

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

<i>(in thousands of dollars, except share information)</i>	<b>June 30, 2021</b>	<b>December 31, 2020</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 146,541	\$ 281,200
Accounts receivable, net	266,739	88,830
Inventories	145,027	145,553
Prepaid expenses and other assets	27,234	19,276
Assets of discontinued operations	—	160,053
Total current assets	585,541	694,912
Property, plant, and equipment, net	82,386	88,801
Pre-publication costs, net	179,756	202,820
Royalty advances to authors, net	2,137	2,425
Goodwill	437,977	437,977
Other intangible assets, net	381,054	402,484
Operating lease assets	119,113	126,850
Deferred income taxes	2,415	2,415
Deferred commissions	32,388	30,659
Other assets	35,128	31,783
Total assets	<u>\$ 1,857,895</u>	<u>\$ 2,021,126</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities		
Current portion of long-term debt	\$ —	\$ 19,000
Accounts payable	45,789	38,751
Royalties payable	42,228	34,765
Salaries, wages, and commissions payable	35,486	21,723
Deferred revenue	316,410	342,605
Interest payable	10,933	11,017
Severance and other charges	5,052	19,590
Accrued pension benefits	1,593	1,593
Accrued postretirement benefits	1,555	1,555
Operating lease liabilities	10,490	9,669
Other liabilities	52,643	22,912
Liabilities of discontinued operations	—	30,662
Total current liabilities	522,179	553,842
Long-term debt, net of discount and issuance costs	316,611	624,692
Operating lease liabilities	134,292	132,014
Long-term deferred revenue	564,555	562,679
Accrued pension benefits	15,093	24,061
Accrued postretirement benefits	15,471	16,566
Deferred income taxes	18,285	16,411
Other liabilities	105	398
Total liabilities	1,586,591	1,930,663
Commitments and contingencies		
Stockholders' equity		
Preferred stock, \$0.01 par value: 20,000,000 shares authorized; no shares issued and outstanding at June 30, 2021 and December 31, 2020	—	—
Common stock, \$0.01 par value: 380,000,000 shares authorized; 152,244,204 and 150,459,034 shares issued at June 30, 2021 and December 31, 2020, respectively; 127,667,170 and 125,882,000 shares outstanding at June 30, 2021 and December 31, 2020, respectively	1,522	1,505
Treasury stock, 24,577,034 shares as of June 30, 2021 and December 31, 2020, respectively, at cost	(518,030)	(518,030)
Capital in excess of par value	4,924,827	4,918,542
Accumulated deficit	(4,089,185)	(4,255,830)
Accumulated other comprehensive loss	(47,830)	(55,724)
Total stockholders' equity	271,304	90,463
Total liabilities and stockholders' equity	<u>\$ 1,857,895</u>	<u>\$ 2,021,126</u>

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
<i>(in thousands of dollars, except share and per share information)</i>				
<b>Net sales</b>	\$ 308,672	\$ 216,239	\$ 454,867	\$ 368,082
<b>Costs and expenses</b>				
Cost of sales, excluding publishing rights and pre-publication amortization	124,360	100,544	182,497	164,196
Publishing rights amortization	2,489	3,431	5,655	7,863
Pre-publication amortization	26,506	31,659	51,557	62,221
Cost of sales	153,355	135,634	239,709	234,280
Selling and administrative	114,767	98,199	204,002	221,540
Other intangible assets amortization	7,869	5,855	15,775	11,711
Impairment charge for goodwill	—	—	—	262,000
Restructuring/severance and other charges	9,847	—	9,847	—
Operating income (loss)	22,834	(23,449)	(14,466)	(361,449)
<b>Other income (expense)</b>				
Retirement benefits non-service (expense) income	(26)	61	(226)	122
Interest expense	(9,985)	(10,614)	(18,549)	(19,867)
Interest income	14	75	34	841
Change in fair value of derivative instruments	127	120	(547)	(260)
Gain on investments	836	—	836	—
Income from transition services agreement	854	—	854	—
Loss on extinguishment of debt	(12,505)	—	(12,505)	—
Income (loss) from continuing operations before taxes	2,149	(33,807)	(44,569)	(380,613)
Income tax (benefit) expense for continuing operations	(9)	(1,370)	2,301	(10,150)
Income (loss) from continuing operations	2,158	(32,437)	(46,870)	(370,463)
Earnings (loss) from discontinued operations, net of tax	1,950	(5,731)	(1,005)	(13,678)
Gain on sale of discontinued operations, net of tax	214,520	—	214,520	—
Income (loss) from discontinued operations, net of tax	216,470	(5,731)	213,515	(13,678)
Net income (loss)	\$ 218,628	\$ (38,168)	\$ 166,645	\$ (384,141)
Net income (loss) per share attributable to common stockholders				
Basic:				
Continuing operations	\$ 0.01	\$ (0.25)	\$ (0.38)	\$ (2.96)
Discontinued operations	1.70	(0.05)	1.69	(0.11)
Net income (loss)	\$ 1.71	\$ (0.30)	\$ 1.31	\$ (3.07)
Diluted:				
Continuing operations	\$ 0.02	\$ (0.25)	\$ (0.37)	\$ (2.96)
Discontinued operations	1.66	(0.05)	1.65	(0.11)
Net income (loss)	\$ 1.68	\$ (0.30)	\$ 1.28	\$ (3.07)
Weighted average shares outstanding				
Basic	127,500,256	125,458,566	126,989,623	125,073,770
Diluted	130,350,602	125,458,566	129,761,257	125,073,770

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

	Six Months Ended June 30,	
	2021	2020
<i>(in thousands of dollars)</i>		
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ 166,645	\$ (384,141)
Adjustments to reconcile net income (loss) to net cash used in operating activities		
Loss from discontinued operations, net of tax	1,005	13,678
Gain on sale of discontinued operations, net of tax	(214,520)	—
Depreciation and amortization expense	96,258	106,819
Operating lease assets, amortization and impairments	7,708	6,654
Amortization of debt discount and deferred financing costs	1,488	1,306
Gain on investments	(836)	—
Deferred income taxes	1,874	(10,495)
Stock-based compensation expense	5,550	5,324
Write-off of property, plant, and equipment	1,606	—
Loss on extinguishment of debt	12,505	—
Impairment charge for goodwill	—	262,000
Change in fair value of derivative instruments	547	260
Changes in operating assets and liabilities		
Accounts receivable	(162,819)	(107,091)
Inventories	525	(22,440)
Other assets	(12,496)	(13,141)
Accounts payable and accrued expenses	23,045	(10,669)
Royalties payable and author advances, net	9,373	(19,074)
Deferred revenue	(24,319)	(14,079)
Interest payable	(84)	6,924
Severance and other charges	(14,538)	(8,317)
Accrued pension and postretirement benefits	(1,680)	(1,561)
Operating lease liabilities	3,130	(5,500)
Other liabilities	5,100	2,476
Net cash used in operating activities - continuing operations	(94,933)	(191,067)
Net cash provided by operating activities - discontinued operations	3,880	1,791
Net cash used in operating activities	(91,053)	(189,276)
<b>Cash flows from investing activities</b>		
Additions to pre-publication costs	(29,541)	(34,496)
Additions to property, plant, and equipment	(19,058)	(24,358)
Proceeds from sale of business	349,000	—
Net cash provided by (used in) investing activities - continuing operations	300,401	(58,854)
Net cash used in investing activities - discontinued operations	(647)	(354)
Net cash provided by (used in) investing activities	299,754	(59,208)
<b>Cash flows from financing activities</b>		
Borrowings under revolving credit facility	—	150,000
Payments of revolving credit facility	—	(50,000)
Payments of long-term debt	(342,031)	(9,500)
Tax withholding payments related to net share settlements of restricted stock units	—	(48)
Issuance of common stock under employee stock purchase plan	410	503
Net remittances under transition services agreement	(1,739)	—
Net cash (used in) provided by financing activities - continuing operations	(343,360)	90,955
Net decrease in cash and cash equivalents	(134,659)	(157,529)
Cash and cash equivalents at beginning of the period	281,200	296,353
Cash and cash equivalents at end of the period	<u>\$ 146,541</u>	<u>\$ 138,824</u>

**Houghton Mifflin Harcourt Company**  
**Non-GAAP Reconciliations (Unaudited)**

**Adjusted EBITDA <sup>1</sup>**

(in thousands of dollars)

	Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
Net income (loss) from continuing operations	\$ 2,158	\$ (32,437)	\$ (46,870)	\$ (370,463)
Interest expense	9,985	10,614	18,549	19,867
Interest income	(14)	(75)	(34)	(841)
Provision (benefit) for income taxes	(9)	(1,370)	2,301	(10,150)
Depreciation expense	11,576	12,841	23,271	25,024
Amortization expense	36,864	40,945	72,987	81,795
Non-cash charges – goodwill impairment	—	—	—	262,000
Non-cash charges – stock compensation	2,943	2,056	5,550	5,324
Non-cash charges – (gain) loss on derivative instruments	(127)	(120)	547	260
Fees, expenses or charges for equity offerings, debt or acquisitions/dispositions	(1,636)	—	190	27
Gain on investments	(836)	—	(836)	—
Loss on debt extinguishment	12,505	—	12,505	—
Legal settlement	2,470	—	2,470	—
Restructuring/severance and other charges	9,847	—	9,847	—
Adjusted EBITDA from continuing operations	<u>\$ 85,726</u>	<u>\$ 32,454</u>	<u>\$ 100,477</u>	<u>\$ 12,843</u>

**Free Cash Flow <sup>1</sup>**

(in thousands of dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
<b>Cash flows from operating activities</b>				
Net cash provided by (used in) operating activities	\$ 5,613	\$ (19,099)	\$ (94,933)	\$ (191,067)
<b>Cash flows from investing activities</b>				
Additions to pre-publication costs	(15,187)	(16,007)	(29,541)	(34,496)
Additions to property, plant, and equipment	(9,109)	(12,483)	(19,058)	(24,358)
Free Cash Flow	<u>\$ (18,683)</u>	<u>\$ (47,589)</u>	<u>\$ (143,532)</u>	<u>\$ (249,921)</u>

	Trailing Twelve Months Ended June 30, 2021
<b>Cash flows from operating activities</b>	
Net cash provided by operating activities	\$ 202,619
<b>Cash flows from investing activities</b>	
Additions to pre-publication costs	(55,917)
Additions to property, plant, and equipment	(45,640)
Free Cash Flow	<u>\$ 101,062</u>

- <sup>1</sup> All amounts have been adjusted to eliminate the impact of the HMH Books & Media business which has been removed from continuing operations and 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. Unlevered free cash flow margin is the ratio of free cash flow before interest payments to billings.

**Houghton Mifflin Harcourt Company**  
**Calculation of Billings and Gross Leverage Ratio (Unaudited)**

**Billings <sup>1</sup>**

(in thousands of dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net sales	\$ 308,672	\$ 216,239	\$ 454,867	\$ 368,082
Change in deferred revenue	17,912	45,450	(24,319)	(13,079)
Billings	<u>\$ 326,584</u>	<u>\$ 261,689</u>	<u>\$ 430,548</u>	<u>\$ 355,003</u>

Billings is an operating measure utilized by the Company derived as shown above.

**Gross Leverage Ratio <sup>1</sup>**

(in thousands of dollars)

	June 30, 2021
Gross debt	\$ 324,969
Trailing twelve months Adjusted EBITDA	\$ 176,299
Gross leverage ratio	<u>1.8</u>

  

	Trailing Twelve Months Ended June 30, 2021
Net loss from continuing operations	\$ (147,097)
Interest expense	36,613
Interest income	(92)
Provision (benefit) for income taxes	(6)
Depreciation expense	48,121
Amortization expense	155,747
Non-cash charges – goodwill impairment	17,000
Non-cash charges – stock compensation	11,386
Non-cash charges – (gain) loss on derivative instruments	(385)
Fees, expenses or charges for equity offerings, debt or acquisitions/dispositions	1,243
Gain on investments	(2,927)
Loss on debt extinguishment	12,505
Legal settlement	2,470
Restructuring/severance and other charges	41,721
Adjusted EBITDA from continuing operations	<u>\$ 176,299</u>

Gross leverage ratio is an operating measure utilized by the Company derived as shown above.

- 1 All amounts have been adjusted to eliminate the impact of the HMH Books & Media business which has been removed from continuing operations and classified as discontinued operations.