

The Hackett Group, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Quarter Ended		Nine Months Ended	
	September 25, 2020	September 27, 2019	September 25, 2020	September 27, 2019
Revenue:				
Revenue before reimbursements ("net revenue")	\$ 57,769	\$ 66,755	\$ 175,587	\$ 197,101
Reimbursements	148	5,935	4,614	16,265
TOTAL REVENUE FROM CONTINUING OPERATIONS	57,917	72,690	180,201	213,366
Costs and expenses:				
Cost of service:				
Personnel costs before reimbursable expenses	37,791	41,026	117,558	120,780
Non-cash stock compensation expense	1,508	833	4,449	2,775
Acquisition-related compensation expense (benefit)	10	157	39	(131)
Acquisition-related non-cash stock compensation expense	243	322	755	690
Reimbursable expenses	148	5,935	4,614	16,265
TOTAL COST OF SERVICE	39,700	48,273	127,415	140,379
Selling, general and administrative costs	12,732	14,117	38,042	43,318
Non-cash stock compensation expense	711	776	1,830	2,268
Amortization of intangible assets	247	236	723	789
Acquisition-related contingent consideration liability	-	(108)	-	(1,133)
Restructuring costs	-	-	5,034	-
TOTAL SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	13,690	15,021	45,629	45,242
TOTAL COSTS AND OPERATING EXPENSES	53,390	63,294	173,044	185,621
INCOME FROM OPERATIONS	4,527	9,396	7,157	27,745
Other expense:				
Interest expense	(22)	(62)	(100)	(268)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	4,505	9,334	7,057	27,477
Income tax expense	1,362	2,427	2,312	6,481
INCOME FROM CONTINUING OPERATIONS	3,143	6,907	4,745	20,996
(Loss) income from discontinued operations (2)	(157)	2	(165)	(4)
NET INCOME	\$ 2,986	\$ 6,909	\$ 4,580	\$ 20,992
Weighted average common shares outstanding:				
Basic	30,053	29,876	29,986	29,794
Diluted	32,403	32,571	32,335	32,413
Basic net income per common share:				
Income per common share from continuing operations	\$ 0.11	\$ 0.23	\$ 0.16	\$ 0.70
(Loss) income per common share from discontinued operations (2)	(0.01)	0.00	(0.01)	(0.00)
Net income per common share	\$ 0.10	\$ 0.23	\$ 0.15	\$ 0.70
Diluted net income per common share:				
Income per common share from continuing operations	\$ 0.10	\$ 0.21	\$ 0.15	\$ 0.65
(Loss) income per common share from discontinued operations (2)	(0.01)	0.00	(0.01)	(0.00)
Net income per common share	\$ 0.09	\$ 0.21	\$ 0.14	\$ 0.65
PRO FORMA DATA (1):				
Income from continuing operations before income taxes	\$ 4,505	\$ 9,334	\$ 7,057	\$ 27,477
Non-cash stock compensation expense	2,219	1,609	6,279	5,043
Acquisition-related compensation expense (benefit)	10	157	39	(131)
Acquisition-related non-cash stock compensation expense	243	322	755	690
Acquisition-related contingent consideration liability	-	(108)	-	(1,133)
Acquisition-related costs	-	32	-	32
Restructuring costs	-	-	5,034	-
Amortization of intangible assets	247	236	723	789
PRO FORMA INCOME BEFORE INCOME TAXES	7,224	11,582	19,887	32,767
Pro forma income tax expense	1,806	2,896	4,972	8,192
PRO FORMA NET INCOME	\$ 5,418	\$ 8,687	\$ 14,915	\$ 24,575
Pro forma basic net income per common share	\$ 0.18	\$ 0.29	\$ 0.50	\$ 0.82
Weighted average common shares outstanding	30,053	29,876	29,986	29,794
Pro forma diluted net income per common share	\$ 0.17	\$ 0.27	\$ 0.46	\$ 0.76
Weighted average common and common equivalent shares outstanding	32,403	32,571	32,335	32,413

(1) The Company provides pro forma earnings results (which exclude the amortization of intangible assets, non-cash 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 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.

The Hackett Group, Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)
(unaudited)

	September 25, 2020	December 27, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 43,167	\$ 25,954
Accounts receivable and contract assets, net	36,221	49,778
Prepaid expenses and other current assets	3,350	2,895
Total current assets	82,738	78,627
Property and equipment, net	18,981	19,916
Other assets	1,847	2,652
Goodwill	84,288	84,578
Operating lease right-of-use assets	8,273	7,962
Total assets	<u>\$ 196,127</u>	<u>\$ 193,735</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 5,045	\$ 8,494
Accrued expenses and other liabilities	37,238	32,482
Operating lease liabilities	2,678	2,707
Liabilities related to discontinued operations (3)	157	-
Total current liabilities	45,118	43,683
Long-term deferred tax liability, net	6,767	7,183
Operating lease liabilities	5,595	5,255
Total liabilities	57,480	56,121
Shareholders' equity	138,647	137,614
Total liabilities and shareholders' equity	<u>\$ 196,127</u>	<u>\$ 193,735</u>

(3) 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 25, 2020	September 27, 2019	June 26, 2020
Revenue Breakdown by Group:			
<i>(in thousands)</i>			
S&BT (4)	\$ 22,217	\$ 28,221	\$ 17,752
EEA (5)	29,710	30,134	30,445
International (6)	5,842	8,400	4,435
Net revenue from continuing operations (7)	<u>\$ 57,769</u>	<u>\$ 66,755</u>	<u>\$ 52,632</u>
Revenue Concentration:			
<i>(% of total revenue)</i>			
Top customer	6%	6%	6%
Top 5 customers	16%	19%	17%
Top 10 customers	26%	27%	27%
Key Metrics and Other Financial Data:			
Total Company:			
Consultant headcount	923	1,036	908
Total headcount	1,124	1,271	1,110
Days sales outstanding (DSO)	57	72	64
Cash provided by operating activities (in thousands)	\$ 10,088	\$ 8,506	\$ 14,547
Depreciation (in thousands)	\$ 916	\$ 884	\$ 883
Amortization (in thousands)	\$ 247	\$ 236	\$ 238
Remaining Plan authorization:			
Shares purchased (in thousands)	75	-	-
Cost of shares repurchased (in thousands)	\$ 932	\$ —	\$ —
Average price per share of shares purchased	\$ 12.41	\$ —	\$ —
Remaining Plan authorization (in thousands)	\$ 4,713	\$ 3,878	\$ 5,645
Shares Purchased to Satisfy Employee Net Vesting Obligations:			
Shares purchased (in thousands)	8	5	2
Cost of shares purchased (in thousands)	\$ 111	\$ 88	\$ 25
Average price per share of shares purchased	\$ 14.26	\$ 16.29	\$ 13.29

(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, SAP Solutions Practices and One Stream.

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