

The Hackett Group, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Quarter Ended		Nine Months Ended	
	September 28, 2018	September 29, 2017	September 28, 2018	September 29, 2017
Revenue:				
Revenue before reimbursements ("net revenue")	\$ 68,243	\$ 65,947	\$ 205,332	\$ 198,742
Reimbursements	5,597	5,515	16,890	17,719
Total revenue	73,840	71,462	222,222	216,461
Costs and expenses:				
Cost of service:				
Personnel costs before reimbursable expenses	41,361	39,807	125,975	120,906
Non-cash stock compensation expense	940	1,082	2,985	3,440
Acquisition-related compensation expense (benefit)	240	619	(549)	1,042
Acquisition-related non-cash stock compensation expense	731	794	1,452	1,720
Reimbursable expenses	5,597	5,515	16,890	17,719
Total cost of service	48,869	47,817	146,753	144,827
Selling, general and administrative costs	15,105	14,209	44,949	43,759
Non-cash stock compensation expense	850	894	2,495	2,427
Amortization of intangible assets	585	557	1,789	1,475
Acquisition-related costs	—	111	—	378
Acquisition-related contingent consideration liability	803	—	(3,750)	—
Restructuring costs	—	—	—	1,293
Total selling, general, and administrative expenses	17,343	15,771	45,483	49,332
Total costs and operating expenses	66,212	63,588	192,236	194,159
Income from operations	7,628	7,874	29,986	22,302
Other expense:				
Interest expense	(158)	(184)	(515)	(401)
Income from operations before income taxes	7,470	7,690	29,471	21,901
Income tax expense	2,313	2,401	5,426	3,988
Net income	\$ 5,157	\$ 5,289	\$ 24,045	\$ 17,913
Basic net income per common share:				
Income per common share from operations	\$ 0.17	\$ 0.18	\$ 0.82	\$ 0.62
Weighted average common shares outstanding	29,478	28,765	29,333	28,891
Diluted net income per common share:				
Income per common share from operations	\$ 0.16	\$ 0.17	\$ 0.75	\$ 0.56
Weighted average common and common equivalent shares outstanding	32,593	31,958	32,214	32,254
Pro forma data (1):				
Income from operations before income taxes	\$ 7,470	\$ 7,690	\$ 29,471	\$ 21,901
Non-cash stock compensation expense	1,790	1,976	5,480	5,867
Acquisition-related compensation expense (benefit)	240	619	(549)	1,042
Acquisition-related non-cash stock compensation expense	731	794	1,452	1,720
Acquisition-related costs	—	111	—	378
Acquisition-related contingent consideration liability	803	—	(3,750)	—
Restructuring costs	—	—	—	1,293
Amortization of intangible assets	585	557	1,789	1,475
Pro forma income before income taxes	11,619	11,747	33,893	33,676
Pro forma income tax expense	2,905	3,524	8,473	10,103
Pro forma net income	\$ 8,714	\$ 8,223	\$ 25,420	\$ 23,573
Pro forma basic net income per common share	\$ 0.30	\$ 0.29	\$ 0.87	\$ 0.82
Weighted average common shares outstanding	29,478	28,765	29,333	28,891
Pro forma diluted net income per common share	\$ 0.27	\$ 0.26	\$ 0.79	\$ 0.73
Weighted average common and common equivalent shares outstanding	32,593	31,958	32,214	32,254

(1) The Company provides pro forma earnings results (which exclude the amortization of intangible assets, stock compensation expense, acquisition-related one-time expense, 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)

	September 28, 2018	December 29, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 13,177	\$ 17,512
Accounts receivable and unbilled revenue, net	56,875	55,262
Prepaid expenses and other current assets	3,742	2,511
Total current assets	73,794	75,285
Property and equipment, net	24,313	18,851
Other assets	4,386	6,021
Goodwill, net	84,612	85,074
Total assets	<u>\$ 187,105</u>	<u>\$ 185,231</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 5,119	\$ 8,434
Accrued expenses and other liabilities	34,065	43,014
Total current liabilities	39,184	51,448
Non-current accrued expenses and other liabilities	244	1,268
Long-term deferred tax liability, net	7,805	6,240
Long-term debt	11,500	19,000
Total liabilities	58,733	77,956
Shareholders' equity	128,372	107,275
Total liabilities and shareholders' equity	<u>\$ 187,105</u>	<u>\$ 185,231</u>

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

	Quarter Ended		
	September 28, 2018	September 29, 2017	June 29, 2018
Revenue Breakdown by Group:			
<i>(in thousands)</i>			
The Hackett Group (2)	\$ 60,285	\$ 56,107	\$ 61,287
SAP Solutions (3)	7,958	9,840	8,327
Net revenue (4)	<u>\$ 68,243</u>	<u>\$ 65,947</u>	<u>\$ 69,614</u>
Revenue Concentration:			
<i>(% of total revenue)</i>			
Top customer	7%	4%	6%
Top 5 customers	19%	12%	18%
Top 10 customers	26%	20%	25%
Key Metrics and Other Financial Data:			
Total Company:			
Consultant headcount	1,046	1,022	1,043
Total headcount	1,290	1,259	1,291
Days sales outstanding (DSO)	70	71	68
Cash provided by (used in) operating activities <i>(in thousands)</i>	\$ 9,521	\$ 9,966	\$ (2,368)
Pro forma return on equity (5)	30%	35%	31%
Depreciation <i>(in thousands)</i>	\$ 652	\$ 590	\$ 624
Amortization <i>(in thousands)</i>	\$ 585	\$ 557	\$ 591
Remaining Plan authorization:			
Shares purchased <i>(in thousands)</i>	-	182	-
Cost of shares repurchased <i>(in thousands)</i>	\$ —	\$ 2,492	\$ —
Average price per share of shares purchased	\$ —	\$ 13.73	\$ —
Remaining Plan authorization <i>(in thousands)</i>	\$ 7,174	\$ 3,138	\$ 7,174
Shares Purchased to Satisfy Employee Net Vesting Obligations:			
Shares purchased <i>(in thousands)</i>	8	68	11
Cost of shares purchased <i>(in thousands)</i>	\$ 118	\$ 1,050	\$ 182
Average price per share of shares purchased	\$ 15.77	\$ 15.50	\$ 16.22

(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.