

Houghton Mifflin Harcourt Company
Consolidated Balance Sheets

<i>(in thousands of dollars, except share information)</i>	June 30, 2019 (Unaudited)	December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	\$ 15,114	\$ 253,365
Short-term investments	—	49,833
Accounts receivable, net	432,082	203,574
Inventories	267,770	184,209
Prepaid expenses and other assets	22,382	15,297
Total current assets	737,348	706,278
Property, plant, and equipment, net	108,332	125,925
Pre-publication costs, net	311,724	323,641
Royalty advances to authors, net	49,625	47,993
Goodwill	716,977	716,073
Other intangible assets, net	499,080	520,892
Operating lease assets	138,755	—
Deferred income taxes	3,259	3,259
Deferred commissions	22,633	22,635
Other assets	28,538	28,428
Total assets	\$ 2,616,271	\$ 2,495,124
Liabilities and Stockholders' Equity		
Current liabilities		
Revolving credit facility	\$ 60,000	\$ —
Current portion of long-term debt	8,000	8,000
Accounts payable	108,528	76,313
Royalties payable	59,347	66,893
Salaries, wages, and commissions payable	41,996	50,225
Deferred revenue	263,583	251,944
Interest payable	484	136
Severance and other charges	2,028	6,020
Accrued postretirement benefits	1,512	1,512
Operating lease liabilities	12,479	—
Other liabilities	25,431	26,649
Total current liabilities	583,388	487,692
Long-term debt, net of discount and issuance costs	753,377	755,649
Operating lease liabilities	140,062	—
Long-term deferred revenue	444,148	395,500
Accrued pension benefits	28,966	29,320
Accrued postretirement benefits	13,329	14,300
Deferred income taxes	32,816	27,075
Other liabilities	6,580	17,118
Total liabilities	2,002,666	1,726,654
Commitments and contingencies		
Stockholders' equity		
Preferred stock, \$0.01 par value: 20,000,000 shares authorized; no shares issued and outstanding at June 30, 2019 and December 31, 2018	—	—
Common stock, \$0.01 par value: 380,000,000 shares authorized; 148,785,426 and 148,164,854 shares issued at June 30, 2019 and December 31, 2018, respectively; 124,208,392 and 123,587,820 shares outstanding at June 30, 2019 and December 31, 2018, respectively	1,487	1,481
Treasury stock, 24,577,034 shares as of June 30, 2019 and December 31, 2018, respectively, at cost	(518,030)	(518,030)
Capital in excess of par value	4,898,988	4,893,174
Accumulated deficit	(3,720,134)	(3,562,971)
Accumulated other comprehensive loss	(48,706)	(45,184)
Total stockholders' equity	613,605	768,470
Total liabilities and stockholders' equity	\$ 2,616,271	\$ 2,495,124

Houghton Mifflin Harcourt Company
Consolidated Statements of Operations (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<i>(in thousands of dollars, except share and per share information)</i>				
Net sales	\$ 388,896	\$ 357,365	\$ 583,531	\$ 557,124
Costs and expenses				
Cost of sales, excluding publishing rights and pre-publication amortization	190,831	160,058	286,886	259,791
Publishing rights amortization	6,271	8,148	13,876	18,238
Pre-publication amortization	35,739	26,332	68,821	51,953
Cost of sales	232,841	194,538	369,583	329,982
Selling and administrative	175,266	169,323	327,249	314,850
Other intangible asset amortization	6,612	6,676	13,136	13,542
Severance and other charges	4,430	2,075	5,651	6,018
(Gain) loss on sale of assets	—	(500)	—	384
Operating loss	<u>(30,253)</u>	<u>(14,747)</u>	<u>(132,088)</u>	<u>(107,652)</u>
Other income (expense)				
Retirement benefits non-service income	42	320	84	640
Interest expense	(11,963)	(11,472)	(23,545)	(22,408)
Interest income	97	117	1,189	623
Change in fair value of derivative instruments	16	(1,097)	(434)	(725)
Income from transition services agreement	1,851	—	3,677	—
Loss from continuing operations before taxes	(40,210)	(26,879)	(151,117)	(129,522)
Income tax expense for continuing operations	403	2,210	6,858	5,453
Loss from continuing operations	<u>(40,613)</u>	<u>(29,089)</u>	<u>(157,975)</u>	<u>(134,975)</u>
Income from discontinued operations, net of tax	—	5,817	—	10,392
Net loss	<u>\$ (40,613)</u>	<u>\$ (23,272)</u>	<u>\$ (157,975)</u>	<u>\$ (124,583)</u>
Net income (loss) per share attributable to common stockholders				
Basic and diluted:				
Continuing operations	\$ (0.33)	\$ (0.24)	\$ (1.27)	\$ (1.09)
Discontinued operations	—	0.05	—	0.08
Net loss	<u>\$ (0.33)</u>	<u>\$ (0.19)</u>	<u>\$ (1.27)</u>	<u>\$ (1.01)</u>
Weighted average shares outstanding				
Basic and diluted	<u>124,147,961</u>	<u>123,423,911</u>	<u>123,974,266</u>	<u>123,323,688</u>

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

	Six Months Ended June 30,	
	2019	2018
<i>(in thousands of dollars)</i>		
Cash flows from operating activities		
Net loss.....	\$ (157,975)	\$ (124,583)
Adjustments to reconcile net loss to net cash used in operating activities		
Income from discontinued operations, net of tax	—	(10,392)
Loss on sale of assets	—	384
Depreciation and amortization expense	135,649	122,488
Amortization and impairments of operating lease assets	9,441	—
Amortization of debt discount and deferred financing costs	2,090	2,091
Deferred income taxes	5,741	4,825
Stock-based compensation expense.....	7,259	6,061
Change in fair value of derivative instruments.....	434	725
Changes in operating assets and liabilities, net of acquisitions		
Accounts receivable	(228,475)	(95,077)
Inventories	(83,561)	(57,667)
Other assets	(15,568)	(4,900)
Accounts payable and accrued expenses	22,495	(1,021)
Royalties payable and author advances, net	(9,178)	(8,331)
Deferred revenue	60,098	(20,725)
Interest payable.....	348	(29)
Severance and other charges.....	252	(1,274)
Accrued pension and postretirement benefits.....	(1,325)	(1,901)
Operating lease liabilities	(8,419)	—
Other liabilities	(5,231)	14,079
Net cash used in operating activities – continuing operations.....	(265,925)	(175,247)
Net cash provided by operating activities – discontinued operations	—	11,433
Net cash used in operating activities	(265,925)	(163,814)
Cash flows from investing activities		
Proceeds from sales and maturities of short-term investments	50,000	86,539
Additions to pre-publication costs.....	(55,591)	(59,514)
Additions to property, plant, and equipment.....	(18,358)	(23,310)
Proceeds from sale of assets	—	500
Acquisition of business, net of cash acquired	(5,447)	—
Net cash (used in) provided by investing activities – continuing operations	(29,396)	4,215
Net cash used in investing activities – discontinued operations.....	—	(4,259)
Net cash used in investing activities.....	(29,396)	(44)
Cash flows from financing activities		
Proceeds under revolving credit facility	60,000	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	(1,929)	(1,093)
Issuance of common stock under employee stock purchase plan	506	681
Net collections under transition services agreement	2,493	—
Net cash provided by financing activities – continuing operations	57,070	45,588
Net decrease in cash and cash equivalents.....	(238,251)	(118,270)
Cash and cash equivalents at the beginning of the period	253,365	148,979
Cash and cash equivalents at the end of the period	\$ 15,114	\$ 30,709

Houghton Mifflin Harcourt Company
Non-GAAP Reconciliations (Unaudited)

Adjusted EBITDA from continuing operations

Consolidated

(in thousands of dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net loss from continuing operations	\$ (40,613)	\$ (29,089)	\$ (157,975)	\$ (134,975)
Interest expense	11,963	11,472	23,545	22,408
Interest income	(97)	(117)	(1,189)	(623)
Provision for income taxes	403	2,210	6,858	5,453
Depreciation expense	16,865	20,310	33,044	38,755
Amortization expense – film asset	1,760	—	6,772	—
Amortization expense	48,622	41,156	95,833	83,733
Non-cash charges – stock compensation	3,708	3,168	7,259	6,061
Non-cash charges – (gain) loss on derivative instrument	(16)	1,097	434	725
Fees, expenses or charges for equity offerings, debt or acquisitions/dispositions	261	1,924	548	2,106
Severance, separation costs and facility closures	4,430	2,075	5,651	6,018
(Gain) loss on sale of assets	—	(500)	—	384
Adjusted EBITDA from continuing operations	\$ 47,286	\$ 53,706	\$ 20,780	\$ 30,045

Free Cash Flow

Consolidated

(in thousands of dollars)

	Six Months Ended June 30,	
	2019	2018 ⁽¹⁾
Cash flows from operating activities		
Net cash used in operating activities	\$ (265,925)	\$ (175,247)
Cash flows from investing activities		
Additions to pre-publication costs	(55,591)	(59,514)
Additions to property, plant, and equipment	(18,358)	(23,310)
Free Cash Flow	\$ (339,874)	\$ (258,071)

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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net sales	\$ 388,896	\$ 357,365	\$ 583,531	\$ 557,124
Change in deferred revenue	99,968	13,993	60,287	(20,597)
Billings (1)	<u>\$ 488,864</u>	<u>\$ 371,358</u>	<u>\$ 643,818</u>	<u>\$ 536,527</u>

Education

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Core Solutions net sales	\$ 168,042	\$ 151,975	\$ 220,036	\$ 213,205
Change in deferred revenue	103,100	12,772	72,848	(12,050)
Core Solutions Billings	<u>\$ 271,142</u>	<u>\$ 164,747</u>	<u>\$ 292,884</u>	<u>\$ 201,155</u>
Extensions net sales	\$ 181,759	\$ 169,301	\$ 283,609	\$ 271,094
Change in deferred revenue	(3,124)	888	(11,732)	(9,176)
Extensions Billings	<u>\$ 178,635</u>	<u>\$ 170,189</u>	<u>\$ 271,877</u>	<u>\$ 261,918</u>
Education Billings (1)	<u>\$ 449,777</u>	<u>\$ 334,936</u>	<u>\$ 564,761</u>	<u>\$ 463,073</u>

HMH Books & Media

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net sales	\$ 39,095	\$ 36,089	\$ 79,886	\$ 72,825
Change in deferred revenue	(8)	333	(829)	629
HMH Books & Media Billings	<u>\$ 39,087</u>	<u>\$ 36,422</u>	<u>\$ 79,057</u>	<u>\$ 73,454</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.