



CRAIG-HALLUM
CAPITAL GROUP LLC

February 21, 2007
Institutional Research

Answerthink, Inc.
(ANSR – \$3.58)

ACCUMULATE
Price Target: \$6

Q4 Continues the Challenging Trend – But Many Changes Are Afoot

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Changes	Previous	Current
Rating:	--	Accumulate
Fundamental Trend:	--	Mixed
Price Target:	--	\$6
FY06E Rev (MM):	\$181.5	\$180.6
FY07E Rev (MM):	\$192.5	\$181.2
FY06E EPS:		\$0.13
FY07E EPS:	\$0.17	\$0.14

Profile	
Price:	\$3.58
52 Week Range:	\$2.05 - \$6.65
Avg. Daily Vol.	160,215
Basic Shares Out (MM):	45.6
Market Cap (MM):	\$163.2
Insiders Own	5%
Stated Book Val./Sh.:	\$2.17
Cash /Sh.:	\$0.69
LT Debt / Capital:	-
LT EPS Growth	20%
Div / Yield	NA / NA
Year Ends:	December

Rev (MM)	2005A	2006A	2007E
Mar	\$36.9	\$49.8	\$39.5
Jun	\$41.7	\$49.0	\$44.0
Sept	\$40.0	\$43.6	\$47.6
Dec	\$44.7	\$38.2	\$50.1
FY	\$163.3	\$180.6	\$181.2
CY	\$163.3	\$180.6	\$181.2

EPS	2005A	2006A	2007E
Mar	\$0.01	\$0.04	\$0.00
Jun	\$0.03	\$0.06	\$0.03
Sept	\$0.05	\$0.03	\$0.05
Dec	\$0.04	\$0.01	\$0.06
FY	\$0.13	\$0.13	\$0.14
CY	\$0.13	\$0.13	\$0.14
FY P/E	27.5x	27.5x	25.6x

Management	
CEO	Ted Fernandez
CFO	Grant Fitzwilliam

INVESTMENT HIGHLIGHTS

- Q4 was a combination of a disappointing top line (results were \$1 million below our estimates and the low-end of guidance) and an in-line EPS. Revenues were \$38.2 million versus our \$39.1 million estimate. The company earned a penny on a pro-forma basis, ahead of our \$0.00 estimate.
- For 2007, guidance provided was bifurcated with Hackett enthusiasm (15% or better year over year growth) offset by relatively modest expectations for the implementation businesses (business applications and business intelligence).
- We see many changes coming for 2007. First, the company will implement a new compensation plan meant to emphasize sale of all the service lines, not just the membership advisory area. This should have a positive impact on revenues. Another area of change will be the absence of the staff augmentation practices that contributed \$12 million of low margin revenues in 2006. SG&A will be an area of focus; we expect absolute dollars to begin to fall in Q2 based on current initiatives. We expect that it will not become clear whether or not the new compensation plan is yielding its desired results until Q2.
- Pulling out the not so obvious positives, we would focus investors on the mix shift in front of us. The main growth in the business should come from the Hackett segment which produces gross margins of approximately 50%, well better than the 30%-ish margins produced by the implementation areas which are being managed for modest growth. Also a key focus of the sales strategy is to enter a new client relationship with a transformational benchmark, rather than membership advisory. In more than 2/3rd of the cases, a TB leads to a much larger sign-up of services. Membership advisory creates a longer-term customer relationship, but is slower to lead to the larger assignments. Once again, the \$13.9 million of annualized membership advisory revenues creates a solid base of highly predictable revenues. This level was up 57.4% year over year. While overall top line growth in 2007 appears quite muted, it does become modestly attractive when considering that sequential organic growth in Q1 should be 9% when adjusting for the elimination of the staff augmentation business.
- REL remains an area of modest expectations but potential upside. This segment is still in the early period of sales shift to a dedicated group of REL specific salespeople.



- One area that showed the vagaries of the implementation market for Hackett was the Hyperion segment of business intelligence. A year-ago this area was arguably the hottest segment of the company, and just a year later this is a negative year-over-year growth segment (at least for Q4). As Hyperion's key growth driver of has changed, it has required Answerthink to repurpose its consultants to focus on new modules, which obviously creates a lag.
- For 2007, we have lowered our revenue estimates from \$192.5 million to \$181.2 million, meant to represent the lower-end of management's guidance. Our EPS estimate has also been lowered from \$0.17 to \$0.14 on a pro-forma basis.
- Our rating has been Accumulate (Craig-Hallum vernacular for a Hold) and we believe this remains the correct rating until a reemergence of growth is more evident or it become clear that the board is willing to monetize the business.

STOCK OPPORTUNITY

Our price target of \$6.00 is based on a sum-of-the-parts analysis based on comparable valuations and cash. For the Membership Advisory business, comp Corporate Executive Board trades at 7.5x annualized contract value; applying this to Answerthink's MA segment implies a \$104 million value. Adding cash of \$20 million, and applying a 1x revenue multiple to the remainder of the business (expected to generate \$160 million in revenues in FY07), we arrive at our \$6 price target.

RISKS

We believe that an investment in Answerthink, Inc. involves the following risks:

- Customer concentration risk: Based on large implementations that take place, at any time the revenue concentration will be high among a small number of customers. For example, last quarter, the company received 19% of revenues from just 10 customers.
- The company is tied directly to the health of the ERP software market and implementations of new software packages. Thus, weakness in technology spending could have a meaningfully negative impact (as it has the past few years) on the company's results.
- A key component of our bullishness relates to the Hackett business. Should the Hackett growth be impacted by changed compensation plans, competitive challenges or management changes, we would expect the value of the stock to decrease accordingly.

Answerthink, Inc.
Income Statement

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Craig-Hallum Capital Group, LLC
2/20/07

Answerthink Quarterly Income Statement (data in thousands, except per share)																
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	Fiscal 2004	Q1 Mar-05	Q2 Jun-05	Q3 Sep-05	Q4 Dec-05	Fiscal 2005	Q1 Mar-06	Q2 Jun-06	Q3 Sep-06	Q4 Dec-06	Fiscal 2006	Q1E Mar-07	Q2E Jun-07	Q3E Sep-07	Q4E Dec-07	Fiscal 2007E
Total revenues	143,547	36,872	41,700	40,005	44,741	163,318	49,831	48,996	43,552	38,176	180,555	39,482	44,042	47,562	50,069	181,155
Cost of revenues	90,834	24,080	24,413	23,534	27,229	99,256	31,179	29,573	27,192	23,326	111,270	24,874	26,425	28,775	29,540	109,615
Gross profit	52,713	12,792	17,287	16,471	17,512	64,062	18,652	19,423	16,360	14,850	69,285	14,608	17,617	18,787	20,528	71,541
SG&A (net of intangible amortization)	46,516	12,440	15,115	13,244	14,601	55,400	15,966	15,093	14,215	14,551	59,825	14,411	15,195	15,458	16,022	61,085
Restructuring Costs										0						
Operating income (loss)	7,049	352	2,172	3,227	2,911	8,662	2,686	4,330	2,145	299	9,460	197	2,422	3,329	4,506	10,455
Other expenses (income), net	(802)	(239)	(305)	(334)	(211)	(1,089)	(83)	(125)	(95)	(202)	(505)	(150)	(150)	(150)	(150)	(600)
Pretax income (loss)	7,851	591	2,477	3,561	3,122	9,751	2,769	4,455	2,240	501	9,965	347	2,572	3,479	4,656	11,055
Income tax provision	3,141	236	991	1,424	1,249	3,900	1,108	1,782	896	200	3,986	139	1,029	1,392	1,862	4,422
Net income (continuing operations)	4,710	355	1,486	2,137	1,873	5,851	1,661	2,673	1,344	301	5,979	208	1,543	2,088	2,794	6,633
Pro Forma EPS	\$0.11	\$0.01	\$0.03	\$0.05	\$0.04	\$0.13	\$0.04	\$0.06	\$0.03	\$0.01	\$0.13	\$0.00	\$0.03	\$0.05	\$0.06	\$0.14
GAAP EPS (continuing operations)	(\$0.03)	(\$0.04)	\$0.02	\$0.04	(\$0.01)	\$0.01	(\$0.14)	\$0.05	\$0.01	(\$0.03)	(\$0.11)	(\$0.03)	\$0.02	\$0.03	\$0.06	\$0.08
GAAP EPS (cumulative)	(\$0.02)	(\$0.04)	\$0.02	\$0.04	(\$0.01)	\$0.01	(\$0.14)	\$0.05	\$0.01	(\$0.03)	(\$0.11)	(\$0.03)	\$0.02	\$0.03	\$0.06	\$0.08
Diluted shares outstanding	44,188	43,439	45,106	44,947	46,864	45,302	44,518	46,594	45,532	45,632	45,569	45,732	45,832	45,932	46,032	45,882
Margin Analysis (pro-forma)																
Gross margin	36.7%	34.7%	41.5%	41.2%	39.1%	39.2%	37.4%	39.6%	37.6%	38.9%	38.4%	37.0%	40.0%	39.5%	41.0%	39.5%
SG&A	32.4%	33.7%	36.2%	33.1%	32.6%	33.9%	32.0%	30.8%	32.6%	38.1%	33.1%	36.5%	34.5%	32.5%	32.0%	33.7%
Operating profit margin	4.9%	1.0%	5.2%	8.1%	6.5%	5.3%	5.4%	8.8%	4.9%	0.8%	5.2%	0.5%	5.5%	7.0%	9.0%	5.8%
Pretax income	5.5%	1.6%	5.9%	8.9%	7.0%	6.0%	5.6%	9.1%	5.1%	1.3%	5.5%	0.9%	5.8%	7.3%	9.3%	6.1%
% Tax rate pro-forma	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	39.9%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%
Net margin (pro forma)	3.3%	1.0%	3.6%	5.3%	4.2%	3.6%	3.3%	5.5%	3.1%	0.8%	3.3%	0.5%	3.5%	4.4%	5.6%	3.7%
Yr/Yr Growth Rates																
Revenues	8.4%	5.1%	10.8%	7.7%	32.8%	13.8%	35.1%	17.5%	8.9%	-14.7%	10.6%	-20.8%	-10.1%	9.2%	31.2%	0.3%
Gross Profit	17.4%	-6.0%	19.8%	22.2%	45.4%	21.5%	45.8%	12.4%	-0.7%	-15.2%	8.2%	-21.7%	-9.3%	14.8%	38.2%	3.3%
Operating income	285.0%	-82.0%	-23.2%	14.1%	46.7%	22.9%	663.8%	99.4%	-1.2%	-89.7%	9.2%	-92.7%	-44.1%	-23.1%	1407.1%	10.5%
Pretax income	209.5%	-72.4%	-18.1%	17.7%	46.7%	24.2%	368.8%	79.9%	-9.6%	-84.0%	2.2%	-87.5%	-42.3%	-21.9%	829.4%	10.9%
Net income (continuing operations)	209.9%	-72.4%	-18.1%	17.7%	46.7%	24.2%	368.3%	79.9%	-9.6%	-83.9%	2.2%	-87.5%	-42.3%	-21.9%	828.1%	10.9%
EPS (pro forma)	216.5%	-68.6%	-10.9%	78.6%	470.0%	21.2%	357.0%	74.1%	-37.9%	-83.5%	1.6%	-87.8%	-41.3%	54.0%	820.1%	10.2%
EPS (GAAP - cumulative)	82.4%	297.5%	162.0%	125.1%	13.2%	161.2%	-262.0%	125.9%	-74.4%	-130.8%	1048.3%	78.0%	-68.0%	220.0%	288.9%	170.0%
Other Key Metrics																
Sequential gross sales growth	-	9%	13%	-4%	12%	-	11%	-2%	-11%	-12%	-	3%	12%	8%	5%	-

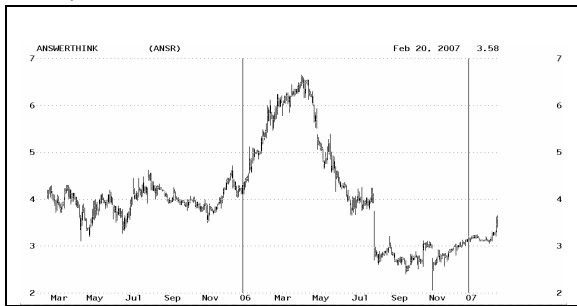


Answerthink, Inc.
Cash Flow Statements and Balance Sheets

Answerthink (in thousand, except per share) Fiscal Year End: December												
	Fiscal 2003	Fiscal 2004	Mar 1Q05	Jun 2Q05	Sep 3Q05	Dec 4Q05	Fiscal 2005	Mar 1Q06A	Jun 2Q06A	Sep 3Q06A	Dec 4Q06E	Fiscal 2006E
OPERATING ACTIVITIES												
GAAP Net income (loss)	-\$5,100	-\$740	(\$1,676)	\$956	\$1,830	(\$506)	\$604	(\$6,233)	\$2,121	\$473	\$301	-\$3,338
Cumulative effect of accounting change	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Impairment of goodwill	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Depreciation & amortization	\$4,954	\$5,177	1,262	1,190	1,138	\$1,280	\$4,870	1,640	\$1,458	1,070	1,100	\$4,000
Provision for doubtful accounts	-\$235	\$1,060	0	50	253	\$494	\$797	389	(\$59)	222	0	\$552
Non-cash compensation expense	\$1,236	\$2,321	557	728	905	\$1,202	\$3,392	1,076	\$1,145	1,015	900	\$4,136
Deferred income taxes	\$0	\$0	0	0	0	\$0	\$0	0	\$0	0	0	\$0
Other	\$0	\$0	0	0	0	\$0	\$0	715	\$0	0	0	\$715
Changes in working capital	9,010	-\$5,379	-405	-4449	-5489	\$6,386	-\$3,957	-371	(\$3,244)	5994	0	\$2,379
Total cash from operating activities	\$9,865	\$2,439	(\$262)	(\$1,525)	(\$1,363)	\$8,856	\$5,706	(\$2,784)	\$1,421	\$8,774	\$2,301	\$8,444
INVESTING ACTIVITIES												
Purchase of property & equipment	(\$1,225)	(\$3,199)	-157	-610	-372	(\$623)	(\$1,762)	-570	-773	-405	-500	(\$2,248)
Change in restricted cash	(\$91)	\$0	295	2105	0	\$0	\$2,400	3657	0	0	0	\$3,657
Acquisitions, net of cash	(\$3,301)	(\$7,210)	-331	-133	-1773	(\$21,019)	(\$23,256)	-353	-8430	-1698	0	(\$10,481)
Marketable securities, net	\$18,050	\$0	(23,900)	16,000	7,900	\$0	\$0	5,000	0	0	0	\$5,000
Total cash from investing activities	\$13,433	(\$10,409)	(\$24,093)	\$17,362	\$5,755	(\$21,642)	(\$22,618)	\$7,734	(\$9,203)	(\$2,103)	(\$500)	\$2,752
FINANCING ACTIVITIES												
Proceeds from issuance of common stock	\$1,252	2,911	111	781	48	\$764	1,704	238	514	4		756
Repurchases of common stock	(\$5,478)	(10,492)	-809	-3132	0	\$0	(3,941)	0	0	-1747		(1,747)
Other	\$0	0	0	0	(1,168)	(\$470)	(1,638)	(4,758)	0	(725)		(5,483)
Total cash from financing activities	(\$4,226)	(\$7,581)	(\$698)	(\$2,351)	(\$1,120)	\$294	(\$3,875)	(\$4,520)	\$514	(\$2,468)	\$0	(\$6,474)
Increase (decrease) in cash and cash equivalents	\$19,072	(\$15,551)	(\$25,053)	\$13,486	\$3,272	(\$12,492)	(\$20,787)	\$430	(\$7,268)	\$4,203	\$1,801	\$4,722
Total Cash & Cash Equivalents	67,441	38,890	50,281	45,699	41,072	31,662	31,662	23,461	16,215	20,452	19,585	19,585
Accounts Receivable, net	24,877	28,883	28,842	35,411	39,155	41,928	41,928	42,182	43,421	39,166	35,818	35,818
Prepaid Expenses and Other Current Assets	4,260	3,459	2,374	2,203	2,108	3,273	3,273	3,393	2,912	2,704	1,137	1,137
Total Current Assets	96,578	71,232	81,497	83,313	82,335	76,863	76,863	69,036	62,548	62,322	56,540	56,540
Restricted Cash & Marketable securities		12,902				600	600	600	600	600	600	600
Property & Equipment, Net	8,714	7,568	6,927	6,767	6,376	6,304	6,304	5,485	5,634	5,432	5,183	5,183
Total other assets	29,931	37,031	37,404	37,032	37,968	68,114	68,114	67,665	68,432	70,616	70,522	70,522
TOTAL ASSETS	\$135,223	\$128,733	\$125,828	\$127,112	\$126,679	\$151,881	\$151,881	\$142,786	\$137,214	\$138,970	\$132,845	\$132,845
Accounts Payable	3,793	3,462	3,169	5,226	4,280	6,319	6,319	4,807	5,632	4,620	5,427	5,427
Accrued expenses and other	26,195	18,854	24,426	23,965	22,626	39,594	39,594	37,560	28,099	31,261	24,352	24,352
Loan Payable						3,657	3,657	0	0	0	0	0
Accrued expenses and other liabilities, non-current						3,272	3,272	5,750	5,275	4,503	4,611	4,611
TOTAL LIABILITIES	\$29,988	\$22,316	\$27,595	\$29,191	\$26,906	\$52,842	\$52,842	\$48,117	\$39,006	\$40,384	\$34,390	\$34,390
TOTAL STOCKHOLDER'S EQUITY	\$105,235	98,957	98,233	97,921	99,773	99,039	\$99,039	94,669	98,208	98,586	98,455	\$98,455
TOTAL LIAB. & STOCKHOLDER'S EQUITY	\$135,223	\$121,273	\$125,828	\$127,112	\$126,679	\$151,881	\$151,881	\$142,786	\$137,214	\$138,970	\$132,845	\$132,845



REQUIRED DISCLOSURES



Source: Baseline

Initiate: February 10, 2004 - Rating: Buy - Price Target: \$10
 April 27, 2005 - Rating: Buy - Price Target: \$7
 December 1, 2005 – Rating: Buy – Price Target: \$8
 February 22, 2006 – Rating: Buy – Price Target: \$9
 August 2, 2006 – Rating: Accumulate – Price Target: \$6

Ratings definitions:

As of December 30, 2005, we have changed our Ratings definitions. Our previous definitions can be found at www.craig-hallum.com/research.html. New definitions: **Buy** rated stocks generally have twelve month price targets that are more than 20% above the current price. **Accumulate** rated stocks generally have twelve month price targets above the current price but lack a visible catalyst. This rating includes Early View coverage. **Neutral** rated stocks generally have no price target and we would sell the stock.

Fundamental trend definitions:

Improving means growth rates of key business metrics are generally accelerating. **Stable** means growth rates of key business metrics are generally steady. **Mixed** means growth rates of some key business metrics are positive but others are negative. **Declining** means growth rates of key business metrics are generally decelerating.

Ratings Distribution (12/31/2006)

Rating	% Of Companies Covered	% With Investment Banking Relationships
Buy	67%	9%
Hold	26%	7%
Sell	7%	0%
Total	100%	8%

Information about valuation methods and risks can be found in the “STOCK OPPORTUNITY” and “RISKS” sections, respectively, of this report.

CHLM makes a market in this security.

CHLM has received non-investment banking revenue from the subject company within the last twelve months.

CHLM expects to receive or intends to seek compensation for investment banking services from the subject company in the next three months.

Analysts receive no direct compensation in connection with the firm’s investment banking business. Analysts may be eligible for bonus compensation based on the overall profitability of the firm, which takes into account revenues from all of the firm’s business, including investment banking.

OTHER DISCLOSURES

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