

The Hackett Group, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Quarter Ended		Six Months Ended	
	June 26, 2020	June 28, 2019	June 26, 2020	June 28, 2019
REVENUE:				
Revenue before reimbursements ("net revenue")	\$ 52,632	\$ 67,976	\$ 117,818	\$ 130,346
Reimbursements	119	5,545	4,466	10,330
TOTAL REVENUE FROM CONTINUING OPERATIONS	52,751	73,521	122,284	140,676
COSTS AND EXPENSES:				
Cost of service:				
Personnel costs before reimbursable expenses	38,654	40,820	79,767	79,754
Non-cash stock compensation expense	1,600	1,022	2,941	1,942
Acquisition-related compensation expense (benefit)	29	(159)	29	(288)
Acquisition-related non-cash stock compensation expense	259	289	512	368
Reimbursable expenses	119	5,545	4,466	10,330
TOTAL COST OF SERVICE	40,661	47,517	87,715	92,106
Selling, general and administrative costs	11,413	15,159	25,310	29,201
Non-cash stock compensation expense	483	787	1,119	1,492
Amortization of intangible assets	238	254	476	553
Acquisition-related contingent consideration liability	-	45	-	(1,025)
Restructuring costs	5,034	-	5,034	-
TOTAL SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	17,168	16,245	31,939	30,221
TOTAL COSTS AND OPERATING EXPENSES	57,829	63,762	119,654	122,327
INCOME (LOSS) FROM OPERATIONS	(5,078)	9,759	2,630	18,349
Other expense:				
Interest expense	(41)	(105)	(78)	(206)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(5,119)	9,654	2,552	18,143
Income tax (benefit) expense	(1,186)	2,614	950	4,054
INCOME (LOSS) FROM CONTINUING OPERATIONS	(3,933)	7,040	1,602	14,089
Loss from discontinued operations (2)	-	(51)	(8)	(6)
NET INCOME (LOSS)	\$ (3,933)	\$ 6,989	\$ 1,594	\$ 14,083
Basic net income (loss) per common share:				
Income (loss) per common share from continuing operations	\$ (0.13)	\$ 0.23	\$ 0.05	\$ 0.47
Weighted average common shares outstanding	30,015	29,823	29,952	29,753
Diluted net income (loss) per common share:				
Income (loss) per common share from continuing operations	\$ (0.13)	\$ 0.22	\$ 0.05	\$ 0.44
Weighted average common and common equivalent share outstanding (3)	30,015	32,374	32,301	32,334
PRO FORMA DATA (1):				
Income (loss) from continuing operations before income taxes	\$ (5,119)	\$ 9,654	\$ 2,552	\$ 18,143
Non-cash stock compensation expense	2,083	1,809	4,060	3,434
Acquisition-related compensation expense (benefit)	29	(159)	29	(288)
Acquisition-related non-cash stock compensation expense	259	289	512	368
Acquisition-related contingent consideration liability	-	45	-	(1,025)
Restructuring costs	5,034	-	5,034	-
Amortization of intangible assets	238	254	476	553
PRO FORMA INCOME BEFORE INCOME TAXES	2,524	11,892	12,663	21,185
Pro forma income tax expense	631	2,973	3,166	5,296
PRO FORMA NET INCOME	\$ 1,893	\$ 8,919	\$ 9,497	\$ 15,889
Pro forma basic net income per common share	\$ 0.06	\$ 0.30	\$ 0.32	\$ 0.53
Weighted average common shares outstanding	30,015	29,823	29,952	29,753
Pro forma diluted net income per common share	\$ 0.06	\$ 0.28	\$ 0.29	\$ 0.49
Weighted average common and common equivalent shares outstanding (3)	30,015	32,374	32,301	32,334

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

(3) For the period in which the Company has reported a net loss, diluted net loss per share attributable to common stockholders is the same as basic net loss per share attributable to common stockholders, because dilutive common shares are not assumed to have been issued if their effect is anti-dilutive.

The Hackett Group, Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

(unaudited)

	June 26, 2020	December 27, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 37,370	\$ 25,954
Accounts receivable and unbilled revenue, net	36,962	49,778
Prepaid expenses and other current assets	3,719	2,895
Total current assets	78,051	78,627
Property and equipment, net	19,724	19,916
Other assets	2,052	2,652
Goodwill	83,880	84,578
Operating lease right-of-use assets	8,753	7,962
Total assets	<u>\$ 192,460</u>	<u>\$ 193,735</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 4,739	\$ 8,494
Accrued expenses and other liabilities	34,810	32,482
Operating lease liabilities	2,701	2,707
Total current liabilities	42,250	43,683
Long-term deferred tax liability, net	7,577	7,183
Operating lease liabilities	6,052	5,255
Total liabilities	55,879	56,121
Shareholders' equity	136,581	137,614
Total liabilities and shareholders' equity	<u>\$ 192,460</u>	<u>\$ 193,735</u>

The Hackett Group, Inc.

SUPPLEMENTAL FINANCIAL DATA

(unaudited)

	Quarter Ended		
	June 26, 2020	June 28, 2019	March 27, 2020
Revenue Breakdown by Group:			
<i>(in thousands)</i>			
S&BT (4)	\$ 16,798	\$ 26,261	\$ 24,462
EEA (5)	31,399	31,005	33,223
International (6)	4,435	10,710	7,500
Net revenue from continuing operations (7)	<u>\$ 52,632</u>	<u>\$ 67,976</u>	<u>\$ 65,186</u>

Revenue Concentration:*(% of total revenue)*

Top customer	6%	4%	4%
Top 5 customers	17%	16%	15%
Top 10 customers	27%	25%	25%

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

Consultant headcount	908	999	1,026
Total headcount	1,110	1,240	1,243
Days sales outstanding (DSO)	64	68	70
Cash provided by operating activities (in thousands)	\$ 14,547	\$ 11,273	\$ 6,521
Pro forma return on equity (8)	20%	26%	24%
Depreciation (in thousands)	\$ 883	\$ 830	\$ 800
Amortization (in thousands)	\$ 238	\$ 254	\$ 238

Remaining Plan authorization:

Shares purchased (in thousands)	-	92	73
Cost of shares repurchased (in thousands)	\$ —	\$ 1,440	\$ 1,006
Average price per share of shares purchased	\$ —	\$ 15.59	\$ 13.79
Remaining Plan authorization (in thousands)	\$ 5,645	\$ 3,878	\$ 5,645

Shares Purchased to Satisfy Employee Net Vesting Obligations:

Shares purchased (in thousands)	2	1	125
Cost of shares purchased (in thousands)	\$ 25	\$ 14	\$ 1,962
Average price per share of shares purchased	\$ 13.29	\$ 16.39	\$ 15.70

(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) 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.