EDGEWATER

November 2, 2016

Edgewater Reports Third Quarter 2016 Results

WAKEFIELD, Mass., Nov. 02, 2016 (GLOBE NEWSWIRE) -- Edgewater Technology, Inc. (NASDAQ:EDGW), a leading consulting firm that helps business leaders drive transformational change through its unique selection of business and technology services and specialized product-based solutions, reported financial results for the quarter ended September 30, 2016.

Third Quarter 2016 Financial Results vs. Same Year-Ago Quarter

- Total revenue was $30.8 million compared to $31.2 million;
- Service revenue was $27.0 million compared to $27.2 million;
- Gross profit was $10.6 million, or 34.5% of total revenue, compared to $11.8 million, or 37.7% of total revenue;
- Gross profit margin related to service revenue was 36.6% compared to 39.9%;
- Utilization was 72.9% compared to 71.9%;
- Net income was $43 thousand, or $0.00 per diluted share, compared to net income of $1.0 million, or $0.08 per diluted share;
- Cash flow provided by operating activities was $1.1 million compared to $3.3 million; and
- Adjusted EBITDA (a non-GAAP financial measure) was $2.0 million, or 6.5% of total revenue (see "Non-GAAP Financial Measures" below for further discussion of this non-GAAP term), compared to Adjusted EBITDA of $3.4 million, or 10.8% of total revenue.

First Nine Months of 2016 Financial Results vs. Same Year-Ago Period

- Total revenue was $96.7 million compared to $88.3 million;
- Service revenue was $83.8 million compared to $74.5 million;
- Gross profit was $34.2 million, or 35.4% of total revenue, compared to $29.8 million, or 33.8% of total revenue;
- Gross profit margin related to service revenue was 37.2% compared to 35.1%;
- Utilization was 73.7% compared to 70.7%;
- Net income was $593,000, or $0.04 per diluted share, compared to net income of $581,000, or $0.04 per diluted share;
- Cash flow provided by operating activities was $1.2 million compared to $850,000; and
- Adjusted EBITDA (a non-GAAP financial measure) was $6.8 million, or 7.0% of total revenue (see "Non-GAAP Financial Measures" below for further discussion of this non-GAAP term), compared to Adjusted EBITDA of $5.2 million, or 5.8% of total revenue.

Management Commentary

"As we previously announced, our third quarter 2016 service revenue was essentially flat on a year-over-year quarterly basis," commented Shirley Singleton, Edgewater's chairman, president and CEO. "During the second half of the third quarter, our ability to drive organic service revenue growth was hindered by channel disruption associated with a vendor push to accelerate the adoption of new cloud-based applications, a curtailment of IT spending by customers across all of our service offerings and underperformance in the United Kingdom. These events combined to cause third quarter 2016 service revenue to fall short of our anticipated service revenue guidance. While we proactively took steps to manage billable consultant headcount and reduce operating expenses, the lower than anticipated service revenue performance also negatively affected our billable consultant utilization and operating performance during the third quarter of 2016.

"The strong push from our channel partners to drive the adoption of new cloud-based applications may continue to cause near-term disruption as customers contemplate their cloud adoption strategy. Edgewater is actively marketing cloud-based services and we are pleased to see traction coming from customers deciding to embrace the cloud. We continue to close new business, we are pleased with the performance of our acquisitions, and our backlog remains stable.

"Fourth quarter service revenue is influenced by a traditional holiday season impact on available billing days. Given this, we expect service revenue for the fourth quarter of 2016 to be in the range of $26.0 million to $27.0 million resulting in expected full year service revenue in the range of $110.0 million to $111.0 million, reflecting service revenue growth of approximately 11% on a year-over-year basis."

Conference Call and Webcast Information

Edgewater has scheduled a conference call today (Wednesday, November 2, 2016) at 10:00 a.m. Eastern time to discuss its third quarter 2016 results.

Date: Wednesday, November 2, 2016
Time: 10:00 a.m. Eastern time
Dial-in number: 1-877-713-9347 / Passcode: 86873551
Webcast: http://ir.edgewater.com/

Please call the conference telephone number 5-10 minutes prior to the start time. An operator will register your name and organization.

A replay of the conference call can be accessed via Edgewater's investor relations web site at http://ir.edgewater.com/ or by dialing 1-404-537-3406 (Conference ID#: 86873551) after 1:00 p.m. Eastern time on the same day through Wednesday, November 16, 2016.

About Edgewater
Edgewater (NASDAQ:EDGW) helps business leaders drive transformational change through its unique selection of business and technology services and specialized product-based solutions.

Classic consulting disciplines (such as business advisory, process improvement, organizational change management, M&A due diligence, and domain expertise) are blended with technical services (such as digital transformation, technical roadmaps, data and analytics services, custom development, and system integration) to help organizations get the most out of their existing IT assets while creating new digital business models.

Delivering both on premise and in the cloud, Edgewater partners with Oracle and Microsoft to offer Business Analytics, BI, ERP, and CRM solutions. Edgewater Ranzal, an Oracle Platinum Consulting Partner, provides Business Analytics solutions leveraging Oracle EPM, BI, and Big Data technologies. As an award-winning Microsoft partner, Edgewater Fullscope delivers Dynamics AX ERP, Business Intelligence, and CRM solutions, with a specialty in manufacturing.

Forward-Looking Statements

This Press Release contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements concerning our expected fourth quarter 2016 and full year 2016 service revenue, the near-term disruption caused by our channel partners driving the adoption of new cloud-based applications, the success of our marketing of cloud-based services, the performance of our 2015 acquisitions, the stability of our backlog and our ability to convert our backlog into service revenue. These forward-looking statements inherently involve certain risks and uncertainties, although they are based on our current plans or assessments which are believed to be reasonable as of the date of this Press Release. Factors that may cause actual results, goals, targets or objectives to differ materially from those contemplated, projected, forecasted, estimated, anticipated, planned or budgeted in such forward-looking statements include, among others, the following possibilities: (1) failure to obtain new customers or retain significant existing customers; (2) the loss of one or more key executives and/or employees; (3) changes in industry trends, such as a decline in the demand for Enterprise Resource Planning and Enterprise Performance Management solutions, custom development and system integration services and/or declines in industry-wide information technology spending, whether on a temporary or permanent basis and/or delays by customers in initiating new projects or existing project milestones; (4) inability to execute upon growth objectives; (5) adverse developments and volatility involving geopolitical or technology market conditions; (6) unanticipated events or the occurrence of fluctuations or variability in the matters identified under "Critical Accounting Policies" in our 2015 Annual Report on Form 10-K; (7) delays in, or the failure of, our sales pipeline being converted to billable work and recorded as revenue; (8) termination by clients of their contracts with the Company or inability or unwillingness of clients to pay for the Company's services, which may impact the Company's accounting assumptions; (9) inability to recruit and retain professionals with the high level of information technology skills and experience needed to provide the Company's services; (10) failure to expand outsourcing services to generate additional revenue; (11) any changes in ownership of the Company or otherwise that would result in a limitation of the net operating loss carry forward under applicable tax laws; (12) the possibility that activist stockholders may wage proxy contests or gain representation on or control of the Board of Directors, causing disruption and/or uncertainty to the Company's business, customer relationships and employee retention; (13) the failure of the marketplace to embrace advisory and product-based consulting services; (14) difficulties and costs associated with transitioning to the cloud; (15) the inability to achieve the expected synergies from our 2015 acquisitions; and/or (16) changes in the Company's utilization levels. In evaluating these statements, you should specifically consider various factors described above as well as the risks outlined under "Part I - Item IA. Risk Factors" in our 2015 Annual Report on Form 10-K filed with the SEC on March 11, 2016. These factors may cause our actual results to differ materially from those contemplated, projected, anticipated, planned or budgeted in any such forward-looking statements.

Although the Company believes that the expectations in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance, growth, earnings per share or achievements. However, neither the Company nor any other person assumes responsibility for the accuracy and completeness of such statements. Except as required by law, the Company undertakes no obligation to update any of the forward-looking statements after the date of this Press Release to conform such statements to actual results.

EDGEWATER TECHNOLOGY, INC.
Condensed Consolidated Balance Sheets
(In Thousands)
(Unaudited)

	September 30, 2016	December 31, 2015
Assets		
Cash and cash equivalents	$ 12,147	$ 11,981
Accounts receivable, net	27,951	27,753
Prepaid expenses and other current assets	1,398	704
Total current assets	41,496	40,438
Property and equipment, net	705	824
Goodwill and intangible assets, net	39,264	41,900
Deferred tax assets, net	23,735	24,032
Other assets	236	230
Total Assets	$ 105,436	$ 107,424
Liabilities and Stockholders' Equity		
Accounts payable	$ 651	$ 586
Accrued liabilities	13,138	15,486
Short-term portion of contingent earnout consideration	6,497	7,072
Deferred revenue	1,785	2,428
Total current liabilities	22,071	25,572
Long-term debt	5,000	5,000
Long-term portion of contingent earnout consideration	939	3,468
Total liabilities	28,010	34,040
Stockholders' Equity	77,426	73,384
Total Liabilities and Stockholders' Equity	$ 105,436	$ 107,424
Shares Outstanding	12,342	11,862

EDGEWATER TECHNOLOGY, INC.
Condensed Consolidated Statement of Operations
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue:				
Service revenue	$ 27,032	$ 27,184	$ 83,811	$ 74,483
Software	2,090	2,017	7,755	8,300
Reimbursable expenses	1,704	1,983	5,182	5,506
Total revenue	30,826	31,184	96,748	88,289

Cost of revenue:				
Project and personnel costs	17,141	16,351	52,669	48,365
Software costs	1,341	1,094	4,693	4,604
Reimbursable expenses	1,704	1,983	5,182	5,506
Total cost of revenue	20,186	19,428	62,544	58,475
Gross profit	10,640	11,756	34,204	29,814
Selling, general and administrative	8,945	8,827	28,564	26,056
Direct acquisition costs	-	321	430	932
Change in contingent consideration	-	-	(928)	-
Consent solicitation expenses	-	-	108	-
Embezzlement loss recovery	-	-	-	(250)
Depreciation and amortization	1,011	372	3,019	918
Operating expenses	9,956	9,520	31,193	27,656
Operating income	684	2,236	3,011	2,158
Other expense, net	568	650	1,761	1,274
Income before income taxes	116	1,586	1,250	884
Tax provision	73	559	657	303
Net income	$ 43	$ 1,027	$ 593	$ 581
BASIC EARNINGS PER SHARE:				
Basic earnings per share	$ 0.00	$ 0.09	$ 0.05	$ 0.05
Weighted average shares outstanding — Basic	12,253	11,568	12,057	11,463
DILUTED EARNINGS PER SHARE:				
Diluted earnings per share	$ 0.00	$ 0.08	$ 0.04	$ 0.04
Weighted average shares outstanding — Diluted	14,090	13,275	14,080	13,272

EDGEWATER TECHNOLOGY, INC.
Condensed Consolidated Statements of Cash Flows
(In Thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	**2015**	**2016**	**2015**
Cash flow provided by (used in):				
Operating activities	$ 1,100	$ 3,324	$ 1,178	$ 850
Investing activities	(104)	(2,815)	(420)	(7,700)
Financing activities	411	73	(635)	906
Effect of exchange rates on cash	3	(2)	43	(24)
Net increase (decrease) in cash and cash equivalents	$ 1,410	$ 580	$ 166	$ (5,968)

Non-GAAP Financial Measures

Edgewater reports its financial results in accordance with generally accepted accounting principles ("GAAP"). Management believes, however, that certain non-GAAP financial measures used in managing the Company's business may provide users of this financial information with additional meaningful comparisons between current results and prior reported results. Certain of the information set forth herein and certain of the information presented by the Company from time to time may constitute non-GAAP financial measures within the meaning of Regulation G adopted by the Securities and Exchange Commission. We have presented herein a reconciliation of these measures to the most directly comparable GAAP financial measure. The non-GAAP measures presented herein may not be comparable to similarly titled measures presented by other companies. As noted below, the foregoing measures have limitations and do not serve as a substitute and should not be construed as a substitute for GAAP performance, but provide supplemental information concerning our performance that our investors and we find useful.

Edgewater views Adjusted EBITDA and Adjusted EBITDA as a Percentage of Total Revenue as important indicators of performance, consistent with the manner in which management measures and forecasts the Company's performance. We believe Adjusted EBITDA measures are important performance metrics because they facilitate the analysis of our results, exclusive of certain non-cash items, including items which do not directly correlate to our business operations.

The non-GAAP adjustments, and the basis for excluding them, are outlined below:

Income tax provision. The exit of our former significant unrelated operations in 2000 and 2001 created significant net operating loss carry-forwards and deferred tax assets, and the tax provisions that we take under GAAP, for which there is no corresponding federal tax payment obligation for us, and the adjustments that we make to our deferred tax asset, based on the prospects and anticipated future profitability of our ongoing operations, can be significant and can obscure, either significantly, or in part, period-to-period changes in our core operating results.

Depreciation and amortization. We incur expense associated with the amortization of intangible assets that is primarily related to the various acquisitions we have completed. We believe that eliminating this expense from our non-GAAP financial measures is useful to investors because the amortization of intangible assets can be inconsistent in amount and frequency, and is significantly impacted by the timing and magnitude of the individual acquisition transactions, which also vary substantially in frequency from period-to-period.

Stock-based compensation expense. We incur stock-based compensation expense under Financial Accounting Standards Board Accounting Standards Codification Topic 718, "*Compensation — Stock Compensation*." We exclude this non-cash expense as we do not believe it is reflective of business performance. The nature of stock-based compensation expense also makes it very difficult to estimate prospectively, since the expense will vary with changes in the stock price and market conditions at the time of new grants, varying valuation methodologies, subjective assumptions and different award types, making the comparison of current results with forward-looking guidance potentially difficult for investors to interpret. Edgewater believes that non-GAAP financial measures of profitability, which exclude stock-based compensation, are widely used by analysts and investors.

Adjustments to contingent consideration earned, at fair value. We are required to remeasure the fair value of our contingent consideration liability related to acquisitions each reporting period until the contingency is settled. Any changes in fair value are recognized as a current period operating expense. The Company believes that excluding these adjustments from its non-GAAP financial measures is useful to investors because they are related to acquisition events and make it difficult to evaluate core operating results.

Direct acquisition costs. We incur direct transaction costs related to acquisitions which are expensed in our GAAP financial statements. Our non-GAAP financial measures exclude the effects of direct acquisition-related costs as we believe these transaction-specific expenses are inconsistent in amount and frequency and make it difficult to make period-to-period comparisons of our core operating results.

Consent solicitation expenses. Consent solicitation expenses are expenses incurred to respond to activities and inquiries of Lone Star Value Management, including its consent solicitation and subsequent settlement agreement. The Company has not incurred significant expenses in connection with such matters in historical periods, and these costs are not considered core operating activities. Management believes that it is appropriate to exclude these costs in order to provide investors with the ability to compare our period-over-period operating results from continuing operations.

Other expense, net. We record periodic interest and other (income) and expense amounts in connection with our cash and cash equivalents, capital lease obligations, (gains) and losses on foreign currency transactions and the recognition of the recorded discount on accrued contingent earnout consideration. Our non-GAAP financial measures exclude (income) expense associated with these items as we believe such (income) expense is inconsistent in amount and frequency and makes it difficult to make period-to-period comparisons of our core operating results.

We believe that Adjusted EBITDA metrics provide qualitative insight into our current performance; we use these measures to evaluate our results, the performance of our management team and our management's entitlement to incentive compensation; and we believe that making this information available to investors enables them to view our performance the way that we view our performance and thereby gain a meaningful understanding of our core operating results, in general, and from period to period.

EDGEWATER TECHNOLOGY, INC.
Reconciliation of GAAP Net Income to Non-GAAP Adjusted EBITDA

(In Thousands)
(Unaudited)

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2016	**2015**	**2016**	**2015**
Reported GAAP net income	$ 43	$ 1,027	$ 593	$ 581
Add: Income tax provision	73	559	657	303
Add: Depreciation and amortization	1,053	415	3,155	1,063
Add: Stock-based compensation expense	261	408	1,039	1,258
Add: Direct acquisition costs	-	321	430	932
Add: Consent solicitation expense	-	-	108	-
Add: Other expense, net	568	650	1,761	1,274
Less: Fullscope embezzlement loss recovery	-	-	-	(250)
Less: Adjustments to contingent consideration earned, at fair value	-	-	(928)	-
Adjusted EBITDA[1]	$ 1,998	$ 3,380	$ 6,815	$ 5,161
Adjusted EBITDA as a % of total revenue[1]	6.5 %	10.8 %	7.0 %	5.8 %
Total revenue	$ 30,826	$ 31,184	$ 96,748	$ 88,289

1- Adjusted EBITDA and Adjusted EBITDA as a Percentage of Total Revenue are Non-GAAP performance measures and are not intended to be performance measures that should be regarded as an alternative to, or more meaningful than, GAAP Net Income. Adjusted EBITDA measures presented may not be comparable to similarly titled measures presented by other companies. Adjusted EBITDA is defined as net income less other expense, net, plus taxes, depreciation and amortization, stock-based compensation expense, adjustments to contingent consideration earned, goodwill and intangible asset impairment charges, direct acquisition costs and consent solicitation expenses. Adjusted EBITDA as a % of Total Revenue is defined as Adjusted EBITDA divided by Total Revenue.

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