

Houghton Mifflin Harcourt Company
Consolidated Balance Sheets

<i>(in thousands of dollars, except share information)</i>	September 30, 2020 (Unaudited)	December 31, 2019
Assets		
Current assets		
Cash and cash equivalents	\$ 271,543	\$ 296,353
Accounts receivable, net	282,179	184,425
Inventories	175,820	213,059
Prepaid expenses and other assets	23,214	19,257
Total current assets	752,756	713,094
Property, plant, and equipment, net	95,265	100,388
Pre-publication costs, net	222,186	268,197
Royalty advances to authors, net	41,661	44,743
Goodwill	454,977	716,977
Other intangible assets, net	440,111	474,225
Operating lease assets	129,154	132,247
Deferred income taxes	2,520	2,520
Deferred commissions	32,972	29,291
Other assets	34,726	31,490
Total assets	<u>\$ 2,206,328</u>	<u>\$ 2,513,172</u>
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long-term debt	\$ 19,000	19,000
Accounts payable	71,512	52,128
Royalties payable	52,339	72,985
Salaries, wages, and commissions payable	37,009	54,938
Deferred revenue	356,823	305,285
Interest payable	3,981	3,826
Severance and other charges	34,901	12,407
Accrued postretirement benefits	1,571	1,571
Operating lease liabilities	9,339	8,685
Other liabilities	26,383	24,325
Total current liabilities	612,858	555,150
Long-term debt, net of discount and issuance costs	628,066	638,187
Operating lease liabilities	133,214	134,994
Long-term deferred revenue	596,630	542,821
Accrued pension benefits	19,316	23,648
Accrued postretirement benefits	13,911	15,113
Deferred income taxes	18,787	30,871
Other liabilities	3,502	6,028
Total liabilities	<u>2,026,284</u>	<u>1,946,812</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, 2020 and December 31, 2019	—	—
Common stock, \$0.01 par value: 380,000,000 shares authorized; 150,427,148 and 148,928,328 shares issued at September 30, 2020 and December 31, 2019, respectively; 125,850,114 and 124,351,294 shares outstanding at September 30, 2020 and December 31, 2019, respectively	1,504	1,489
Treasury stock, 24,577,034 shares as of September 30, 2020 and December 31, 2019, respectively, at cost	(518,030)	(518,030)
Capital in excess of par value	4,915,806	4,906,165
Accumulated deficit	(4,172,685)	(3,775,992)
Accumulated other comprehensive loss	(46,551)	(47,272)
Total stockholders' equity	180,044	566,360
Total liabilities and stockholders' equity	<u>\$ 2,206,328</u>	<u>\$ 2,513,172</u>

Houghton Mifflin Harcourt Company
Consolidated Statements of Operations

	(Unaudited) Three Months Ended September 30,		(Unaudited) Nine Months Ended September 30,	
	2020	2019	2020	2019
<i>(in thousands of dollars, except share and per share data)</i>				
Net sales	\$ 386,590	\$ 565,668	\$ 827,731	\$ 1,149,199
Costs and expenses				
Cost of sales, excluding publishing rights and pre-publication amortization	182,767	246,527	397,139	533,413
Publishing rights amortization	4,761	6,341	15,295	20,217
Pre-publication amortization	31,647	39,319	94,043	108,140
Cost of sales	219,175	292,187	506,477	661,770
Selling and administrative	127,324	188,957	367,006	516,206
Other intangible asset amortization	6,274	6,383	18,819	19,519
Impairment charge for goodwill	—	—	262,000	—
Restructuring/severance and other charges	33,545	270	33,545	5,921
Operating income (loss)	272	77,871	(360,116)	(54,217)
Other income (expense)				
Retirement benefits non-service income	61	41	183	125
Interest expense	(16,168)	(11,597)	(50,433)	(35,142)
Interest income	32	509	873	1,698
Change in fair value of derivative instruments	432	(737)	172	(1,171)
Gain on investments	1,738	—	1,738	—
Income from transition services agreement	—	571	—	4,248
(Loss) income before taxes	(13,633)	66,658	(407,583)	(84,459)
Income tax (benefit) expense	(1,081)	(2,602)	(10,890)	4,256
Net (loss) income	<u>\$ (12,552)</u>	<u>\$ 69,260</u>	<u>\$ (396,693)</u>	<u>\$ (88,715)</u>
Net (loss) income per share attributable to common stockholders				
Basic	<u>\$ (0.10)</u>	<u>\$ 0.56</u>	<u>\$ (3.17)</u>	<u>\$ (0.71)</u>
Diluted	<u>\$ (0.10)</u>	<u>\$ 0.55</u>	<u>\$ (3.17)</u>	<u>\$ (0.71)</u>
Weighted average shares outstanding				
Basic	<u>125,799,018</u>	<u>124,315,491</u>	<u>125,317,284</u>	<u>124,089,257</u>
Diluted	<u>125,799,018</u>	<u>124,807,488</u>	<u>125,317,284</u>	<u>124,089,257</u>

Houghton Mifflin Harcourt Company
Consolidated Statements of Cash Flows

<i>(in thousands of dollars)</i>	(Unaudited)	
	Nine Months Ended September 30, 2020	2019
Cash flows from operating activities		
Net loss	\$ (396,693)	\$ (88,715)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization expense	171,027	201,593
Amortization and impairments of operating lease assets	9,565	12,898
Amortization of debt discount and deferred financing costs	4,504	3,136
Gain on investments	(1,738)	—
Deferred income taxes	(12,084)	2,580
Stock-based compensation expense	8,751	11,094
Impairment charge for goodwill	262,000	—
Change in fair value of derivative instruments	(172)	1,171
Changes in operating assets and liabilities, net of acquisitions		
Accounts receivable	(97,754)	(231,296)
Inventories	37,239	(27,535)
Other assets	(13,374)	(23,649)
Accounts payable and accrued expenses	6,213	37,488
Royalties payable and author advances, net	(17,564)	1,165
Deferred revenue	105,347	241,091
Interest payable	155	11
Severance and other charges	22,494	(464)
Accrued pension and postretirement benefits	(5,532)	(2,761)
Operating lease liabilities	(7,598)	(12,450)
Other liabilities	380	2,015
Net cash provided by operating activities	75,166	127,372
Cash flows from investing activities		
Proceeds from sales and maturities of short-term investments	—	50,000
Additions to pre-publication costs	(51,321)	(81,532)
Additions to property, plant, and equipment	(35,275)	(27,350)
Acquisition of business, net of cash acquired	—	(5,447)
Investment in preferred stock	—	(750)
Net cash used in investing activities	(86,596)	(65,079)
Cash flows from financing activities		
Borrowings under revolving credit facility	150,000	60,000
Payments of revolving credit facility	(150,000)	(60,000)
Payments of long-term debt	(14,250)	(6,000)
Payments of deferred financing fees	—	(311)
Tax withholding payments related to net share settlements of restricted stock units	(48)	(1,963)
Issuance of common stock under employee stock purchase plan	918	1,027
Net collections under transition services agreement	—	265
Net cash used in financing activities	(13,380)	(6,982)
Net decrease in cash and cash equivalents	(24,810)	55,311
Cash and cash equivalents at beginning of the period	296,353	253,365
Cash and cash equivalents at end of the period	<u>\$ 271,543</u>	<u>\$ 308,676</u>

Houghton Mifflin Harcourt Company
Non-GAAP Reconciliations (Unaudited)

Adjusted EBITDA

Consolidated

(in thousands of dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net (loss) income	\$ (12,552)	\$ 69,260	\$ (396,693)	\$ (88,715)
Interest expense	16,168	11,597	50,433	35,142
Interest income	(32)	(509)	(873)	(1,698)
Provision (benefit) for income taxes	(1,081)	(2,602)	(10,890)	4,256
Depreciation expense	12,566	13,901	38,016	46,945
Amortization expense – film asset	4,698	—	4,854	6,772
Amortization expense	42,682	52,043	128,157	147,876
Non-cash charges – goodwill impairment	—	—	262,000	—
Non-cash charges – stock compensation	3,112	3,835	8,751	11,094
Non-cash charges – loss on derivative instruments	(432)	737	(172)	1,171
Fees, expenses or charges for equity offerings, debt or acquisitions/dispositions	339	183	366	731
Restructuring/severance and other charges	33,545	270	33,545	5,921
Gain on investments	(1,738)	—	(1,738)	—
Adjusted EBITDA	<u>\$ 97,275</u>	<u>\$ 148,715</u>	<u>\$ 115,756</u>	<u>\$ 169,495</u>

Free Cash Flow

Consolidated

(in thousands of dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Cash flows from operating activities				
Net cash provided by operating activities	\$ 264,442	\$ 393,297	\$ 75,166	\$ 127,372
Cash flows from investing activities				
Additions to pre-publication costs	(16,471)	(25,941)	(51,321)	(81,532)
Additions to property, plant, and equipment	(10,917)	(8,992)	(35,275)	(27,350)
Free Cash Flow	<u>\$ 237,054</u>	<u>\$ 358,364</u>	<u>\$ (11,430)</u>	<u>\$ 18,490</u>

Houghton Mifflin Harcourt Company
Calculation of Billings (Unaudited)

Billings (in thousands of dollars)

Consolidated

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	Net sales	\$ 386,590	\$ 565,668	\$ 827,731
Change in deferred revenue	119,426	180,993	106,347	241,280
Billings	<u>\$ 506,016</u>	<u>\$ 746,661</u>	<u>\$ 934,078</u>	<u>\$ 1,390,479</u>

Education

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	Net sales	\$ 330,926	\$ 517,614	\$ 698,574
Change in deferred revenue	119,727	181,019	106,575	242,135
Education Billings	<u>\$ 450,653</u>	<u>\$ 698,633</u>	<u>\$ 805,149</u>	<u>\$ 1,263,394</u>

HMH Books & Media

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	Net sales	\$ 55,664	\$ 48,054	\$ 129,157
Change in deferred revenue	(301)	(26)	(228)	(855)
HMH Books & Media Billings	<u>\$ 55,363</u>	<u>\$ 48,028</u>	<u>\$ 128,929</u>	<u>\$ 127,085</u>

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