

The Hackett Group, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Quarter Ended		Twelve Months Ended	
	December 28, 2018	December 29, 2017	December 28, 2018	December 29, 2017
Revenue:				
Revenue before reimbursements ("net revenue")	\$ 61,595	\$ 62,307	\$ 264,523	\$ 255,131
Reimbursements	4,940	4,622	21,364	21,468
Total revenue	66,535	66,929	285,887	276,599
Costs and expenses:				
Cost of service:				
Personnel costs before reimbursable expenses	35,979	35,744	159,614	153,357
Non-cash stock compensation expense	900	1,015	3,815	4,409
Acquisition-related compensation expense (benefit)	14	540	(535)	1,582
Acquisition-related non-cash stock compensation expense	575	795	2,027	2,515
Reimbursable expenses	4,940	4,622	21,364	21,468
Total cost of service	42,408	42,716	186,285	183,331
Selling, general and administrative costs	14,352	14,880	58,516	57,473
Non-cash stock compensation expense	743	903	3,238	3,330
Amortization of intangible assets	580	615	2,369	2,090
Acquisition-related costs	—	—	—	378
Acquisition-related contingent consideration liability	(614)	—	(4,364)	—
Impairment of assets (3)	6,269	—	6,269	—
Restructuring costs	—	—	—	1,293
Total selling, general, and administrative expenses	21,330	16,398	66,028	64,564
Total costs and operating expenses	63,738	59,114	252,313	247,895
Income from operations	2,797	7,815	33,574	28,704
Other expense:				
Interest expense	(123)	(183)	(638)	(584)
Income from continuing operations before income taxes	2,674	7,632	32,936	28,120
Income tax expense (benefit)	(41)	(1,203)	5,577	2,564
Income from continuing operations	2,715	8,835	27,359	25,556
Gain (loss) from discontinued operations	(2,851)	606	(3,450)	1,798
Net income (loss)	\$ (136)	\$ 9,441	\$ 23,909	\$ 27,354
Weighted average common shares outstanding:				
Basic	29,517	28,735	29,379	28,852
Diluted	32,677	32,022	32,330	32,196
Basic net income per common share:				
Income per common share from operations	\$ 0.09	\$ 0.31	\$ 0.93	\$ 0.89
Income (loss) per common share from discontinued operations (2)	(0.09)	0.02	(0.12)	0.06
Net income per common share	\$ (0.00)	\$ 0.33	\$ 0.81	\$ 0.95
Diluted net income per common share:				
Income per common share from operations	\$ 0.08	\$ 0.27	\$ 0.85	\$ 0.79
Income (loss) per common share from discontinued operations	(0.08)	0.02	(0.11)	0.06
Net income per common share	\$ (0.00)	\$ 0.29	\$ 0.74	\$ 0.85
Pro forma data (1):				
Income from operations before income taxes	\$ 2,674	\$ 7,632	\$ 32,936	\$ 28,120
Non-cash stock compensation expense	1,643	1,918	7,053	7,739
Acquisition-related compensation expense (benefit)	14	540	(535)	1,582
Acquisition-related non-cash stock compensation expense	575	795	2,027	2,515
Acquisition-related costs	—	—	—	378
Acquisition-related contingent consideration liability	(614)	—	(4,364)	—
Impairment of assets (3)	6,269	—	6,269	—
Restructuring costs	—	—	—	1,293
Amortization of intangible assets	580	615	2,369	2,090
Pro forma income before income taxes	11,141	11,500	45,755	43,717
Pro forma income tax expense	2,785	3,450	11,439	13,115
Pro forma net income	\$ 8,356	\$ 8,050	\$ 34,316	\$ 30,602
Pro forma basic net income per common share	\$ 0.28	\$ 0.28	\$ 1.17	\$ 1.06
Weighted average common shares outstanding	29,517	28,735	29,379	28,852
Pro forma diluted net income per common share	\$ 0.26	\$ 0.25	\$ 1.06	\$ 0.95
Weighted average common and common equivalent shares outstanding	32,677	32,022	32,330	32,196

(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 and impairment charges 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.

(2) Discontinued operations relate to the discontinuance of the Company's REL Working Capital group.

(3) The charge for the impairment of assets relates to the discontinuance of the Hackett Performance Exchange and the Working Capital training course.

The Hackett Group, Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

(unaudited)

	December 28, 2018	December 29, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 13,808	\$ 17,512
Accounts receivable and unbilled revenue, net	54,807	52,267
Prepaid expenses and other current assets	4,339	2,511
Assets related to discontinued operations (4)	137	2,995
Total current assets	<u>73,091</u>	<u>75,285</u>
Property and equipment, net	19,750	18,851
Other assets	3,704	6,021
Goodwill, net	84,207	85,074
Total assets	<u>\$ 180,752</u>	<u>\$ 185,231</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 7,429	\$ 8,434
Accrued expenses and other liabilities	34,498	42,685
Liabilities related to discontinued operations (4)	2,300	329
Total current liabilities	<u>44,227</u>	<u>51,448</u>
Non-current accrued expenses and other liabilities	-	1,268
Long-term deferred tax liability, net	6,435	6,240
Long-term debt	6,500	19,000
Total liabilities	<u>57,162</u>	<u>77,956</u>
Shareholders' equity	<u>123,590</u>	<u>107,275</u>
Total liabilities and shareholders' equity	<u>\$ 180,752</u>	<u>\$ 185,231</u>

(4) The assets and liabilities related to discontinued operations relate to the discontinuance of the Company's European Working Capital Group.

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

	Quarter Ended		
	December 28, 2018	December 29, 2017	September 28, 2018
Revenue Breakdown by Group:			
<i>(in thousands)</i>			
The Hackett Group (5)	\$ 52,906	\$ 52,435	\$ 60,225
SAP Solutions (6)	8,689	9,872	7,958
Net revenue (7)	<u>\$ 61,595</u>	<u>\$ 62,307</u>	<u>\$ 68,183</u>
Revenue Concentration:			
<i>(% of total revenue)</i>			
Top customer	4%	4%	7%
Top 5 customers	16%	13%	19%
Top 10 customers	24%	20%	26%
Key Metrics and Other Financial Data:			
Total Company:			
Consultant headcount	1,003	1,011	1,046
Total headcount	1,246	1,243	1,290
Days sales outstanding (DSO)	75	72	70
Cash provided by operating activities <i>(in thousands)</i>	\$ 8,056	\$ 7,559	\$ 9,521
Pro forma return on equity (8)	30%	32%	32%
Depreciation <i>(in thousands)</i>	\$ 609	\$ 601	\$ 652
Amortization <i>(in thousands)</i>	\$ 580	\$ 615	\$ 585
Remaining Plan authorization:			
Shares purchased <i>(in thousands)</i>	15	-	-
Cost of shares repurchased <i>(in thousands)</i>	\$ 240	\$ —	\$ —
Average price per share of shares purchased	\$ 16.01	\$ —	\$ —
Remaining Plan authorization <i>(in thousands)</i>	\$ 6,934	\$ 3,138	\$ 7,174
Shares Purchased to Satisfy Employee Net Vesting Obligations:			
Shares purchased <i>(in thousands)</i>	14	6	8
Cost of shares purchased <i>(in thousands)</i>	\$ 274	\$ 89	\$ 118
Average price per share of shares purchased	\$ 19.74	\$ 15.37	\$ 15.77

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

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

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

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

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