

The Hackett Group, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Quarter Ended		Six Months Ended	
	June 29, 2018	June 30, 2017	June 29, 2018	June 30, 2017
Revenue:				
Revenue before reimbursements ("net revenue")	\$ 69,614	\$ 67,726	\$ 137,089	\$ 132,795
Reimbursements	6,035	5,844	11,293	12,204
Total revenue	75,649	73,570	148,382	144,999
Costs and expenses:				
Cost of service:				
Personnel costs before reimbursable expenses	42,993	40,947	84,614	81,099
Acquisition-related compensation (benefit) expense	(204)	423	(789)	423
Non-cash stock compensation expense	1,002	1,226	2,045	2,358
Acquisition-related non-cash stock compensation (benefit) expense	(79)	616	721	926
Reimbursable expenses	6,035	5,844	11,293	12,204
Total cost of service	49,747	49,056	97,884	97,010
Selling, general and administrative costs	15,022	15,190	29,843	29,550
Non-cash stock compensation expense	804	874	1,646	1,533
Acquisition-related costs	—	161	—	267
Amortization of intangible assets	591	532	1,204	918
Acquisition-related contingent consideration liability	(4,553)	—	(4,553)	—
Restructuring costs	—	1,293	—	1,293
Total selling, general, and administrative expenses	11,864	18,050	28,140	33,561
Total costs and operating expenses	61,611	67,106	126,024	130,571
Income from operations	14,038	6,464	22,358	14,428
Other expense:				
Interest expense	(178)	(127)	(357)	(217)
Income from operations before income taxes	13,860	6,337	22,001	14,211
Income tax expense	2,339	1,587	3,113	1,587
Net income	\$ 11,521	\$ 4,750	\$ 18,888	\$ 12,624
Basic net income per common share:				
Income per common share from operations	\$ 0.39	\$ 0.16	\$ 0.65	\$ 0.44
Weighted average common shares outstanding	29,430	29,041	29,260	28,955
Diluted net income per common share:				
Income per common share from operations	\$ 0.36	\$ 0.15	\$ 0.59	\$ 0.39
Weighted average common and common equivalent shares outstanding	32,235	32,513	32,025	32,403
Pro forma data (1):				
Income from operations before income taxes	\$ 13,860	\$ 6,337	\$ 22,001	\$ 14,211
Acquisition-related compensation (benefit) expense	(204)	423	(789)	423
Non-cash stock compensation expense	1,806	2,100	3,691	3,891
Acquisition-related non-cash stock compensation (benefit) expense	(79)	616	721	926
Acquisition-related costs	—	161	—	267
Acquisition-related contingent consideration liability	(4,553)	—	(4,553)	—
Restructuring costs	—	1,293	—	1,293
Amortization of intangible assets	591	532	1,204	918
Pro forma income before income taxes	11,421	11,462	22,275	21,929
Pro forma income tax expense	2,855	3,439	5,569	6,579
Pro forma net income	\$ 8,566	\$ 8,023	\$ 16,706	\$ 15,350
Pro forma basic net income per common share	\$ 0.29	\$ 0.28	\$ 0.57	\$ 0.53
Weighted average common shares outstanding	29,430	29,041	29,260	28,955
Pro forma diluted net income per common share	\$ 0.27	\$ 0.25	\$ 0.52	\$ 0.47
Weighted average common and common equivalent shares outstanding	32,235	32,513	32,025	32,403

(1) The Company provides pro forma earnings results (which exclude the amortization of intangible assets, stock compensation expense, acquisition-related one-time benefit, cash and stock compensation expense (benefit), restructuring expenses and include a normalized tax rate, which is our long term projected cash tax rate) as a complement to results provided in accordance with Generally Accepted Accounting Principles (GAAP). These non-GAAP results are provided to enhance the overall users' understanding of the Company's current financial performance and its prospects for the future. The Company believes the non-GAAP results provide useful information to both management and investors and by excluding certain expenses that it believes are not indicative of its core operating results. The non-GAAP measures are included to provide investors and management with an alternative method for assessing operating results in a manner that is focused on the performance of ongoing operations and to provide a more consistent basis for comparison between quarters. Further, these non-GAAP results are one of the primary indicators management uses for planning and forecasting in future periods. In addition, since the Company has historically reported non-GAAP results to the investment community, it believes the continued inclusion of non-GAAP results provides consistency in its financial reporting. The presentation of this additional information should not be considered in isolation or as a substitute for results prepared in accordance with GAAP.

The Hackett Group, Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

(unaudited)

	June 29, 2018	December 29, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 13,270	\$ 17,512
Accounts receivable and unbilled revenue, net	56,773	55,262
Prepaid expenses and other current assets	3,282	2,511
Total current assets	<u>73,325</u>	<u>75,285</u>
Property and equipment, net	22,846	18,851
Other assets	5,025	6,021
Goodwill, net	84,720	85,074
Total assets	<u>\$ 185,916</u>	<u>\$ 185,231</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 8,400	\$ 8,434
Accrued expenses and other liabilities	34,072	43,014
Total current liabilities	<u>42,472</u>	<u>51,448</u>
Non-current accrued expenses and other liabilities	213	1,268
Long-term deferred tax liability, net	8,099	6,240
Long-term debt	13,500	19,000
Total liabilities	<u>64,284</u>	<u>77,956</u>
Shareholders' equity	<u>121,632</u>	<u>107,275</u>
Total liabilities and shareholders' equity	<u>\$ 185,916</u>	<u>\$ 185,231</u>

The Hackett Group, Inc.
SUPPLEMENTAL FINANCIAL DATA
(unaudited)

	Quarter Ended		
	June 29, 2018	June 30, 2017	March 30, 2018
Revenue Breakdown by Group:			
<i>(in thousands)</i>			
The Hackett Group (2)	\$ 61,287	\$ 57,658	\$ 58,898
SAP Solutions (3)	8,327	10,068	8,577
Net revenue (4)	<u>\$ 69,614</u>	<u>\$ 67,726</u>	<u>\$ 67,475</u>
Revenue Concentration:			
<i>(% of total revenue)</i>			
Top customer	6%	4%	3%
Top 5 customers	18%	15%	12%
Top 10 customers	25%	25%	19%
Key Metrics and Other Financial Data:			
Total Company:			
Consultant headcount	1,043	1,002	1,016
Total headcount	1,291	1,236	1,257
Days sales outstanding (DSO)	68	61	65
Cash (used in) provided by operating activities <i>(in thousands)</i>	\$ (2,368)	\$ 4,111	\$ 17,203
Pro forma return on equity (5)	31%	38%	31%
Depreciation <i>(in thousands)</i>	\$ 624	\$ 612	\$ 580
Amortization <i>(in thousands)</i>	\$ 591	\$ 532	\$ 613
Remaining Plan authorization:			
Shares purchased <i>(in thousands)</i>	-	507	53
Cost of shares repurchased <i>(in thousands)</i>	\$ —	\$ 7,617	\$ 963
Average price per share of shares purchased	\$ —	\$ 15.01	\$ 18.33
Remaining Plan authorization <i>(in thousands)</i>	\$ 7,174	\$ 630	\$ 2,174
Shares Purchased to Satisfy Employee Net Vesting Obligations:			
Shares purchased <i>(in thousands)</i>	11	21	175
Cost of shares purchased <i>(in thousands)</i>	\$ 182	\$ 370	\$ 3,004
Average price per share of shares purchased	\$ 16.22	\$ 17.90	\$ 17.15

(2) The Hackett Group encompasses the Benchmarking, Business Transformation and Executive Advisory groups, and EPM Groups and excludes AMS.

(3) SAP Solutions encompasses Best Practice Implementation of ERP Software, the SAP group, approximately 50% of which are offshore resources.

(4) Net revenue excludes reimbursable expenses which are primarily travel-related expenses passed through to a client with no associated margin.

(5) Twelve months of pro forma net income divided by average shareholder's equity

(6) Certain reclassifications have been made to conform with current reporting requirements.