

Houghton Mifflin Harcourt Company
Consolidated Balance Sheets

(in thousands of dollars, except share information)

	September 30, 2018 (Unaudited)	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	\$ 104,304	\$ 148,979
Short-term investments	29,758	86,449
Accounts receivable, net of allowances for bad debts and book returns of \$20.0 million and \$23.1 million, respectively	353,075	192,569
Inventories	170,012	150,694
Prepaid expenses and other assets	25,260	29,919
Assets held for sale	125,583	126,761
Total current assets	807,992	735,371
Property, plant, and equipment, net	143,040	148,659
Pre-publication costs, net	325,539	313,997
Royalty advances to authors, net	50,342	46,469
Goodwill	713,073	713,073
Other intangible assets, net	535,824	582,538
Deferred income taxes	3,402	3,593
Deferred commissions	23,402	—
Other assets	28,938	19,891
Total assets	\$ 2,631,552	\$ 2,563,591
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long-term debt	\$ 8,000	\$ 8,000
Accounts payable	87,881	60,810
Royalties payable	65,727	66,798
Salaries, wages, and commissions payable	50,452	52,837
Deferred revenue	276,511	264,946
Interest payable	363	322
Severance and other charges	6,861	6,926
Accrued postretirement benefits	1,618	1,618
Other liabilities	28,011	19,657
Liabilities held for sale	22,174	24,835
Total current liabilities	547,598	506,749
Long-term debt, net of discount and issuance costs	756,785	760,194
Long-term deferred revenue	412,860	418,734
Accrued pension benefits	23,140	24,133
Accrued postretirement benefits	18,816	20,285
Deferred income taxes	24,675	22,269
Other liabilities	22,567	16,034
Total liabilities	1,806,441	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 September 30, 2018 and December 31, 2017	—	—
Common stock, \$0.01 par value: 380,000,000 shares authorized; 148,138,296 and 147,911,466 shares issued at September 30, 2018 and December 31, 2017, respectively; 123,561,262 and 123,334,432 shares outstanding at September 30, 2018 and December 31, 2017, respectively	1,481	1,479
Treasury stock, 24,577,034 shares as of September 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	4,889,446	4,879,793
Accumulated deficit	(3,507,050)	(3,521,527)
Accumulated other comprehensive loss	(40,736)	(46,522)
Total stockholders' equity	825,111	795,193
Total liabilities and stockholders' equity	\$ 2,631,552	\$ 2,563,591

Houghton Mifflin Harcourt Company
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<i>(in thousands of dollars, except share and per share information)</i>				
Net sales	\$ 516,255	\$ 516,206	\$ 1,073,379	\$ 1,093,284
Costs and expenses				
Cost of sales, excluding publishing rights and pre-publication amortization	201,748	202,053	461,539	470,721
Publishing rights amortization	8,238	10,987	26,476	35,252
Pre-publication amortization	28,094	32,113	80,047	86,753
Cost of sales	238,080	245,153	568,062	592,726
Selling and administrative	176,202	173,690	491,052	486,876
Other intangible asset amortization	6,696	6,873	20,238	22,327
Restructuring	3,077	1,845	3,077	36,158
Severance and other charges	362	272	6,380	1,155
Loss on sale of assets	—	—	384	—
Operating income (loss)	<u>91,838</u>	<u>88,373</u>	<u>(15,814)</u>	<u>(45,958)</u>
Other income (expense)				
Retirement benefits non-service income	320	871	960	2,615
Interest expense	(11,627)	(10,980)	(34,035)	(31,980)
Interest income	277	281	900	641
Change in fair value of derivative instruments	(249)	377	(974)	1,273
Income (loss) from continuing operations before taxes	80,559	78,922	(48,963)	(73,409)
Income tax (benefit) expense for continuing operations	(3,349)	(9,714)	2,104	10,482
Income (loss) from continuing operations	<u>83,908</u>	<u>88,636</u>	<u>(51,067)</u>	<u>(83,891)</u>
Income from discontinued operations, net of tax	2,441	1,870	12,833	6,872
Net income (loss)	<u>\$ 86,349</u>	<u>\$ 90,506</u>	<u>\$ (38,234)</u>	<u>\$ (77,019)</u>
Net income (loss) per share attributable to common stockholders				
Basic:				
Continuing operations	\$ 0.68	\$ 0.72	\$ (0.41)	\$ (0.68)
Discontinued operations	0.02	0.02	0.10	0.05
Net income (loss)	<u>\$ 0.70</u>	<u>\$ 0.74</u>	<u>\$ (0.31)</u>	<u>\$ (0.63)</u>
Diluted:				
Continuing operations	\$ 0.68	\$ 0.72	\$ (0.41)	\$ (0.68)
Discontinued operations	0.02	0.01	0.10	0.05
Net income (loss)	<u>\$ 0.70</u>	<u>\$ 0.73</u>	<u>\$ (0.31)</u>	<u>\$ (0.63)</u>
Weighted average shares outstanding				
Basic	<u>123,553,116</u>	<u>123,038,780</u>	<u>123,401,005</u>	<u>122,913,039</u>
Diluted	<u>123,870,380</u>	<u>123,243,351</u>	<u>123,401,005</u>	<u>122,913,039</u>

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

	Nine Months Ended	
	September 30,	
	2018	2017
<i>(in thousands of dollars)</i>		
Cash flows from operating activities		
Net loss	\$ (38,234)	\$ (77,019)
Adjustments to reconcile net loss to net cash provided by operating activities		
Income from discontinued operations, net of tax	(12,833)	(6,872)
Loss on sale of assets	384	—
Depreciation and amortization expense	183,218	197,856
Amortization of debt discount and deferred financing costs	3,136	3,136
Deferred income taxes	2,597	8,863
Stock-based compensation expense	9,363	7,946
Restructuring charges related to property, plant, and equipment	—	9,841
Change in fair value of derivative instruments	974	(1,273)
Changes in operating assets and liabilities		
Accounts receivable	(160,506)	(169,427)
Inventories	(19,317)	6,788
Other assets	(716)	397
Accounts payable and accrued expenses	15,471	29,799
Royalties payable and author advances, net	(5,165)	(8,924)
Deferred revenue	34,362	15,359
Interest payable	41	12
Severance and other charges	(481)	3,480
Accrued pension and postretirement benefits	(2,462)	(4,091)
Other liabilities	16,274	4,579
Net cash provided by operating activities – continuing operations	26,106	20,450
Net cash provided by operating activities – discontinued operations	17,361	17,801
Net cash provided by operating activities	<u>43,467</u>	<u>38,251</u>
Cash flows from investing activities		
Proceeds from sales and maturities of short-term investments	86,539	80,690
Purchases of short-term investments	(29,708)	(75,932)
Additions to pre-publication costs	(92,202)	(82,465)
Additions to property, plant, and equipment	(41,488)	(38,769)
Proceeds from sale of assets	500	—
Net cash used in investing activities – continuing operations	(76,359)	(116,476)
Net cash used in investing activities – discontinued operations	(5,933)	(8,567)
Net cash used in investing activities	<u>(82,292)</u>	<u>(125,043)</u>
Cash flows from financing activities		
Proceeds from revolving credit facility	50,000	—
Payments of revolving credit facility	(50,000)	—
Payments of long-term debt	(6,000)	(6,000)
Tax withholding payments related to net share settlements of restricted stock units and awards	(1,113)	(1,450)
Proceeds from stock option exercises	—	512
Issuance of common stock under employee stock purchase plan	1,263	1,608
Net cash used in financing activities– continuing operations	<u>(5,850)</u>	<u>(5,330)</u>
Net decrease in cash and cash equivalents	(44,675)	(92,122)
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>\$ 104,304</u>	<u>\$ 133,980</u>

Houghton Mifflin Harcourt Company
Non-GAAP Reconciliations (Unaudited)

Adjusted EBITDA ¹

Consolidated

(in thousands of dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income (loss) from continuing operations	\$ 83,908	\$ 88,636	\$ (51,067)	\$ (83,891)
Interest expense	11,627	10,980	34,035	31,980
Interest income	(277)	(281)	(900)	(641)
Provision (benefit) for income taxes	(3,349)	(9,714)	2,104	10,482
Depreciation expense	17,701	17,379	56,457	53,524
Amortization expense	43,028	49,973	126,761	144,332
Non-cash charges—stock compensation	3,302	2,521	9,363	7,946
Non-cash charges—loss (gain) on derivative instrument	249	(377)	974	(1,273)
Fees, expenses or charges for equity offerings, debt or acquisitions/dispositions	150	—	2,256	277
2017 Restructuring Plan	3,077	1,845	3,077	36,158
Severance, separation costs and facility closures	362	272	6,380	1,155
Legal reimbursement	—	—	—	(4,500)
Loss on sale of assets	—	—	384	—
Adjusted EBITDA from continuing operations	\$ 159,778	\$ 161,234	\$ 189,824	\$ 195,549

Free Cash Flow ¹

Consolidated

(in thousands of dollars)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities		
Net cash provided by operating activities	\$ 26,106	\$ 20,450
Cash flows from investing activities		
Additions to pre-publication costs	(92,202)	(82,465)
Additions to property, plant, and equipment	(41,488)	(38,769)
Free Cash Flow	\$ (107,584)	\$ (100,784)

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 ¹ (in thousands of dollars)

Consolidated ¹

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net sales	\$ 516,255	\$ 516,206	\$ 1,073,379	\$ 1,093,284
Change in deferred revenue.....	54,959	46,762	34,362	15,359
Billings	<u>\$ 571,214</u>	<u>\$ 562,968</u>	<u>\$ 1,107,741</u>	<u>\$ 1,108,643</u>

Education ¹

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Core Solutions net sales	\$ 243,130	\$ 276,801	\$ 456,335	\$ 518,752
Change in deferred revenue.....	30,736	21,893	18,687	11,310
Core Solutions Billings	\$ 273,866	\$ 298,694	\$ 475,022	\$ 530,062
Extensions net sales.....	\$ 206,506	\$ 188,216	\$ 477,600	\$ 444,366
Change in deferred revenue.....	23,605	25,571	14,428	4,961
Extensions Billings.....	\$ 230,111	\$ 213,787	\$ 492,028	\$ 449,327
Education Billings	<u>\$ 503,977</u>	<u>\$ 512,481</u>	<u>\$ 967,050</u>	<u>\$ 979,389</u>

Trade Publishing ¹

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net sales	\$ 66,619	\$ 51,189	\$ 139,444	\$ 130,166
Change in deferred revenue.....	618	(702)	1,247	(912)
Billings	<u>\$ 67,237</u>	<u>\$ 50,487</u>	<u>\$ 140,691</u>	<u>\$ 129,254</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.