

The Hackett Group, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Quarter Ended		Nine Months Ended	
	September 27, 2019	September 28, 2018	September 27, 2019	September 28, 2018
Revenue:				
Revenue before reimbursements ("net revenue")	\$ 66,755	\$ 68,183	\$ 197,101	\$ 202,928
Reimbursements	5,935	5,535	16,265	16,424
Total revenue from continuing operations	72,690	73,718	213,366	219,352
Costs and expenses:				
Cost of service:				
Personnel costs before reimbursable expenses	41,026	40,883	120,780	123,635
Non-cash stock compensation expense	833	915	2,775	2,915
Acquisition-related compensation expense (benefit)	157	240	(131)	(549)
Acquisition-related non-cash stock compensation expense	322	731	690	1,452
Reimbursable expenses	5,935	5,535	16,265	16,424
Total cost of service	48,273	48,304	140,379	143,877
Selling, general and administrative costs	14,117	14,922	43,318	44,164
Non-cash stock compensation expense	776	850	2,268	2,495
Amortization of intangible assets	236	585	789	1,789
Change in acquisition-related contingent consideration liability	(108)	803	(1,133)	(3,750)
Total selling, general, and administrative expenses	15,021	17,160	45,242	44,698
Total costs and operating expenses	63,294	65,464	185,621	188,575
Income from operations	9,396	8,254	27,745	30,777
Other expense:				
Interest expense	(62)	(158)	(268)	(515)
Income from continuing operations before income taxes	9,334	8,096	27,477	30,262
Income tax expense	2,427	2,425	6,481	5,618
Income from continuing operations	6,907	5,671	20,996	24,644
Income (loss) from discontinued operations (2)	2	(514)	(4)	(599)
Net income	\$ 6,909	\$ 5,157	\$ 20,992	\$ 24,045
Weighted average common shares outstanding:				
Basic	29,876	29,478	29,794	29,332
Diluted	32,571	32,593	32,413	32,214
Basic net income per common share:				
Income per common share from continuing operations	\$ 0.23	\$ 0.19	\$ 0.70	\$ 0.84
Income (loss) per common share from discontinued operations (2)	0.00	(0.02)	(0.00)	(0.02)
Basic net income per common share	\$ 0.23	\$ 0.17	\$ 0.70	\$ 0.82
Diluted net income per common share:				
Income per common share from continuing operations	\$ 0.21	\$ 0.18	\$ 0.65	\$ 0.77
Income (loss) per common share from discontinued operations (2)	0.00	(0.02)	(0.00)	(0.02)
Diluted net income per common share	\$ 0.21	\$ 0.16	\$ 0.65	\$ 0.75
Pro forma data (1):				
Income from continuing operations before income taxes	\$ 9,334	\$ 8,096	\$ 27,477	\$ 30,262
Non-cash stock compensation expense	1,609	1,765	5,043	5,410
Acquisition-related compensation expense (benefit)	157	240	(131)	(549)
Acquisition-related non-cash stock compensation expense	322	731	690	1,452
Change in acquisition-related contingent consideration liability	(108)	803	(1,133)	(3,750)
Acquisition-related costs	32	—	32	—
Amortization of intangible assets	236	585	789	1,789
Pro forma income before income taxes	11,582	12,220	32,767	34,614
Pro forma income tax expense	2,896	3,055	8,192	8,654
Pro forma net income	\$ 8,687	\$ 9,165	\$ 24,575	\$ 25,961
Pro forma basic net income per common share	\$ 0.29	\$ 0.31	\$ 0.82	\$ 0.89
Weighted average common shares outstanding	29,876	29,478	29,794	29,332
Pro forma diluted net income per common share	\$ 0.27	\$ 0.28	\$ 0.76	\$ 0.81
Weighted average common and common equivalent shares outstanding	32,571	32,593	32,413	32,214

(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)

	September 27, 2019	December 28, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 16,423	\$ 13,808
Accounts receivable and contract assets, net	57,890	54,807
Prepaid expenses and other current assets	3,664	4,339
Assets related to discontinued operations (3)	-	137
Total current assets	<u>77,977</u>	<u>73,091</u>
Property and equipment, net	21,080	19,750
Other assets	2,801	3,704
Goodwill, net	83,782	84,207
Operating lease right-of-use assets	8,293	-
Total assets	<u>\$ 193,933</u>	<u>\$ 180,752</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 5,217	\$ 7,429
Accrued expenses and other liabilities	31,450	34,498
Operating lease liabilities	2,678	-
Liabilities related to discontinued operations (3)	22	2,300
Total current liabilities	<u>39,367</u>	<u>44,227</u>
Long-term deferred tax liability, net	7,704	6,435
Long-term debt	2,500	6,500
Operating lease liabilities	5,615	-
Total liabilities	<u>55,186</u>	<u>57,162</u>
Shareholders' equity	138,747	123,590
Total liabilities and shareholders' equity	<u>\$ 193,933</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		
	September 27, 2019	September 28, 2018	June 28, 2019
Revenue Breakdown by Group:			
<i>(in thousands)</i>			
S&BT (4)	\$ 27,435	\$ 26,014	\$ 26,549
EEA (5)	30,920	29,971	30,717
International (6)	8,400	12,198	10,710
Net revenue from continuing operations (7)	<u>\$ 66,755</u>	<u>\$ 68,183</u>	<u>\$ 67,976</u>

Revenue Concentration:*(% of total revenue)*

Top customer	6%	7%	4%
Top 5 customers	19%	19%	16%
Top 10 customers	27%	26%	25%

Key Metrics and Other Financial Data:**Total Company:**

Consultant headcount (8)	1,029	1,027	999
Total headcount (8)	1,268	1,271	1,240
Days sales outstanding (DSO) (8)	72	70	68
Cash provided by operating activities <i>(in thousands)</i>	\$ 8,506	\$ 9,521	\$ 11,273
Pro forma return on equity (9)	25%	30%	26%
Depreciation <i>(in thousands)</i>	\$ 884	\$ 652	\$ 830
Amortization <i>(in thousands)</i>	\$ 236	\$ 585	\$ 255

Remaining Plan authorization:

Shares purchased <i>(in thousands)</i>	-	-	92
Cost of shares repurchased <i>(in thousands)</i>	\$ —	\$ —	\$ 1,440
Average price per share of shares purchased	\$ —	\$ —	\$ 15.59
Remaining Plan authorization <i>(in thousands)</i>	\$ 3,878	\$ 7,174	\$ 3,878

Shares Purchased to Satisfy Employee Net Vesting Obligations:

Shares purchased <i>(in thousands)</i>	5	8	1
Cost of shares purchased <i>(in thousands)</i>	\$ 88	\$ 118	\$ 14
Average price per share of shares purchased	\$ 16.29	\$ 15.77	\$ 16.39

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

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

(6) International Groups include the results of our S&BT and EEA Practices, primarily in Europe.

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

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

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

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