

Houghton Mifflin Harcourt Company
Consolidated Balance Sheets

(in thousands of dollars, except share information)	December 31,	
	2019	2018
Assets		
Current assets		
Cash and cash equivalents	\$ 296,353	\$ 253,365
Short-term investments	—	49,833
Accounts receivable, net	184,425	203,574
Inventories	213,059	184,209
Prepaid expenses and other assets	19,257	15,297
Total current assets	713,094	706,278
Property, plant, and equipment, net	100,388	125,925
Pre-publication costs, net	268,197	323,641
Royalty advances to authors, net	44,743	47,993
Goodwill	716,977	716,073
Other intangible assets, net	474,225	520,892
Operating lease assets	132,247	—
Deferred income taxes	2,520	3,259
Deferred commissions	29,291	22,635
Other assets	31,490	28,428
Total assets	\$ 2,513,172	\$ 2,495,124
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long-term debt	\$ 19,000	\$ 8,000
Accounts payable	52,128	76,313
Royalties payable	72,985	66,893
Salaries, wages, and commissions payable	54,938	50,225
Deferred revenue	305,285	251,944
Interest payable	3,826	136
Severance and other charges	12,407	6,020
Accrued postretirement benefits	1,571	1,512
Operating lease liabilities	8,685	—
Other liabilities	24,325	26,649
Total current liabilities	555,150	487,692
Long-term debt, net of discount and issuance costs	638,187	755,649
Operating lease liabilities	134,994	—
Long-term deferred revenue	542,821	395,500
Accrued pension benefits	23,648	29,320
Accrued postretirement benefits	15,113	14,300
Deferred income taxes	30,871	27,075
Other liabilities	6,028	17,118
Total liabilities	1,946,812	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 December 31, 2019 and 2018	—	—
Common stock, \$0.01 par value: 380,000,000 shares authorized; 148,928,328 and 148,164,854 shares issued at December 31, 2019 and 2018, respectively; 124,351,294 and 123,587,820 shares outstanding at December 31, 2019 and 2018, respectively	1,489	1,481
Treasury stock, 24,577,034 shares as of December 31, 2019 and 2018, respectively, at cost	(518,030)	(518,030)
Capital in excess of par value	4,906,165	4,893,174
Accumulated deficit	(3,775,992)	(3,562,971)
Accumulated other comprehensive loss	(47,272)	(45,184)
Total stockholders' equity	566,360	768,470
Total liabilities and stockholders' equity	\$ 2,513,172	\$ 2,495,124

Houghton Mifflin Harcourt Company
Consolidated Statements of Operations

(Unaudited)

<i>(in thousands of dollars, except share and per share data)</i>	Three Months Ended December 31,		Years Ended December 31,	
	2019	2018	2019	2018
Net sales	\$ 241,475	\$ 249,038	\$ 1,390,674	\$ 1,322,417
Costs and expenses				
Cost of sales, excluding publishing rights and pre-publication amortization	134,695	119,928	668,108	581,467
Publishing rights amortization	6,340	8,237	26,557	34,713
Pre-publication amortization	41,375	29,210	149,515	109,257
Cost of sales	182,410	157,375	844,180	725,437
Selling and administrative	146,400	158,243	662,606	649,295
Other intangible asset amortization	5,791	6,695	25,310	26,933
Restructuring/severance and other charges	15,821	2,021	21,742	11,478
Gain on sale of assets	—	(585)	—	(201)
Operating loss	(108,947)	(74,711)	(163,164)	(90,525)
Other income (expense)				
Retirement benefits non-service income	42	320	167	1,280
Interest expense	(13,636)	(11,645)	(48,778)	(45,680)
Interest income	1,459	1,650	3,157	2,550
Change in fair value of derivative instruments	272	(400)	(899)	(1,374)
Income from transition services agreement	—	1,889	4,248	1,889
Loss on extinguishment of debt	(4,363)	—	(4,363)	—
Loss from continuing operations before taxes	(125,173)	(82,897)	(209,632)	(131,860)
Income tax expense (benefit) for continuing operations	(55)	3,493	4,201	5,597
Loss from continuing operations	(125,118)	(86,390)	(213,833)	(137,457)
Earnings from discontinued operations, net of tax	—	—	—	12,833
Gain on sale of discontinued operations, net of tax	—	30,469	—	30,469
Income from discontinued operations, net of tax	—	30,469	—	43,302
Net loss	\$ (125,118)	\$ (55,921)	\$ (213,833)	\$ (94,155)
Net loss per share attributable to common stockholders				
Basic and diluted:				
Continuing operations	\$ (1.01)	\$ (0.70)	\$ (1.72)	\$ (1.11)
Discontinued operations	—	0.25	—	0.35
Net loss	\$ (1.01)	\$ (0.45)	\$ (1.72)	\$ (0.76)
Weighted average shares outstanding				
Basic and diluted	124,342,086	123,575,325	124,152,984	123,444,943

Houghton Mifflin Harcourt Company
Consolidated Statements of Cash Flows

(in thousands of dollars)	Years Ended December 31,	
	2019	2018
Cash flows from operating activities		
Net loss	\$ (213,833)	\$ (94,155)
Adjustments to reconcile net loss to net cash provided by operating activities		
Earnings from discontinued operations, net of tax	—	(12,833)
Gain on sale of discontinued operations, net of tax	—	(30,469)
Gain on sale of assets	—	(201)
Depreciation and amortization expense	272,692	250,466
Amortization and impairments of operating lease assets	15,949	—
Amortization of debt discount and deferred financing costs	4,286	4,181
Deferred income taxes	4,535	5,140
Stock-based compensation expense	13,968	13,248
Loss on extinguishment of debt	4,363	—
Change in fair value of derivative instruments	899	1,374
Changes in operating assets and liabilities, net of acquisitions		
Accounts receivable	19,182	(11,005)
Inventories	(28,850)	(33,515)
Other assets	(20,155)	3,908
Accounts payable and accrued expenses	(12,136)	16,144
Royalties payable and author advances, net	9,342	(1,650)
Deferred revenue	200,473	(7,692)
Interest payable	3,690	(186)
Severance and other charges	10,631	(2,823)
Accrued pension and postretirement benefits	(4,800)	(904)
Operating lease liabilities	(17,281)	—
Other liabilities	(7,980)	5,056
Net cash provided by operating activities—continuing operations	254,975	104,084
Net cash provided by operating activities—discontinued operations	—	10,831
Net cash provided by operating activities	254,975	114,915
Cash flows from investing activities		
Proceeds from sales and maturities of short-term investments	50,000	86,539
Purchases of short-term investments	—	(49,553)
Additions to pre-publication costs	(102,562)	(123,403)
Additions to property, plant, and equipment	(37,561)	(53,741)
Proceeds from sale of business	—	140,000
Acquisition of business, net of cash acquired	(5,447)	—
Investment in preferred stock	(750)	(500)
Proceeds from sale of assets	—	1,085
Net cash (used in) provided by investing activities—continuing operations	(96,320)	427
Net cash used in investing activities—discontinued operations	—	(6,832)
Net cash used in investing activities	(96,320)	(6,405)
Cash flows from financing activities		
Proceeds from term loan, net of discount	364,800	—
Proceeds from senior secured notes, net of discount	299,880	—
Borrowings under revolving credit facility	60,000	50,000
Payments of revolving credit facility	(60,000)	(50,000)
Payments of long-term debt	(772,000)	(8,000)
Payments of deferred financing fees	(8,493)	—
Tax withholding payments related to net share settlements of restricted stock units and awards	(2,018)	(1,190)
Issuance of common stock under employee stock purchase plan	1,028	1,263
Net collections under transition service agreement	1,136	3,803
Net cash used in financing activities—continuing operations	(115,667)	(4,124)
Net increase in cash and cash equivalents	42,988	104,386
Cash and cash equivalents at the beginning of the period	253,365	148,979
Cash and cash equivalents at the end of the period	\$ 296,353	\$ 253,365

Houghton Mifflin Harcourt Company
Non-GAAP Reconciliations (Unaudited)

Adjusted EBITDA from continuing operations

Consolidated

(in thousands of dollars)

	Three Months Ended		Years Ended December 31,	
	December 31,		December 31,	
	2019	2018	2019	2018
Net loss from continuing operations	\$ (125,118)	\$ (86,390)	\$ (213,833)	\$ (137,457)
Interest expense	13,636	11,645	48,778	45,680
Interest income	(1,459)	(1,650)	(3,157)	(2,550)
Provision (benefit) for income taxes	(55)	3,493	4,201	5,597
Depreciation expense	14,530	18,659	61,475	75,116
Amortization expense—film asset	3,063	6,057	9,835	6,057
Amortization expense	53,506	44,142	201,382	170,903
Non-cash charges—stock-compensation	2,874	3,959	13,968	13,248
Non-cash charges—(gain) loss on derivative instruments	(272)	400	899	1,374
Excess inventory obsolescence	9,758	—	9,758	—
Fees, expenses or charges for equity offerings, debt or acquisitions/dispositions	5,596	553	6,327	2,883
Restructuring/severance and other charges	15,821	2,021	21,742	11,478
Gain on sale of assets	—	(585)	—	(201)
Loss on extinguishment of debt	4,363	—	4,363	—
Adjusted EBITDA from continuing operations	<u>\$ (3,757)</u>	<u>\$ 2,304</u>	<u>\$ 165,738</u>	<u>\$ 192,128</u>

Free Cash Flow

Consolidated

(in thousands of dollars)

	Three Months Ended		Years Ended December 31,	
	December 31,		December 31,	
	2019	2018 ⁽¹⁾	2019	2018 ⁽¹⁾
Cash flows from operating activities				
Net cash provided by operating activities	\$ 127,603	\$ 77,978	\$ 254,975	\$ 104,084
Cash flows from investing activities				
Additions to pre-publication costs	(21,030)	(31,201)	(102,562)	(123,403)
Additions to property, plant, and equipment	(10,211)	(12,253)	(37,561)	(53,741)
Free Cash Flow	<u>\$ 96,362</u>	<u>\$ 34,524</u>	<u>\$ 114,852</u>	<u>\$ (73,060)</u>

¹ All amounts have been adjusted to eliminate the impact of the Riverside Standardized Testing business which has been classified as discontinued operations.

We are unable to reconcile forward looking cash flow (both before and after interest payments) and related margin without unreasonable efforts.

Houghton Mifflin Harcourt Company
Calculation of Billings (Unaudited)

Billings (in thousands of dollars)

Consolidated

	Three Months Ended December 31,		Years Ended December 31,	
	2019	2018	2019	2018
Net sales	\$ 241,475	\$ 249,038	\$ 1,390,674	\$ 1,322,417
Change in deferred revenue	(40,618)	(42,055)	200,662	(7,693)
Billings ⁽¹⁾	<u>\$ 200,857</u>	<u>\$ 206,983</u>	<u>\$ 1,591,336</u>	<u>\$ 1,314,724</u>

Education

	Three Months Ended December 31,		Years Ended December 31,	
	2019	2018	2019	2018
Net sales	\$ 189,387	\$ 188,754	\$ 1,210,646	\$ 1,122,689
Change in deferred revenue	(40,514)	(41,095)	201,621	(7,980)
Education Billings ⁽¹⁾	<u>\$ 148,873</u>	<u>\$ 147,659</u>	<u>\$ 1,412,267</u>	<u>\$ 1,114,709</u>

HMH Books & Media

	Three Months Ended December 31,		Years Ended December 31,	
	2019	2018	2019	2018
Net sales	\$ 52,088	\$ 60,284	\$ 180,028	\$ 199,728
Change in deferred revenue	(104)	(960)	(959)	287
HMH Books & Media Billings	<u>\$ 51,984</u>	<u>\$ 59,324</u>	<u>\$ 179,069</u>	<u>\$ 200,015</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 classified as discontinued operations.