

Houghton Mifflin Harcourt Co  
Form 10-Q  
November 05, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2015**

**OR**

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Commission file number 001-36166**

**Houghton Mifflin Harcourt Company**

**(Exact name of registrant as specified in its charter)**

**Delaware**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**27-1566372**  
**(I.R.S. Employer**  
**Identification No.)**

**222 Berkeley Street**

**Boston, MA 02116**

**(617) 351-5000**

**(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares of common stock, par value \$0.01 per share, outstanding as of October 30, 2015 was 134,299,959.

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

The statements contained herein include forward-looking statements, which involve risks and uncertainties. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms believes, estimates, projects, anticipates, expects, could, intends, may, will or should, forecast, intend, target or, in each case, their negative, or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies, the industry in which we operate, our recent acquisition and its impact, and potential business decisions. We derive many of our forward-looking statements from our operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and, of course, it is impossible for us to anticipate all factors that could affect our actual results. All forward-looking statements are based upon information available to us on the date of this report.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and the development of the industry in which we operate may differ materially from those made in or suggested by the forward-looking statements contained herein. In addition, even if our results of operations, financial condition and liquidity and the development of the industry in which we operate are consistent with the forward-looking statements contained herein, those results or developments may not be indicative of results or developments in subsequent periods.

Important factors that could cause our results to vary from expectations include, but are not limited to: changes in state and local education funding and/or related programs, legislation and procurement processes; adverse or worsening economic trends or the continuation of current economic conditions; changes in consumer demand for, and acceptance of, our products; changes in competitive factors; offerings by technology companies that compete with our products; industry cycles and trends; conditions and/or changes in the publishing industry; changes or the loss of our key third-party print vendors; restrictions under agreements governing our outstanding indebtedness; changes in laws or regulations governing our business and operations; changes or failures in the information technology systems we use; demographic trends; uncertainty surrounding our ability to enforce our intellectual property rights; inability to retain management or hire employees; impact of potential impairment of goodwill and other intangibles in a challenging economy; decline or volatility of our stock price regardless of our operating performance; ability to obtain debt financing on favorable terms or at all; ability to integrate acquired businesses; and other factors discussed in the Risk Factors sections of our Annual Report on Form 10-K for the year ended December 31, 2014 and our Quarterly Report on Form 10-Q for the three months ended March 31, 2015. In light of these risks, uncertainties and assumptions, the forward-looking events described herein may not occur.

We undertake no obligation, and do not expect, to publicly update or publicly revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by law. All subsequent written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained herein.

**Table of Contents****PART 1 FINANCIAL INFORMATION**

## Item 1. Consolidated Financial Statements (Unaudited)

**Houghton Mifflin Harcourt Company****Consolidated Balance Sheets (Unaudited)**

<i>(in thousands of dollars, except share information)</i>	<b>September 30, 2015</b>	<b>December 31, 2014</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 377,043	\$ 456,581
Short-term investments	146,492	286,764
Accounts receivable, net of allowance for bad debts and book returns of \$33.1 million and \$27.8 million, respectively	478,733	255,669
Inventories	185,600	183,961
Deferred income taxes	17,264	20,459
Prepaid expenses and other assets	29,052	18,665
<b>Total current assets</b>	<b>1,234,184</b>	<b>1,222,099</b>
Property, plant, and equipment, net	134,643	138,362
Pre-publication costs, net	326,975	236,995
Royalty advances to authors, net	45,779	46,777
Goodwill	783,923	532,921
Other intangible assets, net	939,617	801,969
Deferred income taxes	3,705	3,705
Other assets	37,009	28,279
<b>Total assets</b>	<b>\$ 3,505,835</b>	<b>\$ 3,011,107</b>
<b>Liabilities and Stockholders Equity</b>		
Current liabilities		
Current portion of long-term debt	\$ 8,000	\$ 67,500
Accounts payable	80,155	51,266
Royalties payable	96,289	80,089
Salaries, wages, and commissions payable	65,936	59,733
Deferred revenue	234,940	157,016
Interest payable	106	47
Severance and other charges	5,026	5,928
Accrued postretirement benefits	2,037	2,037
Other liabilities	37,679	27,015
<b>Total current liabilities</b>	<b>530,168</b>	<b>450,631</b>
Long-term debt, net of discount	786,222	175,625

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Long-term deferred revenue	459,951	370,103
Accrued pension benefits	16,424	18,525
Accrued postretirement benefits	24,548	26,500
Deferred income taxes	151,218	112,220
Other liabilities	22,388	97,823
<b>Total liabilities</b>	<b>1,990,919</b>	<b>1,251,427</b>
<b>Commitments and contingencies (Note 12)</b>		
<b>Stockholders' equity</b>		
Preferred stock, \$0.01 par value: 20,000,000 shares authorized; no shares issued and outstanding at September 30, 2015 and December 31, 2014		
Common stock, \$0.01 par value: 380,000,000 shares authorized; 144,931,777 and 142,000,019 shares issued at September 30, 2015 and December 31, 2014, respectively; 134,707,975 and 141,917,997 shares outstanding at September 30, 2015 and December 31, 2014, respectively		
	1,348	1,420
Treasury stock, 10,223,802 and 82,022 shares at September 30, 2015 and December 31, 2014, respectively, at cost	(239,408)	
Capital in excess of par value	4,822,524	4,784,962
Accumulated deficit	(3,036,515)	(2,999,913)
Accumulated other comprehensive loss	(33,033)	(26,789)
<b>Total stockholders' equity</b>	<b>1,514,916</b>	<b>1,759,680</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 3,505,835</b>	<b>\$ 3,011,107</b>

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****Houghton Mifflin Harcourt Company****Consolidated Statements of Operations (Unaudited)**

<i>(in thousands of dollars, except share and per share information)</i>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>Net sales</b>	\$ 575,507	\$ 551,008	\$ 1,118,059	\$ 1,106,831
<b>Costs and expenses</b>				
Cost of sales, excluding pre-publication and publishing rights amortization	220,492	205,395	485,137	464,839
Publishing rights amortization	19,358	25,048	61,649	80,575
Pre-publication amortization	32,437	33,463	86,809	94,500
Cost of sales	272,287	263,906	633,595	639,914
Selling and administrative	191,843	167,741	505,539	457,034
Other intangible assets amortization	7,255	3,029	14,734	8,981
Impairment charge for investment in preferred stock				1,279
Severance and other charges	1,563	181	3,605	5,300
Operating income (loss)	102,559	116,151	(39,414)	(5,677)
<b>Other income (expense)</b>				
Interest expense	(10,196)	(4,662)	(22,310)	(13,354)
Change in fair value of derivative instruments	(42)	(1,252)	(1,893)	(1,560)
Loss on extinguishment of debt	(878)		(3,051)	
Income (loss) before taxes	91,443	110,237	(66,668)	(20,591)
Income tax expense (benefit)	(39,638)	3,207	(30,066)	7,166
Net income (loss)	\$ 131,081	\$ 107,030	\$ (36,602)	\$ (27,757)
<b>Net income (loss) per share attributable to common stockholders</b>				
Basic	\$ 0.97	\$ 0.76	\$ (0.26)	\$ (0.20)
Diluted	\$ 0.94	\$ 0.75	\$ (0.26)	\$ (0.20)
<b>Weighted average shares outstanding</b>				
Basic	135,169,318	140,742,786	138,978,746	140,269,383
Diluted	139,813,309	143,583,901	138,978,746	140,269,383

The accompanying notes are an integral part of these consolidated financial statements.



**Table of Contents****Houghton Mifflin Harcourt Company****Consolidated Statements of Comprehensive Income (Loss) (Unaudited)**

<i>(in thousands of dollars, except share and per share information)</i>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2015</b>	<b>2014</b>	<b>September 30, 2015</b>	<b>2014</b>
Net income (loss)	\$ 131,081	\$ 107,030	\$ (36,602)	\$ (27,757)
Other comprehensive income (loss), net of taxes:				
Foreign currency translation adjustments	637	(485)	(1,828)	218
Net change in unrealized loss on derivative financial instruments	(4,461)		(4,461)	
Net changes related to pension liabilities, reclassified from accumulated other comprehensive income				
Amortization of prior service cost				243
Settlement loss recognized				1,740
Change in pension liability, net				1,983
Unrealized gain on short-term investments	45		45	4
Other comprehensive income (loss), net of taxes	(3,779)	(485)	(6,244)	2,205
<b>Comprehensive income (loss)</b>	<b>\$ 127,302</b>	<b>\$ 106,545</b>	<b>\$ (42,846)</b>	<b>\$ (25,552)</b>

The accompanying notes are an integral part of these consolidated financial statements.

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

<i>(in thousands of dollars)</i>	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities</b>		
Net loss	\$ (36,602)	\$ (27,757)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization expense	216,542	236,941
Amortization of debt discount and deferred financing costs	5,807	3,563
Deferred income taxes	42,193	3,052
Stock-based compensation expense	9,928	8,805
Loss on extinguishment of debt	3,051	
Change in fair value of derivative instruments	1,893	1,560
Impairment charge for investment in preferred stock		1,279
Changes in operating assets and liabilities, net of acquisitions		
Accounts receivable	(191,826)	(207,212)
Inventories	12,074	(8,228)
Accounts payable and accrued expenses	25,693	47,409
Royalties, net	15,718	16,103
Deferred revenue	147,583	244,043
Interest payable	59	(7)
Severance and other charges	(2,670)	(4,988)
Accrued pension and postretirement benefits	(4,053)	(10,236)
Other, net	(82,012)	(3,601)
Net cash provided by operating activities	163,378	300,726
<b>Cash flows from investing activities</b>		
Proceeds from sales and maturities of short-term investments	286,732	94,190
Purchases of short-term investments	(146,518)	(274,599)
Additions to pre-publication costs	(78,978)	(90,280)
Additions to property, plant, and equipment	(49,642)	(49,779)
Acquisition of business, net of cash acquired	(578,190)	(9,091)
Net cash used in investing activities	(566,596)	(329,559)
<b>Cash flows from financing activities</b>		
Proceeds from term loan	796,000	
Payments of long-term debt	(245,125)	(1,875)
Payments of deferred financing fees	(15,255)	
Repurchases of common stock	(239,408)	
Tax withholding payments related to net share settlements of restricted stock units	(658)	(723)
Proceeds from stock option exercises	28,126	14,643

Net cash provided by financing activities	323,680	12,045
Net decrease in cash and cash equivalents	(79,538)	(16,788)
<b>Cash and cash equivalents</b>		
Beginning of period	456,581	313,628
Net decrease in cash and cash equivalents	(79,538)	(16,