

The Hackett Group, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Quarter Ended		Six Months Ended	
	June 28, 2019	June 29, 2018	June 28, 2019	June 29, 2018
Revenue:				
Revenue before reimbursements ("net revenue")	\$ 67,976	\$ 68,706	\$ 130,346	\$ 134,745
Reimbursements	5,545	5,821	10,330	10,889
Total revenue from continuing operations	73,521	74,527	140,676	145,634
Costs and expenses:				
Cost of service:				
Personnel costs before reimbursable expenses	40,820	42,148	79,754	82,752
Non-cash stock compensation expense	1,022	977	1,942	2,000
Acquisition-related compensation benefit	(159)	(204)	(288)	(789)
Acquisition-related non-cash stock compensation expense	289	(79)	368	721
Reimbursable expenses	5,545	5,821	10,330	10,889
Total cost of service	47,517	48,663	92,106	95,573
Selling, general and administrative costs:				
Non-cash stock compensation expense	15,159	14,779	29,201	29,242
Amortization of intangible assets	787	804	1,492	1,645
Acquisition-related contingent consideration liability	254	591	553	1,204
Total selling, general, and administrative expenses	45	(4,553)	(1,025)	(4,553)
Total costs and operating expenses	16,245	11,621	30,221	27,538
Income from operations	63,762	60,284	122,327	123,111
Income from operations	9,759	14,243	18,349	22,523
Other expense:				
Interest expense	(105)	(178)	(206)	(357)
Income from continuing operations before income taxes	9,654	14,065	18,143	22,166
Income tax expense	2,614	2,393	4,054	3,193
Income from continuing operations	7,040	11,672	14,089	18,973
Loss from discontinued operations (2)	(51)	(151)	(6)	(85)
Net income	\$ 6,989	\$ 11,521	\$ 14,083	\$ 18,888
Weighted average common shares outstanding:				
Basic	29,823	29,430	29,753	29,260
Diluted	32,374	32,235	32,334	32,025
Basic net income per common share:				
Income per common share from continuing operations	\$ 0.23	\$ 0.40	\$ 0.47	\$ 0.65
Loss per common share from discontinued operations (2)	(0.00)	(0.01)	(0.00)	(0.00)
Net income per common share	\$ 0.23	\$ 0.39	\$ 0.47	\$ 0.65
Diluted net income per common share:				
Income per common share from continuing operations	\$ 0.22	\$ 0.36	\$ 0.44	\$ 0.59
Loss per common share from discontinued operations (2)	(0.00)	(0.00)	(0.00)	(0.00)
Net income per common share	\$ 0.22	\$ 0.36	\$ 0.44	\$ 0.59
Pro forma data (1):				
Income from continuing operations before income taxes	\$ 9,654	\$ 14,065	\$ 18,143	\$ 22,166
Non-cash stock compensation expense	1,809	1,781	3,434	3,645
Acquisition-related compensation benefit	(159)	(204)	(288)	(789)
Acquisition-related non-cash stock compensation expense	289	(79)	368	721
Acquisition-related contingent consideration liability	45	(4,553)	(1,025)	(4,553)
Amortization of intangible assets	254	591	553	1,204
Pro forma income before income taxes	11,892	11,601	21,185	22,394
Pro forma income tax expense	2,973	2,900	5,296	5,599
Pro forma net income	\$ 8,919	\$ 8,701	\$ 15,889	\$ 16,795
Pro forma basic net income per common share	\$ 0.30	\$ 0.30	\$ 0.53	\$ 0.57
Weighted average common shares outstanding	29,823	29,430	29,753	29,260
Pro forma diluted net income per common share	\$ 0.28	\$ 0.27	\$ 0.49	\$ 0.52
Weighted average common and common equivalent shares outstanding	32,374	32,235	32,334	32,025

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

The Hackett Group, Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

(unaudited)

	June 28, 2019	December 28, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 16,682	\$ 13,808
Accounts receivable and unbilled revenue, net	54,547	54,807
Prepaid expenses and other current assets	4,086	4,339
Assets related to discontinued operations (3)	-	137
Total current assets	75,315	73,091
Restricted cash		
Property and equipment, net	21,112	19,750
Other assets	3,116	3,704
Goodwill, net	84,213	84,207
Operating lease right-of-use assets	7,613	-
Total assets	<u>\$ 191,369</u>	<u>\$ 180,752</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 6,767	\$ 7,429
Accrued expenses and other liabilities	33,114	34,498
Operating lease liabilities	2,376	-
Liabilities related to discontinued operations (3)	31	2,300
Total current liabilities	42,288	44,227
Long-term deferred tax liability, net	8,143	6,435
Long-term debt	4,500	6,500
Operating lease liabilities	5,237	-
Total liabilities	60,168	57,162
Shareholders' equity	131,201	123,590
Total liabilities and shareholders' equity	<u>\$ 191,369</u>	<u>\$ 180,752</u>

(3) 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		
	June 28, 2019	June 29, 2018	March 29, 2019
Revenue Breakdown by Group:			
<i>(in thousands)</i>			
Global S&BT (4)	\$ 35,718	\$ 37,816	\$ 33,270
EEA (5)	32,258	30,890	29,100
Net revenue from continuing operations (6)	<u>\$ 67,976</u>	<u>\$ 68,706</u>	<u>\$ 62,370</u>
Revenue Concentration:			
<i>(% of total revenue)</i>			
Top customer	4%	6%	5%
Top 5 customers	16%	18%	18%
Top 10 customers	25%	25%	26%
Key Metrics and Other Financial Data:			
Total Company:			
Consultant headcount (7)	999	1,020	979
Total headcount (7)	1,240	1,268	1,222
Days sales outstanding (DSO) (7)	68	69	76
Cash provided by (used in) operating activities <i>(in thousands)</i>	\$ 11,273	\$ (2,368)	\$ 6,759
Pro forma return on equity (8)	26%	31%	27%
Depreciation <i>(in thousands)</i>	\$ 830	\$ 624	\$ 606
Amortization <i>(in thousands)</i>	\$ 255	\$ 591	\$ 299
Remaining Plan authorization:			
Shares purchased <i>(in thousands)</i>	92	-	101
Cost of shares repurchased <i>(in thousands)</i>	\$ 1,440	\$ —	\$ 1,616
Average price per share of shares purchased	\$ 15.59	\$ —	\$ 15.99
Remaining Plan authorization <i>(in thousands)</i>	\$ 3,878	\$ 7,174	\$ 5,318
Shares Purchased to Satisfy Employee Net Vesting Obligations:			
Shares purchased <i>(in thousands)</i>	1	11	123
Cost of shares purchased <i>(in thousands)</i>	\$ 14	\$ 182	\$ 2,370
Average price per share of shares purchased	\$ 16.39	\$ 16.22	\$ 19.24

(4) Strategy and Business Transformation Group (S&BT) includes the results of our IP as-a-service offerings, which includes our Executive Advisory Programs and our Benchmarking Services, our Business Transformation Practices and the international portion of our EPM revenue.

(5) ERP, EPM and Analytics Solutions (EEA) includes the results of our Oracle EEA and SAP Solutions Practices.

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

(7) Prior periods have been restated to exclude the discontinuance of the Company's European Working Capital Group.

(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.