

Houghton Mifflin Harcourt Company
Consolidated Balance Sheets

<i>(in thousands of dollars, except share information)</i>	September 30, 2019 (Unaudited)	December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	\$ 308,676	\$ 253,365
Short-term investments	—	49,833
Accounts receivable, net	434,903	203,574
Inventories	211,744	184,209
Prepaid expenses and other assets	18,728	15,297
Total current assets	974,051	706,278
Property, plant, and equipment, net	104,718	125,925
Pre-publication costs, net	290,356	323,641
Royalty advances to authors, net	48,124	47,993
Goodwill	716,977	716,073
Other intangible assets, net	486,356	520,892
Operating lease assets	135,298	—
Deferred income taxes	3,259	3,259
Deferred commissions	33,953	22,635
Other assets	31,698	28,428
Total assets	<u>\$ 2,824,790</u>	<u>\$ 2,495,124</u>
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long-term debt	\$ 8,000	\$ 8,000
Accounts payable	88,091	76,313
Royalties payable	68,189	66,893
Salaries, wages, and commissions payable	69,638	50,225
Deferred revenue	314,083	251,944
Interest payable	147	136
Severance and other charges	1,312	6,020
Accrued postretirement benefits	1,512	1,512
Operating lease liabilities	11,135	—
Other liabilities	34,473	26,649
Total current liabilities	596,580	487,692
Long-term debt, net of discount and issuance costs	752,241	755,649
Operating lease liabilities	137,375	—
Long-term deferred revenue	574,641	395,500
Accrued pension benefits	27,624	29,320
Accrued postretirement benefits	13,235	14,300
Deferred income taxes	29,655	27,075
Other liabilities	6,746	17,118
Total liabilities	<u>2,138,097</u>	<u>1,726,654</u>
Commitments and contingencies		
Stockholders' equity		
Preferred stock, \$0.01 par value: 20,000,000 shares authorized; no shares issued and outstanding at September 30, 2019 and December 31, 2018	—	—
Common stock, \$0.01 par value: 380,000,000 shares authorized; 148,907,955 and 148,164,854 shares issued at September 30, 2019 and December 31, 2018, respectively; 124,330,921 and 123,587,820 shares outstanding at September 30, 2019 and December 31, 2018, respectively	1,489	1,481
Treasury stock, 24,577,034 shares as of September 30, 2019 and December 31, 2018, respectively, at cost	(518,030)	(518,030)
Capital in excess of par value	4,903,422	4,893,174
Accumulated deficit	(3,650,874)	(3,562,971)
Accumulated other comprehensive loss	(49,314)	(45,184)
Total stockholders' equity	686,693	768,470
Total liabilities and stockholders' equity	<u>\$ 2,824,790</u>	<u>\$ 2,495,124</u>

Houghton Mifflin Harcourt Company
Consolidated Statements of Operations (Unaudited)

(in thousands of dollars, except share and per share information)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net sales	\$ 565,668	\$ 516,255	\$ 1,149,199	\$ 1,073,379
Costs and expenses				
Cost of sales, excluding publishing rights and pre-publication amortization	246,527	201,748	533,413	461,539
Publishing rights amortization	6,341	8,238	20,217	26,476
Pre-publication amortization	39,319	28,094	108,140	80,047
Cost of sales	292,187	238,080	661,770	568,062
Selling and administrative	188,957	176,202	516,206	491,052
Other intangible asset amortization	6,383	6,696	19,519	20,238
Restructuring	—	3,077	—	3,077
Severance and other charges	270	362	5,921	6,380
Loss on sale of assets	—	—	—	384
Operating income (loss)	77,871	91,838	(54,217)	(15,814)
Other income (expense)				
Retirement benefits non-service income	41	320	125	960
Interest expense	(11,597)	(11,627)	(35,142)	(34,035)
Interest income	509	277	1,698	900
Change in fair value of derivative instruments	(737)	(249)	(1,171)	(974)
Income from transition services agreement	571	—	4,248	—
Income (loss) from continuing operations before taxes	66,658	80,559	(84,459)	(48,963)
Income tax (benefit) expense for continuing operations	(2,602)	(3,349)	4,256	2,104
Income (loss) from continuing operations	69,260	83,908	(88,715)	(51,067)
Income from discontinued operations, net of tax	—	2,441	—	12,833
Net income (loss)	<u>\$ 69,260</u>	<u>\$ 86,349</u>	<u>\$ (88,715)</u>	<u>\$ (38,234)</u>
Net income (loss) per share attributable to common stockholders				
Basic:				
Continuing operations	\$ 0.56	\$ 0.68	\$ (0.71)	\$ (0.41)
Discontinued operations	—	0.02	—	0.10
Net income (loss)	<u>\$ 0.56</u>	<u>\$ 0.70</u>	<u>\$ (0.71)</u>	<u>\$ (0.31)</u>
Diluted:				
Continuing operations	\$ 0.55	\$ 0.68	\$ (0.71)	\$ (0.41)
Discontinued operations	—	0.02	—	0.10
Net income (loss)	<u>\$ 0.55</u>	<u>\$ 0.70</u>	<u>\$ (0.71)</u>	<u>\$ (0.31)</u>
Weighted average shares outstanding				
Basic	<u>124,315,491</u>	<u>123,553,116</u>	<u>124,089,257</u>	<u>123,401,005</u>
Diluted	<u>124,807,488</u>	<u>123,870,380</u>	<u>124,089,257</u>	<u>123,401,005</u>

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

(in thousands of dollars)	Nine Months Ended September 30,	
	2019	2018
Cash flows from operating activities		
Net loss	\$ (88,715)	\$ (38,234)
Adjustments to reconcile net loss to net cash provided by operating activities		
Income from discontinued operations, net of tax	—	(12,833)
Loss on sale of assets	—	384
Depreciation and amortization expense	201,593	183,218
Amortization and impairments of operating lease assets	12,898	—
Amortization of debt discount and deferred financing costs	3,136	3,136
Deferred income taxes	2,580	2,597
Stock-based compensation expense	11,094	9,363
Change in fair value of derivative instruments	1,171	974
Changes in operating assets and liabilities, net of acquisitions		
Accounts receivable	(231,296)	(160,506)
Inventories	(27,535)	(19,317)
Other assets	(23,649)	(716)
Accounts payable and accrued expenses	37,488	15,471
Royalties payable and author advances, net	1,165	(5,165)
Deferred revenue	241,091	34,362
Interest payable	11	41
Severance and other charges	(464)	(481)
Accrued pension and postretirement benefits	(2,761)	(2,462)
Operating lease liabilities	(12,450)	—
Other liabilities	2,015	16,274
Net cash provided by operating activities – continuing operations	127,372	26,106
Net cash provided by operating activities – discontinued operations	—	17,361
Net cash provided by operating activities	127,372	43,467
Cash flows from investing activities		
Proceeds from sales and maturities of short-term investments	50,000	86,539
Purchases of short-term investments	—	(29,708)
Additions to pre-publication costs	(81,532)	(92,202)
Additions to property, plant, and equipment	(27,350)	(41,488)
Proceeds from sale of assets	—	500
Acquisition of business, net of cash acquired	(5,447)	—
Investment in preferred stock	(750)	—
Net cash used in investing activities – continuing operations	(65,079)	(76,359)
Net cash used in investing activities – discontinued operations	—	(5,933)
Net cash used in investing activities	(65,079)	(82,292)
Cash flows from financing activities		
Proceeds under revolving credit facility	60,000	50,000
Payments of revolving credit facility	(60,000)	(50,000)
Payments of long-term debt	(6,000)	(6,000)
Payments of deferred financing fees	(311)	—
Tax withholding payments related to net share settlements of restricted stock units and awards	(1,963)	(1,113)
Issuance of common stock under employee stock purchase plan	1,027	1,263
Net collections under transition services agreement	265	—
Net cash used in financing activities – continuing operations	(6,982)	(5,850)
Net increase (decrease) in cash and cash equivalents	55,311	(44,675)
Cash and cash equivalents at the beginning of the period	253,365	148,979
Cash and cash equivalents at the end of the period	\$ 308,676	\$ 104,304

Houghton Mifflin Harcourt Company
Non-GAAP Reconciliations (Unaudited)

Adjusted EBITDA from continuing operations

Consolidated

(in thousands of dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income (loss) from continuing operations	\$ 69,260	\$ 83,908	\$ (88,715)	\$ (51,067)
Interest expense	11,597	11,627	35,142	34,035
Interest income	(509)	(277)	(1,698)	(900)
Provision (benefit) for income taxes	(2,602)	(3,349)	4,256	2,104
Depreciation expense	13,901	17,701	46,945	56,457
Amortization expense – film asset	—	—	6,772	—
Amortization expense	52,043	43,028	147,876	126,761
Non-cash charges – stock compensation	3,835	3,302	11,094	9,363
Non-cash charges – loss on derivative instruments	737	249	1,171	974
Fees, expenses or charges for equity offerings, debt or acquisitions/dispositions	183	150	731	2,256
2017 Restructuring Plan	—	3,077	—	3,077
Severance, separation costs and facility closures	270	362	5,921	6,380
Loss on sale of assets	—	—	—	384
Adjusted EBITDA from continuing operations	<u>\$ 148,715</u>	<u>\$ 159,778</u>	<u>\$ 169,495</u>	<u>\$ 189,824</u>

Free Cash Flow

Consolidated

(in thousands of dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018 ⁽¹⁾	2019	2018 ⁽¹⁾
Cash flows from operating activities				
Net cash provided by operating activities	\$ 393,297	\$ 201,353	\$ 127,372	\$ 26,106
Cash flows from investing activities				
Additions to pre-publication costs	(25,941)	(32,688)	(81,532)	(92,202)
Additions to property, plant, and equipment	(8,992)	(18,178)	(27,350)	(41,488)
Free Cash Flow	<u>\$ 358,364</u>	<u>\$ 150,487</u>	<u>\$ 18,490</u>	<u>\$ (107,584)</u>

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.

Forward looking cash flow can only be provided on a non-GAAP basis without unreasonable efforts.

Houghton Mifflin Harcourt Company
Calculation of Billings (Unaudited)

Billings (in thousands of dollars)

Consolidated

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net sales	\$ 565,668	\$ 516,255	\$ 1,149,199	\$ 1,073,379
Change in deferred revenue	180,993	54,959	241,280	34,362
Billings (1)	<u>\$ 746,661</u>	<u>\$ 571,214</u>	<u>\$ 1,390,479</u>	<u>\$ 1,107,741</u>

Education

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Core Solutions net sales	\$ 273,262	\$ 243,130	\$ 493,273	\$ 456,335
Change in deferred revenue	138,697	30,736	211,570	18,687
Core Solutions Billings	\$ 411,959	\$ 273,866	\$ 704,843	\$ 475,022
Extensions net sales	\$ 244,352	\$ 206,506	\$ 527,986	\$ 477,600
Change in deferred revenue	42,322	23,605	30,565	14,428
Extensions Billings	\$ 286,674	\$ 230,111	\$ 558,551	\$ 492,028
Education Billings (1)	<u>\$ 698,633</u>	<u>\$ 503,977</u>	<u>\$ 1,263,394</u>	<u>\$ 967,050</u>

HMH Books & Media

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net sales	\$ 48,054	\$ 66,619	\$ 127,940	\$ 139,444
Change in deferred revenue	(26)	618	(855)	1,247
HMH Books & Media Billings	<u>\$ 48,028</u>	<u>\$ 67,237</u>	<u>\$ 127,085</u>	<u>\$ 140,691</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.