

**Houghton Mifflin Harcourt Company**  
*Consolidated Balance Sheets*

<i>(in thousands of dollars, except share information)</i>	March 31, 2020 (Unaudited)	December 31, 2019
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 254,665	\$ 296,353
Accounts receivable, net	139,981	184,425
Inventories	265,364	213,059
Prepaid expenses and other assets	22,032	19,257
Total current assets	682,042	713,094
Property, plant, and equipment, net	101,692	100,388
Pre-publication costs, net	256,808	268,197
Royalty advances to authors, net	41,761	44,743
Goodwill	454,977	716,977
Other intangible assets, net	462,127	474,225
Operating lease assets	135,087	132,247
Deferred income taxes	2,520	2,520
Deferred commissions	28,431	29,291
Other assets	29,961	31,490
Total assets	<u>\$ 2,195,406</u>	<u>\$ 2,513,172</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities		
Revolving credit facility	\$ 150,000	\$ —
Current portion of long-term debt	19,000	19,000
Accounts payable	73,217	52,128
Royalties payable	40,796	72,985
Salaries, wages, and commissions payable	14,250	54,938
Deferred revenue	274,187	305,285
Interest payable	3,814	3,826
Severance and other charges	7,087	12,407
Accrued postretirement benefits	1,571	1,571
Operating lease liabilities	9,171	8,685
Other liabilities	27,044	24,325
Total current liabilities	620,137	555,150
Long-term debt, net of discount and issuance costs	634,800	638,187
Operating lease liabilities	137,676	134,994
Long-term deferred revenue	514,390	542,821
Accrued pension benefits	23,423	23,648
Accrued postretirement benefits	14,228	15,113
Deferred income taxes	21,743	30,871
Other liabilities	5,049	6,028
Total liabilities	<u>1,971,446</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 March 31, 2020 and December 31, 2019	—	—
Common stock, \$0.01 par value: 380,000,000 shares authorized; 149,983,155 and 148,928,328 shares issued at March 31, 2020 and December 31, 2019, respectively; 125,406,121 and 124,351,294 shares outstanding at March 31, 2020 and December 31, 2019, respectively	1,500	1,489
Treasury stock, 24,577,034 shares as of March 31, 2020 and December 31, 2019, respectively, at cost	(518,030)	(518,030)
Capital in excess of par value	4,910,171	4,906,165
Accumulated deficit	(4,121,965)	(3,775,992)
Accumulated other comprehensive loss	(47,716)	(47,272)
Total stockholders' equity	223,960	566,360
Total liabilities and stockholders' equity	<u>\$ 2,195,406</u>	<u>\$ 2,513,172</u>

**Houghton Mifflin Harcourt Company**  
**Consolidated Statements of Operations**

<i>(in thousands of dollars, except share and per share data)</i>	(Unaudited)	
	Three Months Ended March 31,	
	2020	2019
<b>Net sales</b>	\$ 189,925	\$ 194,635
<b>Costs and expenses</b>		
Cost of sales, excluding publishing rights and pre-publication		
Amortization	90,012	96,055
Publishing rights amortization	5,825	7,605
Pre-publication amortization	30,638	33,082
Cost of sales	126,475	136,742
Selling and administrative	133,353	151,983
Other intangible asset amortization	6,273	6,524
Impairment charge for goodwill	262,000	—
Restructuring/severance and other charges	—	1,221
Operating loss	<u>(338,176)</u>	<u>(101,835)</u>
<b>Other income (expense)</b>		
Retirement benefits non-service income	61	42
Interest expense	(16,783)	(11,582)
Interest income	766	1,092
Change in fair value of derivative instruments	(380)	(450)
Income from transition services agreement	—	1,826
Loss before taxes	(354,512)	(110,907)
Income tax (benefit) expense	(8,539)	6,455
Net loss	<u>\$ (345,973)</u>	<u>\$ (117,362)</u>
Net loss per share attributable to common stockholders		
Basic and diluted:		
Net loss	<u>\$ (2.77)</u>	<u>\$ (0.95)</u>
Weighted average shares outstanding		
Basic and diluted	<u>124,688,974</u>	<u>123,798,641</u>

**Houghton Mifflin Harcourt Company**  
**Consolidated Statements of Cash Flows**

(in thousands of dollars)	(Unaudited)	
	Three Months Ended March 31,	
	2020	2019
<b>Cash flows from operating activities</b>		
Net loss	\$ (345,973)	\$ (117,362)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization expense	55,225	68,402
Amortization of operating lease assets	3,632	3,501
Amortization of debt discount and deferred financing costs	1,488	1,046
Deferred income taxes	(9,128)	5,897
Stock-based compensation expense	3,476	3,551
Impairment charge for goodwill	262,000	—
Change in fair value of derivative instruments	380	450
Changes in operating assets and liabilities, net of acquisitions		
Accounts receivable	44,444	20,482
Inventories	(52,305)	(77,715)
Other assets	(1,680)	(6,272)
Accounts payable and accrued expenses	(20,732)	787
Royalties payable and author advances, net	(29,207)	(24,359)
Deferred revenue	(59,529)	(39,870)
Interest payable	(12)	241
Severance and other charges	(5,320)	(59)
Accrued pension and postretirement benefits	(1,108)	(1,212)
Operating lease liabilities	(3,304)	(4,194)
Other liabilities	886	(9,377)
Net cash used in operating activities	(156,767)	(176,063)
<b>Cash flows from investing activities</b>		
Proceeds from sales and maturities of short-term investments	—	40,000
Additions to pre-publication costs	(18,751)	(25,898)
Additions to property, plant, and equipment	(11,875)	(10,375)
Acquisition of business, net of cash acquired	—	(5,447)
Net cash used in investing activities	(30,626)	(1,720)
<b>Cash flows from financing activities</b>		
Proceeds under revolving credit facility	150,000	—
Payments of long-term debt	(4,750)	(2,000)
Tax withholding payments related to net share settlements of restricted stock units	(48)	(1,756)
Issuance of common stock under employee stock purchase plan	503	505
Net collections under transition services agreement	—	1,854
Net cash provided by (used in) financing activities	145,705	(1,397)
Net decrease in cash and cash equivalents	(41,688)	(179,180)
Cash and cash equivalents at the beginning of the period	296,353	253,365
Cash and cash equivalents at the end of the period	\$ 254,665	\$ 74,185

**Houghton Mifflin Harcourt Company**  
**Non-GAAP Reconciliations (Unaudited)**

**Adjusted EBITDA**

**Consolidated**

*(in thousands of dollars)*

	Three Months Ended March 31,	
	2020	2019
Net loss	\$ (345,973)	\$ (117,362)
Interest expense	16,783	11,582
Interest income	(766)	(1,092)
Provision (benefit) for income taxes	(8,539)	6,455
Depreciation expense	12,489	16,179
Amortization expense – film asset	—	5,012
Amortization expense	42,736	47,211
Non-cash charges – goodwill impairment	262,000	—
Non-cash charges – stock compensation	3,476	3,551
Non-cash charges – loss on derivative instruments	380	450
Fees, expenses or charges for equity offerings, debt or acquisitions/dispositions	27	287
Restructuring/severance and other charges	—	1,221
Adjusted EBITDA	<u>\$ (17,387)</u>	<u>\$ (26,506)</u>

**Free Cash Flow**

**Consolidated**

*(in thousands of dollars)*

	Three Months Ended March 31,	
	2020	2019
<b>Cash flows from operating activities</b>		
Net cash used in operating activities	\$ (156,767)	\$ (176,063)
<b>Cash flows from investing activities</b>		
Additions to pre-publication costs	(18,751)	(25,898)
Additions to property, plant, and equipment	(11,875)	(10,375)
Free Cash Flow	<u>\$ (187,393)</u>	<u>\$ (212,336)</u>

**Houghton Mifflin Harcourt Company**  
**Calculation of Billings (Unaudited)**

**Billings** *(in thousands of dollars)*

**Consolidated**

	Three Months Ended March 31,	
	2020	2019
Net sales	\$ 189,925	\$ 194,635
Change in deferred revenue	(58,529)	(39,681)
Billings	<u>\$ 131,396</u>	<u>\$ 154,954</u>

**Education**

	Three Months Ended March 31,	
	2020	2019
Net sales	\$ 151,585	\$ 153,844
Change in deferred revenue	(59,118)	(38,860)
Education Billings	<u>\$ 92,467</u>	<u>\$ 114,984</u>

**HMH Books & Media**

	Three Months Ended March 31,	
	2020	2019
Net sales	\$ 38,340	\$ 40,791
Change in deferred revenue	589	(821)
HMH Books & Media Billings	<u>\$ 38,929</u>	<u>\$ 39,970</u>

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