

Houghton Mifflin Harcourt Company
Consolidated Balance Sheets

	December 31,	
<i>(in thousands of dollars, except share information)</i>	2018	2017
Assets		
Current assets		
Cash and cash equivalents	\$ 253,365	\$ 148,979
Short-term investments	49,833	86,449
Accounts receivable, net	203,574	192,569
Inventories	184,209	150,694
Prepaid expenses and other assets	15,297	29,919
Assets of discontinued operations	—	123,761
Total current assets	706,278	732,371
Property, plant, and equipment, net	125,925	148,659
Pre-publication costs, net	323,641	313,997
Royalty advances to authors, net	47,993	46,469
Goodwill	716,073	716,073
Other intangible assets, net	520,892	582,538
Deferred income taxes	3,259	3,593
Deferred commissions	22,635	—
Other assets	28,428	19,891
Total assets	\$ 2,495,124	\$ 2,563,591
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long-term debt	\$ 8,000	\$ 8,000
Accounts payable	76,313	60,810
Royalties payable	66,893	66,798
Salaries, wages, and commissions payable	50,225	52,838
Deferred revenue	251,944	265,074
Interest payable	136	322
Severance and other charges	6,020	6,926
Accrued postretirement benefits	1,512	1,618
Other liabilities	26,649	19,657
Liabilities of discontinued operations	—	24,706
Total current liabilities	487,692	506,749
Long-term debt, net of discount and issuance costs	755,649	760,194
Long-term deferred revenue	395,500	418,734
Accrued pension benefits	29,320	24,133
Accrued postretirement benefits	14,300	20,285
Deferred income taxes	27,075	22,269
Other liabilities	17,118	16,034
Total liabilities	1,726,654	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 December 31, 2018 and 2017	—	—
Common stock, \$0.01 par value: 380,000,000 shares authorized; 148,164,854 and 147,911,466 shares issued at December 31, 2018 and 2017, respectively; 123,587,820 and 123,334,432 shares outstanding at December 31, 2018 and 2017, respectively	1,481	1,479
Treasury stock, 24,577,034 shares as of December 31, 2018 and 2017, respectively, at cost	(518,030)	(518,030)
Capital in excess of par value	4,893,174	4,879,793
Accumulated deficit	(3,562,971)	(3,521,527)
Accumulated other comprehensive loss	(45,184)	(46,522)
Total stockholders' equity	768,470	795,193
Total liabilities and stockholders' equity	\$ 2,495,124	\$ 2,563,591

Houghton Mifflin Harcourt Company
Consolidated Statements of Operations

	(Unaudited)		Years Ended	
	Three Months Ended		December 31,	
	December 31,	December 31,	2018	2017
	2018	2017	2018	2017
<i>(in thousands of dollars, except share and per share information)</i>				
Net sales	\$ 249,038	\$ 233,745	\$ 1,322,417	\$ 1,327,029
Costs and expenses				
Cost of sales, excluding publishing rights and pre-publication amortization	119,928	117,797	581,467	588,518
Publishing rights amortization	8,237	10,986	34,713	46,238
Pre-publication amortization	29,210	33,155	109,257	119,908
Cost of sales	157,375	161,938	725,437	754,664
Selling and administrative	158,243	149,450	649,295	636,326
Other intangible asset amortization	6,695	6,921	26,933	29,248
Impairment charge for pre-publication costs	—	3,980	—	3,980
Restructuring	1,580	1,617	4,657	37,775
Severance and other charges	441	(978)	6,821	177
Gain on sale of assets	(585)	—	(201)	—
Operating loss	(74,711)	(89,183)	(90,525)	(135,141)
Other income (expense)				
Retirement benefits non-service income	320	871	1,280	3,486
Interest expense	(11,645)	(10,825)	(45,680)	(42,805)
Interest income	1,650	697	2,550	1,338
Change in fair value of derivative instruments	(400)	93	(1,374)	1,366
Income from transition services agreement	1,889	—	1,889	—
Loss from continuing operations before taxes	(82,897)	(98,347)	(131,860)	(171,756)
Income tax (benefit) expense for continuing operations	3,493	(61,901)	5,597	(51,419)
Loss from continuing operations	(86,390)	(36,446)	(137,457)	(120,337)
Earnings from discontinued operations, net of tax	—	10,278	12,833	17,150
Gain on sales of discontinued operations, net of tax	30,469	—	30,469	—
Income from discontinued operations, net of tax	30,469	10,278	43,302	17,150
Net loss	\$ (55,921)	\$ (26,168)	\$ (94,155)	\$ (103,187)
Net loss per share attributable to common stockholders				
Basic and diluted:				
Continuing operations	\$ (0.70)	\$ (0.29)	\$ (1.11)	\$ (0.98)
Discontinued operations	0.25	0.08	0.35	0.14
Net loss	\$ (0.45)	\$ (0.21)	\$ (0.76)	\$ (0.84)
Weighted average shares outstanding				
Basic and diluted	123,575,325	123,055,963	123,444,943	122,949,064

Houghton Mifflin Harcourt Company
Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2018	2017
<i>(in thousands of dollars)</i>		
Cash flows from operating activities		
Net loss	\$ (94,155)	\$ (103,187)
Adjustments to reconcile net loss to net cash provided by operating activities		
Earnings from discontinued operations, net of tax	(12,833)	(17,150)
Gain on sale of discontinued operations, net of tax	(30,469)	—
Gain on sale of assets	(201)	—
Depreciation and amortization expense	250,466	266,443
Amortization of debt discount and deferred financing costs	4,181	4,181
Deferred income taxes	5,140	(49,247)
Stock-based compensation expense	13,248	10,728
Impairment charge for pre-publication costs	—	3,980
Restructuring charges related to property, plant, and equipment	—	9,841
Change in fair value of derivative instruments	1,374	(1,366)
Changes in operating assets and liabilities		
Accounts receivable	(11,005)	12,564
Inventories	(33,515)	8,122
Other assets	3,908	(10,548)
Accounts payable and accrued expenses	16,144	(5,937)
Royalties payable and author advances, net	(1,650)	(1,449)
Deferred revenue	(7,692)	(13,500)
Interest payable	(186)	129
Severance and other charges	(2,823)	221
Accrued pension and postretirement benefits	(904)	(6,932)
Other liabilities	5,056	(2,145)
Net cash provided by operating activities – continuing operations	104,084	104,748
Net cash provided by operating activities – discontinued operations	10,831	30,382
Net cash provided by operating activities	<u>114,915</u>	<u>135,130</u>
Cash flows from investing activities		
Proceeds from sales and maturities of short-term investments	86,539	80,690
Purchases of short-term investments	(49,553)	(86,211)
Additions to pre-publication costs	(123,403)	(131,282)
Additions to property, plant, and equipment	(53,741)	(55,092)
Proceeds from sale of business	140,000	—
Acquisition of intangible asset	—	(2,000)
Investment in preferred stock	(500)	—
Proceeds from sale of assets	1,085	—
Net cash provided by (used in) investing activities – continuing operations	427	(193,895)
Net cash used in investing activities – discontinued operations	(6,832)	(11,028)
Net cash used in investing activities	<u>(6,405)</u>	<u>(204,923)</u>
Cash flows from financing activities		
Borrowings under revolving credit facility	50,000	—
Payments of revolving credit facility	(50,000)	—
Payments of long-term debt	(8,000)	(8,000)
Repurchases of common stock	—	—
Tax withholding payments related to net share settlements of restricted stock units and awards	(1,190)	(1,450)
Proceeds from stock option exercises	—	512
Issuance of common stock under employee stock purchase plan	1,263	1,608
Net collections (remittances) under transition service agreement	3,803	—
Net cash used in financing activities – continuing operations	(4,124)	(7,330)
Net increase (decrease) in cash and cash equivalents	104,386	(77,123)
Cash and cash equivalent at the beginning of the period	<u>148,979</u>	<u>226,102</u>
Cash and cash equivalent at the end of the period	<u>\$ 253,365</u>	<u>\$ 148,979</u>

Houghton Mifflin Harcourt Company
Non-GAAP Reconciliations (Unaudited)

Adjusted EBITDA ¹

Consolidated

(in thousands of dollars)

	Three Months Ended December 31,		Years Ended December 31,	
	2018	2017	2018	2017
Loss from continuing operations	\$(86,390)	\$(36,446)	\$(137,457)	\$(120,337)
Interest expense	11,645	10,825	45,680	42,805
Interest income	(1,650)	(697)	(2,550)	(1,338)
(Benefit) provision for income taxes	3,493	(61,901)	5,597	(51,419)
Depreciation expense	18,659	17,525	75,116	71,049
Amortization expense film asset	6,057	—	6,057	—
Amortization expense	44,142	51,062	170,903	195,394
Non-cash charges—stock compensation	3,959	2,782	13,248	10,728
Non-cash charges—loss (gain) on derivative instrument	400	(93)	1,374	(1,366)
Non-cash charges—asset impairment charges	—	3,980	—	3,980
Fees, expenses or charges for equity offerings, debt or acquisitions/dispositions	553	1,187	2,883	1,464
2017 Restructuring Plan	1,580	1,617	4,657	37,775
Severance, separation costs and facility closures	441	(978)	6,821	177
Legal reimbursement	—	867	—	(3,633)
Gain on sale of assets	(585)	—	(201)	—
Adjusted EBITDA from continuing operations	<u>\$ 2,304</u>	<u>\$(10,270)</u>	<u>\$ 192,128</u>	<u>\$ 185,279</u>

Free Cash Flow ¹

Consolidated

(in thousands of dollars)

	Years Ended December 31,	
	2018	2017
Cash flows from operating activities		
Net cash provided by operating activities	\$ 104,084	\$ 104,748
Cash flows from investing activities		
Additions to pre-publication costs	(123,403)	(131,282)
Additions to property, plant, and equipment	(53,741)	(55,092)
Free Cash Flow	<u>\$ (73,060)</u>	<u>\$ (81,626)</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.

Houghton Mifflin Harcourt Company
Calculation of Billings (Unaudited)

Billings ¹ (in thousands of dollars)

Consolidated ¹

	<u>Three Months Ended December 31,</u>		<u>Years Ended December 31,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Net sales	\$249,038	\$233,745	\$1,322,417	\$1,327,029
Change in deferred revenue	(42,055)	(28,859)	(7,693)	(13,500)
Billings	<u>\$206,983</u>	<u>\$204,886</u>	<u>\$1,314,724</u>	<u>\$1,313,529</u>

Education ¹

	<u>Three Months Ended December 31,</u>		<u>Years Ended December 31,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Core Solutions net sales	\$ 81,917	\$ 76,345	\$538,166	\$595,097
Change in deferred revenue	(30,677)	(21,567)	(11,955)	(10,258)
Core Solutions Billings	\$ 51,240	\$ 54,778	\$526,211	\$584,839
Extensions net sales	\$106,837	\$106,990	\$584,523	\$551,356
Change in deferred revenue	(10,418)	(7,334)	3,975	(2,372)
Extensions Billings	\$ 96,419	\$ 99,656	\$588,498	\$548,984
Education Billings	<u>\$147,659</u>	<u>\$154,434</u>	<u>\$1,114,709</u>	<u>\$1,133,823</u>

Trade Publishing ¹

	<u>Three Months Ended December 31,</u>		<u>Years Ended December 31,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Net sales	\$60,284	\$50,410	\$199,728	\$180,576
Change in deferred revenue	(960)	42	287	(870)
Trade Publishing Billings	<u>\$59,324</u>	<u>\$50,452</u>	<u>\$200,015</u>	<u>\$179,706</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.