50,000	—
Payments of long-term debt	(4,000)	(4,000)
Tax withholding payments related to net share settlements of restricted stock units and awards	(1,093)	(1,434)
Proceeds from stock option exercises	—	512
Issuance of common stock under employee stock purchase plan	681	895
Net cash provided by (used in) financing activities	<u>45,588</u>	<u>(4,027)</u>
Net decrease in cash and cash equivalents	(118,270)	(147,367)
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>\$ 30,709</u>	<u>\$ 78,735</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,	
	2018	2017	2018	2017
Net loss.....	\$ (23,272)	\$ (46,867)	\$ (124,583)	\$ (167,525)
Interest expense.....	11,472	10,547	22,408	21,000
Interest income.....	(117)	(115)	(623)	(360)
Provision for income taxes.....	2,184	6,120	6,888	20,512
Depreciation expense	21,122	19,115	40,360	38,385
Amortization expense	42,798	48,753	86,845	97,804
Non-cash charges—stock compensation	3,199	2,931	6,122	5,475
Non-cash charges loss (gain) on derivative instrument	1,097	(851)	725	(896)
Fees, expenses or charges for equity offerings, debt or acquisitions/dispositions	1,924	(288)	2,106	277
2017 Restructuring Plan.....	—	33,393	—	37,268
Severance, separation costs and facility closures	2,075	213	6,018	1,419
Legal reimbursement	—	—	—	(4,500)
(Gain) loss on sale of assets	(500)	—	384	—
Adjusted EBITDA	<u>\$ 61,982</u>	<u>\$ 72,951</u>	<u>\$ 46,650</u>	<u>\$ 48,859</u>

Free Cash Flow

Consolidated

(in thousands of dollars)

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities		
Net cash used in operating activities	\$ (163,814)	\$ (140,202)
Cash flows from investing activities		
Additions to pre-publication costs.....	(62,182)	(57,294)
Additions to property, plant, and equipment.....	(24,901)	(26,534)
Free Cash Flow.....	<u>\$ (250,897)</u>	<u>\$ (224,030)</u>

Houghton Mifflin Harcourt Company
Calculation of Billings (Unaudited)

Billings *(in thousands of dollars)*

Consolidated

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net sales.....	\$ 375,581	\$ 393,051	\$ 595,349	\$ 614,968
Change in deferred revenue.....	13,847	2,393	(24,378)	(35,511)
Billings (1).....	<u>\$ 389,428</u>	<u>\$ 395,444</u>	<u>\$ 570,971</u>	<u>\$ 579,457</u>

Education

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Core Solutions net sales.....	\$ 152,063	\$ 176,202	\$ 213,297	\$ 241,577
Change in deferred revenue.....	12,687	8,912	(12,123)	(10,249)
Core Solutions Billings.....	<u>\$ 164,750</u>	<u>\$ 185,114</u>	<u>\$ 201,174</u>	<u>\$ 231,328</u>
Extensions net sales.....	\$ 187,429	\$ 174,405	\$ 309,227	\$ 294,414
Change in deferred revenue.....	827	(6,594)	(12,884)	(25,051)
Extensions Billings.....	<u>\$ 188,256</u>	<u>\$ 167,811</u>	<u>\$ 296,343</u>	<u>\$ 269,363</u>
Education Billings (1).....	<u>\$ 353,006</u>	<u>\$ 352,925</u>	<u>\$ 497,517</u>	<u>\$ 500,691</u>

Trade Publishing

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net sales.....	\$ 36,089	\$ 42,444	\$ 72,825	\$ 78,977
Change in deferred revenue.....	333	75	629	(211)
Billings (1).....	<u>\$ 36,422</u>	<u>\$ 42,519</u>	<u>\$ 73,454</u>	<u>\$ 78,766</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 three and six months ended June 30, 2017, to also present Education and Trade Publishing billings.