

The Hackett Group, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Quarter Ended		Twelve Months Ended	
	December 27, 2019	December 28, 2018	December 27, 2019	December 28, 2018
Revenue:				
Revenue before reimbursements ("net revenue")	\$ 63,736	\$ 61,595	\$ 260,837	\$ 264,523
Reimbursements	5,370	4,940	21,635	21,364
Total revenue from continuing operations	69,106	66,535	282,472	285,887
Costs and expenses:				
Cost of service:				
Personnel costs before reimbursable expenses	38,610	35,979	159,390	159,614
Non-cash stock compensation expense	1,056	900	3,831	3,815
Acquisition-related compensation expense (benefit)	-	14	(131)	(535)
Acquisition-related non-cash stock compensation expense	264	575	954	2,027
Reimbursable expenses	5,370	4,940	21,635	21,364
Total cost of service	45,300	42,408	185,679	186,285
Selling, general and administrative costs	14,789	14,352	58,107	58,516
Non-cash stock compensation expense	663	743	2,931	3,238
Amortization of intangible assets	247	580	1,036	2,369
Change in acquisition-related contingent consideration liability	-	(614)	(1,133)	(4,364)
Asset impairment	1,180	6,269	1,180	6,269
Restructuring costs	3,334	—	3,334	—
Total selling, general, and administrative expenses	20,213	21,330	65,455	66,028
Total costs and operating expenses	65,513	63,738	251,134	252,313
Income from operations	3,593	2,797	31,338	33,574
Other expense:				
Interest expense	(43)	(123)	(311)	(638)
Income from continuing operations before income taxes	3,550	2,674	31,027	32,936
Income tax expense (benefit)	1,263	(41)	7,744	5,577
Income from continuing operations	2,287	2,715	23,283	27,359
Income (loss) from discontinued operations (2)	(2)	(2,851)	(6)	(3,450)
Net income (loss)	\$ 2,285	\$ (136)	\$ 23,277	\$ 23,909
Weighted average common shares outstanding:				
Basic	29,837	29,517	29,805	29,379
Diluted	32,573	32,677	32,453	32,330
Basic net income per common share:				
Income per common share from continuing operations	\$ 0.08	\$ 0.09	\$ 0.78	\$ 0.93
Income (loss) per common share from discontinued operations (2)	(0.00)	(0.09)	(0.00)	(0.12)
Basic net income per common share	\$ 0.08	\$ (0.00)	\$ 0.78	\$ 0.81
Diluted net income per common share:				
Income per common share from continuing operations	\$ 0.07	\$ 0.08	\$ 0.72	\$ 0.85
Income (loss) per common share from discontinued operations (2)	(0.00)	(0.08)	(0.00)	(0.11)
Diluted net income per common share	\$ 0.07	\$ (0.00)	\$ 0.72	\$ 0.74
Pro forma data (1):				
Income from continuing operations before income taxes	\$ 3,550	\$ 2,674	\$ 31,027	\$ 32,936
Non-cash stock compensation expense	1,719	1,643	6,762	7,053
Acquisition-related compensation expense (benefit)	—	14	(131)	(535)
Acquisition-related non-cash stock compensation expense	264	575	954	2,027
Change in acquisition-related contingent consideration liability	—	(614)	(1,133)	(4,364)
Asset impairment	1,180	6,269	1,180	6,269
Restructuring costs	3,334	—	3,334	—
Acquisition-related costs	—	—	32	—
Amortization of intangible assets	247	580	1,036	2,369
Pro forma income before income taxes	10,294	11,141	43,061	45,755
Pro forma income tax expense	2,574	2,785	10,765	11,439
Pro forma net income	\$ 7,721	\$ 8,356	\$ 32,296	\$ 34,316
Pro forma basic net income per common share	\$ 0.26	\$ 0.28	\$ 1.08	\$ 1.17
Weighted average common shares outstanding	29,837	29,517	29,805	29,379
Pro forma diluted net income per common share	\$ 0.24	\$ 0.26	\$ 1.00	\$ 1.06
Weighted average common and common equivalent shares outstanding	32,573	32,677	32,453	32,330

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

	December 27, 2019	December 28, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 25,954	\$ 13,808
Accounts receivable and contract assets, net	49,778	54,807
Prepaid expenses and other current assets	2,895	4,339
Assets related to discontinued operations (3)	-	137
Total current assets	<u>78,627</u>	<u>73,091</u>
Property and equipment, net	19,916	19,750
Other assets	2,652	3,704
Goodwill, net	84,578	84,207
Operating lease right-of-use assets	7,962	-
Total assets	<u>\$ 193,735</u>	<u>\$ 180,752</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 8,494	\$ 7,429
Accrued expenses and other liabilities	32,482	34,498
Operating lease liabilities	2,707	-
Liabilities related to discontinued operations (3)	-	2,300
Total current liabilities	<u>43,683</u>	<u>44,227</u>
Long-term deferred tax liability, net	7,183	6,435
Long-term debt	-	6,500
Operating lease liabilities	5,255	-
Total liabilities	<u>56,121</u>	<u>57,162</u>
Shareholders' equity	137,614	123,590
Total liabilities and shareholders' equity	<u>\$ 193,735</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		
	December 27, 2019	December 28, 2018	September 27, 2019
Revenue Breakdown by Group:			
<i>(in thousands)</i>			
S&BT (4)	\$ 25,875	\$ 24,690	\$ 27,435
EEA (5)	30,454	27,350	30,920
International (6)	7,407	9,555	8,400
Net revenue from continuing operations (7)	<u>\$ 63,736</u>	<u>\$ 61,595</u>	<u>\$ 66,755</u>

Revenue Concentration:			
<i>(% of total revenue)</i>			
Top customer	5%	4%	6%
Top 5 customers	14%	16%	19%
Top 10 customers	22%	24%	27%

Key Metrics and Other Financial Data:

Total Company:			
Consultant headcount (8)	990	984	1,036
Total headcount (8)	1,209	1,226	1,271
Days sales outstanding (DSO) (8)	66	75	72
Cash provided by operating activities <i>(in thousands)</i>	\$ 15,821	\$ 8,056	\$ 8,506
Pro forma return on equity (9)	25%	30%	25%
Depreciation <i>(in thousands)</i>	\$ 887	\$ 609	\$ 884
Amortization <i>(in thousands)</i>	\$ 247	\$ 580	\$ 236

Remaining Plan authorization:			
Shares purchased <i>(in thousands)</i>	145	15	-
Cost of shares repurchased <i>(in thousands)</i>	\$ 2,227	\$ 240	\$ —
Average price per share of shares purchased	\$ 15.33	\$ 16.01	\$ —
Remaining Plan authorization <i>(in thousands)</i>	\$ 1,651	\$ 6,934	\$ 3,878

Shares Purchased to Satisfy Employee Net Vesting Obligations:			
Shares purchased <i>(in thousands)</i>	3	14	5
Cost of shares purchased <i>(in thousands)</i>	\$ 49	\$ 274	\$ 88
Average price per share of shares purchased	\$ 16.20	\$ 19.74	\$ 16.29

(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.