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**Ted A. Fernandez**  
Chairman and Chief Executive Officer



2010 was a strong year as we quickly re-established solid revenue growth and operating margins coming off the 2009 recession period. We are also very excited about the investment in the development of our new Hackett Performance Exchange dashboard offering that we plan to launch in the first half of 2011.



## Dear Shareholders,

Once again, I am pleased to update you on our progress over the past year. 2010 was a strong year which allowed us to re-establish revenue growth and solid operating margins coming off the 2009 recession period. I am proud that we were able to report strong year-over-year improvements on both a reported and organic basis while continuing to invest in our brand as well as in innovative ways to serve our clients.

We successfully integrated the acquisition of Archstone Consulting. We grew our Technology Solutions business by 39% and we also grew our membership, contract value and referral sales in our Executive Advisory business and expanded our presence in the Asia Pacific region. In addition, we developed a new series of performance dashboard offerings that we plan to launch in the first half of 2011.

Our strong results emanated from solid U.S. activity, servicing our advisory client base more broadly and greater than expected cross-selling synergies from the Archstone acquisition. Of special note was the performance of our Technology Solutions team, led by the performance of our SAP practice. We believe we can build on this momentum in 2011.

As we head into 2011 at a macroeconomic level, we expect to see healthy demand in the U.S, and for the first time in over two years, we expect Europe to experience improved demand in the upcoming year. Nearly all GDP growth projections have improved over the most recent quarter improving the prospects for the upcoming year. We believe that gradual economic growth improvement with expected volatility is favorable for our services.

We have always believed that if we can combine our strong global brand with a series of intellectual capital offerings, which clients use on a continuous basis, that we can improve our revenue growth as well as the predictability and profitability of our operating results. Using unique intellectual capital delivered in an easy to use way coupled with broader transformation offering would also allow us to increase our client base and also increase revenue per client.

We worked hard during 2010 to innovate new ways to make this happen. In the first half of 2011, we will introduce our new Hackett Performance Exchange, which will allow us to deliver and leverage our unique intellectual capital and best practice expertise in a new and transformative way. We have now nearly completed our beta testing of the first two fully automated dashboard offerings of our new Hackett Performance Exchange with very positive feedback. This new offering will allow us to measure, benchmark and estimate the performance improvement opportunity of critical operating processes on a monthly basis.

Expanding brand permission remains a strategic focus for us. The key here is to extend our current permission -- from being the premier global benchmarking organization to all of our capabilities including our consulting capabilities. We continue to invest in our go-to-market messaging in an effort to help our clients understand why our benchmarking, and now our dashboard and best practice insight, makes us unlike any other consulting organization. We must make sure that our clients know that we are every bit as good at helping them implement the outcome as we are at measuring and benchmarking their opportunity to improve.

Another area of focus is to be able to ascribe an increasing percentage of our total annual revenues to clients who are continuously engaged with us through our Executive Advisory programs which will now be supplemented by our new Hackett Performance Exchange dashboard offerings. Our advisory relationship allows us to maintain a continuous strategic relationship with clients which we should continue to serve more broadly.

In summary, we made great progress in 2010 as we strongly bounced back from the headwinds of the recession. We are pleased with our improved performance as well as the prospects for 2011. As I always mention, when you consider our powerful brand, our unique ability to combine our proprietary intellectual capital with our terrific talent, our strong balance sheet and ample cash balances, we are eager to see what 2011 offers.

In closing, let me thank our associates and shareholders for your ongoing commitment to our organization.

A handwritten signature in black ink, consisting of a large, stylized capital letter 'P' followed by the lowercase letters 'ed' in a cursive script.

**Ted A. Fernandez**  
Chairman and Chief Executive Officer

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE FISCAL YEAR ENDED December 31, 2010

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_  
COMMISSION FILE NUMBER 0-24343

**The Hackett Group, Inc.**

(Exact name of registrant as specified in its charter)

**FLORIDA**  
(State or other jurisdiction of  
incorporation or organization)  
**1001 Brickell Bay Drive, Suite 3000**  
**Miami, Florida**  
(Address of principal executive offices)

**65-0750100**  
(I.R.S. Employer  
Identification Number)

**33131**  
(Zip Code)

**(305) 375-8005**  
(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act:**

<u>(Title of each class)</u>	<u>(Name of each exchange on which registered)</u>
Common Stock, par value \$.001 per share	NASDAQ Stock Market

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One):

Large Accelerated Filer  Accelerated Filer

Non-accelerated Filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of the common stock held by non-affiliates of the registrant was \$77,354,059 on July 2, 2010 based on the last reported sale price of the registrant's common stock on the NASDAQ Global Market.

The number of shares of the registrant's common stock outstanding on March 7, 2011 was 41,388,838.

**DOCUMENTS INCORPORATED BY REFERENCE**

Part III of the Form 10-K incorporates by reference certain portions of the registrant's proxy statement for its 2011 Annual Meeting of Shareholders filed with the Commission not later than 120 days after the end of the fiscal year covered by this report.

**THE HACKETT GROUP, INC.**  
**FORM 10-K**  
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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report and the information incorporated by reference in it include “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We intend the forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in these sections. All statements regarding our expected financial position and operating results, our business strategy, our financing plans and forecasted demographic and economic trends relating to our industry are forward-looking statements. These statements can sometimes be identified by our use of forward-looking words such as “may,” “will,” “anticipate,” “estimate,” “expect,” or “intend” and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from the results, performance or achievements expressed or implied by the forward-looking statements. We cannot promise you that our expectations in such forward-looking statements will turn out to be correct. Factors that impact such forward-looking statements include, among others, our ability to attract additional business, the timing of projects and the potential for contract cancellation by our customers, changes in expectations regarding the business and information technology industries, our ability to attract and retain skilled employees, possible changes in collections of accounts receivable due to the bankruptcy or financial difficulties of our customers, risks of competition, price and margin trends, and changes in general economic conditions and interest rates. An additional description of our risk factors is described in Part 1 – Item 1A. “Risk Factors”. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

### PART I

#### ITEM 1. BUSINESS

##### GENERAL

On January 1, 2008, we changed our corporate name from Answerthink, Inc. (“Answerthink”) to The Hackett Group, Inc. (“Hackett”). We were originally incorporated on April 23, 1997. All prior references to Answerthink will now be reflected as Hackett as if the name change was effected for all years presented. Hackett is a global strategic advisory firm and a leader in best practice advisory, benchmarking, and transformation consulting services, including shared services, offshoring and outsourcing advice. Utilizing best practices and implementation insights from more than 5,000 benchmarking studies, executives use Hackett’s empirically based approach to quickly define and prioritize initiatives to enable world-class performance. Through its Archstone Consulting group (acquired in November 2009), Hackett offers Strategy & Operations consulting services in the Consumer and Industrial Products, Pharmaceutical, Manufacturing and Financial Services industry sectors. Through its REL group, Hackett offers working capital solutions focused on delivering significant cash flow improvements. Through its Hackett Technology Solutions group (“HTS”), Hackett offers business application consulting services that help maximize returns on information technology (“IT”) investments. Hackett has worked with more than 2,800 major corporations and government agencies, including 97% of the Dow Jones Industrials, 84% of the Fortune 100, 80% of the DAX 30 and 49% of the FTSE 100.

In this Form 10-K, unless the context otherwise requires, “Hackett,” the “Company,” “we,” “us,” and “our” refer to The Hackett Group, Inc. and its subsidiaries and predecessors.

As expected during 2010, we experienced gradual economic and client demand improvement in most markets that we serve, with the exception of Western Europe. This was a noticeable improvement from the challenging economic environment that we experienced throughout most of 2009. As we head into 2011, we expect improved economic conditions in the U.S. and for the first time in two years we expect improved demand in Europe. Global organizations will continue to recognize the need to drive sustainable cost reductions and cash flow improvements as they look to be competitive in the growing but complex global economy. Global growth opportunities require organizations to build global standards and operating excellence that many organizations have yet to address. We believe that our offerings are well aligned with the demands that all organizations will continue to experience during a period of gradual but continued global volatility. We will continue to ensure that our clients understand that our unique intellectual capital along with our expanding implementation expertise will enable them to make the necessary improvements in a targeted and timely manner.

Specifically, organizations must ensure that they have an operating platform or service delivery strategy that ensures that their underlying business processes allow them to strategically support their operations and to optimize their results in the current economic environment. To do so, organizations will have to understand and decide how best to organize, enable, source and manage their critical business processes. We believe companies will continue to place increased emphasis on risk management and tangible return on their business and technological investments. We believe large enterprises will continue to focus their performance improvement spending on strategies and tools that help them generate more value from their business investments in the form of enhanced productivity and efficiency. We also expect companies to continue to look for ways to centralize, standardize and automate business processes and to do so by leveraging educated, low-cost labor markets. In today’s environment, clients must be clearly convinced that you are uniquely qualified to help them achieve their targeted results in a timely manner.

## **OUR PROPRIETARY BEST PRACTICE IMPLEMENTATION INTELLECTUAL CAPITAL**

Hackett uses its proprietary Best Practice Implementation (“BPI”) intellectual capital to help clients improve their performance. Our benchmark offerings allow clients to empirically quantify their performance improvement opportunity at a process level. Utilizing the performance metrics and our vast repository of best practices, combined with the global strategy and implementation insight of our transformation and technology associates, Hackett has created a series of process and technology tools that allow clients to effect proven sustainable performance improvement. Our proprietary BPI intellectual capital, which is imbedded within our global delivery methodology, allows us to help clients accelerate their time to benefit.

Our BPI approach leverages our inventory of Hackett-Certified™ practices, observed through benchmark and other BPI engagements, to correlate best practices with superior performance levels. We use Hackett intellectual capital in the form of best practice process flows and software configuration guides to integrate Hackett’s empirically proven best practices directly into business processes and workflows that are enabled by enterprise software applications. The repository of best practice process flows and software configuration guides reside in the Best Practice Intelligence Center portal and are used throughout the term of a project to ensure that best practices are identified and implemented. This coordinated approach addresses people, process, information access and technology.

Because Hackett solutions are based on Hackett-Certified™ practices, we believe that clients gain significant advantages. Clients can have confidence that their solutions are based on strategies from the world’s leading companies. More importantly, Hackett solutions deliver enhanced efficiency, improved effectiveness, increased flexibility, optimized return on investment and reduced implementation risk.

The BPI approach often begins with a clear understanding of current performance, which is gained through benchmarking key processes and comparing the results to world-class levels and industry standards captured in the Hackett database. We then help clients prioritize and select the appropriate best practices to implement through a coordinated performance improvement strategy. Without a coordinated strategy that addresses the four key business drivers of people, process, technology and information, we believe companies risk losing a significant portion of business case benefits of their investments. We have designed detailed best practice process flows based on Hackett’s deep knowledge of world-class business performance which enable clients to streamline and automate key processes, and generate performance improvements quickly and efficiently at both the functional and enterprise level.

Similarly, we integrate Hackett-Certified™ practices directly into technology solutions. We believe it is imperative that companies simplify and automate processes to meet best practice standards before new technology implementations and upgrades are completed. The automation of inefficient processes only serves to continue to drive up costs, cycle times and error rates. We have completed detailed fit-gap analyses in most functional areas of major business application packages from Oracle, Hyperion and SAP to determine their ability to support best practices. Application-specific tools, implementation guides and process flows allow us to optimize the configuration of enterprise resource planning (“ERP”) software, while limiting customization. BPI’s establish the foundation for improved performance.

We believe the combination of optimized processes, a best practices-based business application and enhanced business intelligence environments allow our clients to achieve and sustain significant business performance improvement. The specific client circumstances normally dictate how they engage us. Our goal is to be responsive to client needs, and to establish a continuous and trusted relationship. We have developed a series of offerings that allow us to efficiently help the client without regard to where they are in their performance improvement lifecycle.

## **COMPETITION**

The strategic business advisory and technology consulting marketplace continues to be extremely competitive. The marketplace will remain competitive as companies continue to look for ways to improve their organizational effectiveness. Our competitors include strategic consulting firms, executive research advisory firms, international and regional management consulting and IT firms, and the IT services divisions of application software firms. Mergers and consolidations throughout our industry have resulted in higher levels of competition. We believe that the principal competitive factors in the industries in which we compete include skills and capabilities of people, innovative services and product offerings, perceived ability to add value, reputation and client references, price, scope of services, service delivery approaches, technical and industry expertise, quality of services and solutions, ability to deliver results on a timely basis, availability of appropriate resources, and global reach and scale. We believe very few of our competitors have proprietary intellectual capital similar to the performance metrics and BPI insight that emanates from our Transformational Benchmark offering.

In spite of our size relative to our competitor group, we believe our competitive position is strong. With Hackett best practice intellectual capital and its direct link to our BPI approach, we believe we can uniquely assist our clients. Our ability to apply best practices to client operations via proven techniques is at the core of our competitive standing.



Similarly, we believe that Hackett is the definitive source for best practice performance metrics and strategies. Hackett is the only organization that has conducted over 5,000 benchmark studies for over 2,800 clients, generating proprietary data sets spanning performance metrics and correlating best practices with superior performance. The combination of Hackett benchmark data, along with deep expertise and knowledge in evaluating, designing and implementing business transformation strategies, delivers a powerful and distinct value proposition for our clients.

Our culture of client collaboration leverages the power of our cross-functional and service line teams to increase revenue and strengthen relationships. We believe that this culture, along with our intellectual capital-centric approach, gives us a competitive advantage.

## STRATEGY

Our focus will be on executing the following strategies:

- ***Expand our brand or market permission to our other offerings.*** We believe that our long term growth prospects lie in our ability to extend our unique market permission to help clients measure their performance improvement opportunity, or gap analysis, using our proprietary benchmark database into our other offerings. We have started to extend our permission through the strategic relationship that results from our Executive Advisory Programs. However, our most significant growth opportunity is in our ability to extend our brand and market permission into our enterprise transformation and other best practice implementation offerings which create a significant opportunity to grow revenue per client.
- ***Continue to position and grow Hackett as an IP-centric strategic advisory organization.*** The Hackett brand is widely recognized for benchmarking metrics and best practice strategies. By building a series of highly complementary on-site and off-site offerings that allow our clients access to our Intellectual Property (“IP”) which is based on our best practice process and technology implementation insight, we are able to build trusted strategic relationships with our clients. Depending where our clients are in their assessment or implementation of performance improvement initiatives, we offer them a combination of offerings that support their efforts. If they need on-site planning, design and/or implementation support, we offer them a combination of benchmarking and transformation support. If they need off-site access to our IP and advisors to help them either assess or execute on their own, they can avail themselves of our Executive Advisory Programs. The key is for the client to know that we can support them strategically by leveraging our unique IP and insight so that we are able to build a strategic relationship which is appropriate for them. We also believe that clients that value our IP will turn to us for other services when the need arises, allowing us over time to ascribe a larger amount of our total revenue to a growing client base, which will improve the predictability of our results.
- ***Introduce New IP-centric Offerings -*** In March of 2011 we will start selling a new performance management offering called the “Hackett Performance Exchange.” This new dashboard offering will allow us to measure, benchmark and estimate the performance improvement opportunity of key operating processes on a monthly basis. This offering is expected to securely extract operating information directly from a client’s ERP system which will allow them to measure and compare their performance to Hackett peer and world class standards. Most importantly, this solution is expected to be fully automated, requiring limited client time to set up and can be viewed utilizing a laptop with secured web access. This new offering, if successful, could help enhance our business model by creating a powerful and possibly continuous relationship with a client. It could also increase key operating data that will allow us to improve the proprietary performance insight we can delivery through all of our other offerings.
- ***Continue to expand our BPI tools.*** BPI incorporates intellectual capital from Hackett into our implementation tools and techniques. For clients, the end results are tangible cost, performance gains and improved returns on their investments. Our clients attribute their decision to employ us based on our BPI approach and tools. Our objective is to help clients make smarter business process and software configuration decisions as a result of our BPI methods and knowledge. We are continuously updating our BPI content and tools through benchmarking, enterprise transformation and research activities. Additional BPI updates are also driven by new software releases that drive new innovation in business process automation.
- ***Create strategic relationships that help us leverage and expand our Hackett intellectual capital base as well as grow our revenue.*** We continue to believe that there are other organizations which can help us grow revenue and intellectual capital consistent with our strategy. Such relationships include programs that we have executed with other consulting organizations, industry trade groups and software providers.
- ***Recruit and develop talent.*** As we continue to grow and realize the potential of our business model, it has become increasingly evident that the primary limit to our progress will be our ability to attract, retain, develop and motivate associates. In the latter part of 2008, we rolled out a talent management initiative that included a new performance management program and a comprehensive personal development training curriculum. We continue to invest in associate development programs that are specifically targeted to improve our go-to-market and delivery execution.

- **Leverage our dual shore capabilities.** Developing an offshore resource capability to support all of our offerings has been a key strategy for our organization. Our facility in Hyderabad, India allows us to increase operational efficiencies while maintaining 24 hour/5 day operations.
- **Seek out strategic acquisitions.** We will continue to pursue strategic acquisitions that strengthen our ability to compete and expand our IP. We believe that our unique Hackett access and our BPI approach, coupled with our strong balance sheet and infrastructure, can be utilized to support a larger organization. We believe that acquisitions must be accretive or have strong growth prospects, but most importantly, have strong synergy with our best practice intellectual capital focus.

## OUR OFFERINGS

We offer a comprehensive range of services, including executive advisory programs, benchmarking, business transformation and technology consulting services. With strategic and functional knowledge in finance, human resources, information technology, procurement, supply chain management, corporate services, customer service, and sales and marketing, our expertise extends across the enterprise. We have completed successful engagements in a variety of industries, including automotive, consumer goods, financial services, technology, life sciences, manufacturing, media and entertainment, retail, telecommunications, transportation and utilities.

### The Hackett Group

#### • Executive Advisory Programs

On-demand access provides world-class performance metrics, peer-learning opportunities and best practice implementation advice. The scope of Hackett's advisory programs is defined by business function (Executive Advisory) and by end-to-end process coverage (Process Advisory). Our advisory programs include a mix of the following deliverables:

- **Advisor Inquiry:** Hackett's inquiry services are used by clients for quick access to fact-based advice on proven approaches and methods to increase the efficiency and effectiveness of selling, general and administrative processes ("SG&A").
- **Best Practice Research:** Empirically-based research and insight derived from Hackett benchmark, performance and transformation studies. Our research provides detailed insights into the most significant proven approaches in use at world-class organizations that yield superior business results.
- **Peer Interaction:** Regular member-led webcasts, annual Best Practice Conferences, annual Member Forums, membership performance surveys and client-submitted content, provide ongoing peer learning and networking opportunities.
- **Best Practice Intelligence Center:** Online, searchable repository of best practices, performance metrics, conference presentations and associated research available to Executive Advisory Program Members and their support teams.

#### • Benchmarking Services

Our benchmarking group dates back to 1991, and has measured and evaluated the efficiency and effectiveness of enterprise functions for over 2,800 organizations globally. This includes 97% of the Dow Jones Industrials, 84% of the Fortune 100, 80% of the DAX 30 and 49% of the FTSE 100. Ongoing studies are conducted in a wide range of areas, including SG&A, finance, human resources, information technology, procurement, enterprise performance management, shared service centers and working capital management. Hackett has identified over 1,900 best practices for over 95 processes in these key functional areas and uses proprietary performance measurement tools and data collection processes that enable companies to complete the performance measurement cycle and identify and quantify improvement opportunities in as little as four weeks. Benchmarks are used by our clients to objectively establish priorities, generate organizational consensus, align compensation to establish performance goals, and develop the required business case for business and technology investments.

#### • Business Transformation

Our Business Transformation programs help clients develop a coordinated strategy for achieving performance improvements across the enterprise. Our experienced teams utilize Hackett performance measurement data to link performance gains to industry best practices. Our strategic capabilities include operational assessments, process and organization design, change management and the effective application of technology. We combine best practices knowledge with business expertise and broad technology capabilities, which we believe enables our programs to optimize return on client investments in people, process, technology and information.

Through REL, a global leader in generating cash improvement from working capital, we offer services which are designed to help companies improve cash flow from operations through improved working capital management, reduced costs and increased service quality.

Through Archstone, we offer services which specialize in industry supply chain and procurement consulting and advisory competencies.

### **Hackett Technology Solutions (“HTS”)**

Our HTS professionals help clients choose and deploy the software applications that best meet their needs and objectives. Our expertise is focused on the following application providers: Oracle (including Oracle EPM), SAP, and several leading time and attendance providers. The group offers comprehensive services from planning, architecture, and vendor evaluation and selection through implementation, customization, testing and integration. Comprehensive fit-gap analyses of all major packages against Hackett Best Practices are utilized by our HTS teams. BPI tools and templates help integrate best practices into business and analytical applications. The group also offers post-implementation support, change management, exception management, process transparency, system documentation and end-user training, all of which are designed to enhance return on investment. We also provide offshore application development and support services. These services include post-implementation support for select business application platforms. Our HTS group also includes a division responsible for the sale and maintenance support of the SAP suite of ERP applications.

See Note 1 and Note 16 in the notes to the consolidated financial statements regarding segment reporting and geographic and service group information.

### **CLIENTS**

We focus on long-term client relationships with Global 2000 firms and other sophisticated buyers of business and IT consulting services. During 2010 and 2009, our ten most significant clients accounted for approximately 26% and 28% of revenue, respectively, and one client generated 4% and 6% of total revenue, respectively. We believe that we have achieved a high level of satisfaction across our client base. The responses to our client satisfaction surveys have been positive. We receive surveys from a significant number of our engagements which are utilized in a rigorous process to improve our delivery execution, sales processes, methodologies and training.

### **BUSINESS DEVELOPMENT AND MARKETING**

Our extensive client base and relationships with Global 2000 firms remain our most significant sources of new business. Our revenue generation strategy is formulated to ensure we are addressing multiple facets of business development. The categories below define our business development resources. Our primary goal is to continue to increase awareness of our brand which we have created around Hackett’s empirical knowledge capital and BPI in the extended enterprise that we now serve. Our Hackett and BPI message have remained the central focus of our marketing and communications programs in 2010 which helped to expand both an understanding of and demand for this approach. Similarly, we have regionalized our sales and market development efforts in both North America and Europe, so we can better coordinate the sales efforts from the various offerings. Our compensation programs for our associates reflect an emphasis on optimizing our total revenue relationship with our clients while continuing to emphasize the growth of our Executive Advisory Program clients. For our HTS groups, we have continued to utilize Hackett intellectual capital that resides in our BPI tools as a way to differentiate the relationships we have with the software providers and with our clients.

### **BUSINESS DEVELOPMENT RESOURCES**

Although virtually all of our advisors and consultants have the ability to and are expected to contribute to new revenue opportunities, our primary internal business development resources are comprised of the following:

- **The Leadership Team, Principals and Senior Directors** are comprised of our senior leaders who have a combination of executive, regional, practice and anchor account responsibilities. In addition to their management responsibilities, this group of associates is responsible for growing the business by fostering executive-level relationships within accounts and leveraging their existing contacts in the marketplace.
- **The Sales Organization** is comprised of associates who are 100% dedicated to generating sales. They are deployed geographically in key markets and are primarily focused on developing new relationships and are aligned to our core practice areas within their target accounts. They also handle opportunities in their geographic territories as they arise.
- **The Business Development Associates** are comprised of trained groups of telemarketing specialists who are conversant with their respective solution areas. Lead generation is coordinated with our marketing and sales groups to ensure that our inbound and outbound efforts are synchronized with targeted marketing and sales programs.
- **The Delivery Organization** is comprised of our billable associates who work at client locations. We encourage associates to pursue additional business development opportunities through their normal course of delivering existing projects and helping us expand our business within existing accounts.

In addition to our business development resources, we have a corporate marketing and communications organization responsible for overseeing our marketing programs, public relations and employee communications activities.

We have organized our market focus into the following categories:

- **Strategic Accounts** are comprised of large prospects and existing relationships which we believe will have a significant revenue relationship within the next 18 months. Strategic account criteria include the size of the company, industry affiliation, propensity to buy external consulting services and contacts within the account. The sales representative working closely with regional leadership is primarily responsible for identifying business opportunities in the account, acting as the single point of coordination for the client, and performing the general duties of account manager.
- **Regional Accounts** are accounts within a specified geographic location. These accounts mostly include large prospects, dormant clients, existing medium-sized clients and mid-tier market accounts and are handled primarily on an opportunistic basis, except for active clients where delivery teams are focused on driving additional revenue.
- **Strategic Alliance Accounts** are accounts that allow us to partner with organizations of greater scale or different skill sets or with software developers which enables all parties to jointly market their products and services to prospective clients.

## MANAGEMENT SYSTEMS

Our management control systems are comprised of various accounting, billing, financial reporting, human resources, marketing and resource allocations systems, many of which are integrated with our knowledge management system, Mind~Share. We believe that Mind~Share significantly enhances our ability to serve our clients efficiently by allowing our knowledge-base to be shared by all associates worldwide on a real-time basis. Our well-developed, flexible, scalable infrastructure has allowed us to quickly integrate the new employees and business systems we have acquired.

## TALENT MANAGEMENT

We fully believe that our culture fosters intellectual creativity, collaboration and innovation. We believe in building relationships with both our associates and clients. We believe the best solutions come from teams of diverse individuals addressing problems collectively and from multiple dimensions, including the business, technological and human dimensions. We believe that the most effective working environment is one where everyone is encouraged to contribute and is rewarded for that contribution. Our core values are the strongest expression of our working style and represent what we stand for. These core values are:

- Continuous development of our associates, our unique content business model and our knowledge base;
- Diversity of backgrounds, skills and experiences;
- Knowledge capture, contribution and utilization; and
- Collaboration with one another, with our partners and with our clients

Our human resources staff includes seasoned professionals in North America, Europe and Asia Pacific who support our practices by, among other things, administering our benefit programs and facilitating the hiring process. Our human resources staff also includes dedicated individuals who recruit consultants with both business and technology expertise. Our recruiting team supports our hiring process by focusing on the highest demand solution areas of our business to ensure an adequate pipeline of new associates. We also have an employee referral program, which rewards existing employees who source new hires.

As of December 31, 2010, we had approximately 854 associates, approximately 78% of whom were billable professionals. We do not have any associates that are subject to collective bargaining arrangements; however, in France our associates enjoy the benefit of certain government mandated regulations based on industry classification. We have entered into nondisclosure and non-solicitation agreements with virtually all of our personnel. From time to time we also engage consultants as independent contractors.

## COMMUNITY INVOLVEMENT

One important way we put our values into action is through our commitment to the communities where we work. The mission of our Community Council, which operates in each of the cities where we have offices, is to strive to leave the markets, communities and clients we serve better than how we found them. We do so by building a strong sense of community, with collaboration and personal interaction from all of our associates, through both volunteer and service programs and social gatherings.

## AVAILABLE INFORMATION

We make our public filings with the Securities and Exchange Commission (“SEC”), including our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all exhibits and amendments to these reports, available free of charge at our website <http://www.thehackettgroup.com> as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Any material that we file with the SEC may be read and copied at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 or at [www.sec.gov](http://www.sec.gov). Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

Also available on our website, free of charge, are copies of our Code of Conduct and Ethics, and the charter for the Audit Committee of our Board of Directors. We intend to disclose any amendment to, or waiver from, a provision of our Code of Conduct and Ethics applicable to our senior financial officers, including our Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Corporate Controller on our website within four business days following the date of the amendment or waiver.

## ITEM 1A. RISK FACTORS

Our business is subject to risks. The following important factors could cause actual results to differ materially from those contained in forward-looking statements made in this Annual Report on Form 10-K or printed elsewhere by management from time to time.

### *Our results of operations could be negatively affected by global economic conditions.*

Current global economic conditions may affect our clients’ businesses and the markets they serve. A substantial or prolonged economic downturn could adversely affect our clients’ financial condition which may reduce our clients’ demand for our services, force price reductions, cause project cancellations, or delay consulting services for which they have engaged us. In addition, if we are unable to successfully anticipate the changing economic conditions, we may be unable to effectively plan for and respond to those changes, and our business could be negatively affected.

### *Our quarterly operating results may vary.*

Our financial results may fluctuate from quarter to quarter. In future quarters, our operating results may not meet public market analysts’ and investors’ expectations. If that happens, the price of our common stock may fall. Many factors can cause these fluctuations, including:

- number, size, timing and scope of client engagements;
- customer concentration;
- long and unpredictable sales cycles;
- contract terms of client engagements;
- degrees of completion of client engagements;
- client engagement delays or cancellations;
- competition for and utilization of employees;
- how well we estimate the resources and effort we need to complete client engagements;
- the integration of acquired businesses;
- pricing changes in the industry;
- economic conditions specific to business and information technology consulting; and
- global economic conditions.

A high percentage of our operating expenses, particularly personnel and rent, are fixed in advance of any particular quarter. As a result, if we experience unanticipated changes in client engagements or in consultant utilization rates, we could experience large variations in quarterly operating results and losses in any particular quarter. Due to these factors, we believe our quarter-to-quarter operating results should not be used to predict future performance.

***If we are unable to maintain our reputation and expand our name recognition, we may have difficulty attracting new business and retaining current clients and employees.***

We believe that establishing and maintaining a good reputation and name recognition are critical for attracting and retaining clients and employees in our industry. We also believe that the importance of reputation and name recognition will continue to increase due to the number of providers of business consulting and IT services. If our reputation is damaged or if potential clients are not familiar with us or with the solutions we provide, we may be unable to attract new, or retain existing, clients and employees. Promotion and enhancement of our name will depend largely on our success in continuing to provide effective solutions. If clients do not perceive our solutions to be effective or of high quality, our brand name and reputation will suffer. In addition, if solutions we provide have defects, critical business functions of our clients may fail, and we could suffer adverse publicity as well as economic liability.

***We depend heavily on a limited number of clients.***

We have derived, and believe that we will continue to derive, a significant portion of our revenue from a limited number of clients for which we perform large projects. In 2010, our ten largest clients accounted for approximately 26% of our aggregate revenue. In addition, revenue from a large client may constitute a significant portion of our total revenue in any particular quarter. Our customer contracts generally can be cancelled for convenience by the customer upon 30 days' notice. The loss of any of our large clients for any reason, including as a result of the acquisition of that client by another entity, our failure to meet that client's expectations, the client's decision to reduce spending on technology-related projects, or failure to collect amounts owed to us from our client could have a material adverse effect on our business, financial condition and results of operations.

***We have risks associated with potential acquisitions or investments.***

Since our inception, we have expanded through acquisitions. In the future, we plan to pursue additional acquisitions as opportunities arise. We may not be able to successfully integrate businesses which we may acquire in the future without substantial expense, delays or other operational or financial problems. We may not be able to identify, acquire or profitably manage additional businesses. Also, acquisitions may involve a number of risks, including:

- diversion of management's attention;
- failure to retain key personnel;
- failure to retain existing clients;
- unanticipated events or circumstances;
- unknown claims or liabilities;
- amortization of certain acquired intangible assets; and
- operating in new or unfamiliar geographies.

Client dissatisfaction or performance problems at a single acquired business could have a material adverse impact on our reputation as a whole. Further, we cannot assure you that our future acquired businesses will generate anticipated revenue or earnings.

***Difficulties in integrating businesses we may acquire in the future may demand time and attention from our senior management.***

Integrating businesses we may acquire in the future may involve unanticipated delays, costs and/or other operational and financial problems. In integrating acquired businesses, we may not achieve expected economies of scale or profitability, or realize sufficient revenue to justify our investment. If we encounter unexpected problems as we try to integrate an acquired firm into our business, our management may be required to expend time and attention to address the problems, which would divert their time and attention from other aspects of our business.

***Our markets are highly competitive.***

We may not be able to compete effectively with current or future competitors. The business consulting and IT services markets are highly competitive. We expect competition to further intensify as these markets continue to evolve. Some of our competitors have longer operating histories, larger client bases, longer relationships with their clients, greater brand or name recognition and significantly greater financial, technical and marketing resources than we do. As a result, our competitors may be in a stronger position to respond more quickly to new or emerging technologies and changes in client requirements and to devote greater resources than we can to the development, promotion and sale of their services. Competitors could lower their prices, potentially forcing us to lower our prices and suffer reduced operating margins. We face competition from international accounting firms; international, national and regional strategic consulting and systems implementation firms; and the IT services divisions of application software firms.

In addition, there are relatively low barriers to entry into the business consulting and IT services market. We do not own any patented technology that would stop competitors from entering this market and providing services similar to ours. As a result, the emergence of new competitors may pose a threat to our business. Existing or future competitors may develop and offer services that are superior to, or have greater market acceptance, than ours, which could significantly decrease our revenue and the value of your investment.

***We may not be able to hire, train, motivate, retain and manage professional staff.***

To succeed, we must hire, train, motivate, retain and manage highly skilled employees. Competition for skilled employees who can perform the services we offer is intense. We might not be able to hire enough skilled employees or train, motivate, retain and manage the employees we hire. This could hinder our ability to complete existing client engagements and bid for new ones. Hiring, training, motivating, retaining and managing employees with the skills we need is time-consuming and expensive.

***We could lose money on our contracts.***

As part of our strategy, from time to time, we enter into capped or fixed-price contracts, in addition to contracts based on payment for time and materials. Because of the complexity of many of our client engagements, accurately estimating the cost, scope and duration of a particular engagement can be a difficult task. We maintain an Office of Risk Management (“ORM”) that evaluates and attempts to mitigate delivery risk associated with complex projects. In connection with their review, ORM analyzes the critical estimates associated with these projects. If we fail to make these estimates accurately, we could be forced to devote additional resources to these engagements for which we will not receive additional compensation. To the extent that an expenditure of additional resources is required on an engagement, this could reduce the profitability of, or result in a loss on, the engagement. In the past, we have, on occasion, engaged in negotiations with clients regarding changes to the cost, scope or duration of specific engagements. To the extent we do not sufficiently communicate to our clients, or our clients fail to adequately appreciate the nature and extent of any of these types of changes to an engagement, our reputation may be harmed and we may suffer losses on an engagement.

***Lack of detailed written contracts could impair our ability to recognize revenue for services performed, collect fees, protect our IP and protect ourselves from liability to others.***

We protect ourselves by entering into detailed written contracts with our clients covering the terms and contingencies of the client engagement. In some cases, however, consistent with what we believe to be industry practice, work is performed for clients on the basis of a limited statement of work or verbal agreement before a detailed written contract can be finalized. Revenue is not recognized on a project prior to receiving a signed contract. To the extent that we fail to have detailed written contracts in place, our ability to collect fees, protect our IP and protect ourselves from liability to others may be impaired.

***Our corporate governance provisions may deter a financially attractive takeover attempt.***

Provisions of our charter and by-laws may discourage, delay or prevent a merger or acquisition which shareholders may consider favorable, including transactions in which shareholders would receive a premium for their shares. These provisions include the following:

- shareholders must comply with advance notice requirements before raising a matter at a meeting of shareholders or nominating a director for election;
- our Board of Directors is staggered into three classes and the members may be removed only for cause upon the affirmative vote of holders of at least two-thirds of the shares entitled to vote;
- we would not be required to hold a special meeting to consider a takeover proposal unless holders of more than a majority of the shares entitled to vote on the matter were to submit a written demand or demands for us to do so; and
- our Board of Directors may, without obtaining shareholder approval, classify and issue up to 1,250,000 shares of preferred stock with powers, preferences, designations and rights that may make it more difficult for a third party to acquire us.

In addition, our Board of Directors has adopted a shareholder rights plan. Subject to certain exceptions, in the event that a person or group in the future becomes the beneficial owner of 15% or more of our common stock (or in the case of Liberty Wanger Asset Management, L.P. (now known as Columbia Wanger Asset Management, L.P.) and its affiliates 20%), or commences, or publicly announces, an intention to commence a tender or exchange offer which would result in its ownership of 15% or more of our outstanding common stock, then the rights issued to our shareholders in connection with this plan will allow our shareholders to purchase shares of our common stock at 50% of its then current market value. In addition, if we are acquired in a merger, or 50% or more of our assets are sold in one or more related transactions, our shareholders would have the right to purchase the common stock of the acquiring company at half the then current market price of such common stock.

***We may lose large clients or may not be able to secure targeted follow-on work or client retention rates.***

Our client engagements are generally short-term arrangements, and most clients can reduce or cancel their contracts for our services with 30 days' notice and without penalty. As a result, if we lose a major client or large client engagement, our revenue will be adversely affected. We perform varying amounts of work for specific clients from year to year. A major client in one year may not use our services in another year. In addition, we may derive revenue from a major client that constitutes a large portion of total revenue for particular quarters. If we lose any major clients or any of our clients cancel programs or significantly reduce the scope of a large engagement, our business, financial condition, and results of operations could be materially and adversely affected. Also, if we fail to collect a large accounts receivable, we could be subjected to significant financial exposure. Consequently, you should not predict or anticipate our future revenue based upon the number of clients we currently have or the number and size of our existing client engagements.

We also derive a portion of our revenue from annual memberships for our Executive Advisory Programs. Our growth prospects therefore depend on our ability to achieve and sustain renewal rates on programs and to successfully launch new programs. Failure to achieve renewal rate levels or to successfully launch new programs and services could have an adverse effect on our operating results.

***If we are unable to protect our IP rights or infringe on the IP rights of third parties, our business may be harmed.***

We rely upon a combination of nondisclosure and other contractual arrangements and trade secret, copyright and trademark laws to protect our proprietary rights and the proprietary rights of third parties from whom we license IP. Although we enter into confidentiality agreements with our employees and limit distribution of proprietary information, there can be no assurance that the steps we have taken in this regard will be adequate to deter misappropriation of proprietary information, or that we will be able to detect unauthorized use and take appropriate steps to enforce our IP rights.

Although we believe that our services do not infringe on the IP rights of others and that we have all rights necessary to utilize the IP employed in our business, we are subject to the risk of claims alleging infringement of third-party IP rights. Any claims could require us to spend significant sums in litigation, pay damages, develop non-infringing IP or acquire licenses to the IP that is the subject of asserted infringement.

***The market price of our common stock may fluctuate widely.***

The market price of our common stock could fluctuate substantially due to:

- future announcements concerning us or our competitors;
- quarterly fluctuations in operating results;
- announcements of acquisitions or technological innovations;
- changes in earnings estimates or recommendations by analysts; or
- current market volatility.

In addition, the stock prices of many business and technology services companies fluctuate widely for reasons which may be unrelated to operating results. Fluctuation in the market price of our common stock may impact our ability to finance our operations and retain personnel.

***We earn revenue, incur costs and maintain cash balances in multiple currencies, and currency fluctuations could adversely affect our financial results.***

We have increasing international operations, where we earn revenue and incur costs in various foreign currencies, primarily the British Pound and the Euro. Doing business in these foreign currencies exposes us to foreign currency risks in numerous areas, including revenue, purchases, payroll and investments. Certain foreign currency exposures are naturally offset within an international business unit, because revenue and costs are denominated in the same foreign currency, and certain cash balances are held in U.S. Dollar denominated accounts. However, due to the increasing size and importance of our international operations, fluctuations in foreign currency exchange rates could materially impact our results. Currently, we do not hold any derivative contracts that hedge our foreign currency risk, but we may adopt such strategies in the future.

Our cash position includes amounts denominated in foreign currencies. We manage our worldwide cash requirements considering available funds from our subsidiaries and the cost effectiveness with which these funds can be accessed. The repatriation of cash balances from certain of our subsidiaries outside the U.S. could have adverse tax consequences and be limited by foreign currency exchange controls. However, those balances are generally available without legal restrictions to fund ordinary business operations. Any fluctuations in foreign currency exchange rates could materially impact the availability and amount of these funds available for transfer.



## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

## ITEM 2. PROPERTIES

Our principal executive offices are currently located at 1001 Brickell Bay Drive, Suite 3000, Miami, Florida 33131. The lease on this premise covers 10,896 square feet and expires June 30, 2015. We also have offices in Atlanta, Chicago, New York, Philadelphia, San Francisco, Frankfurt, London, Almere, Paris, Hyderabad and Sydney. As of December 31, 2010, we had operating leases that extend through December 2016. We believe that we will be able to obtain suitable new or replacement space as needed. We do not own real estate and do not intend to invest in real estate or real estate-related assets.

## ITEM 3. LEGAL PROCEEDINGS

We are involved in legal proceedings, claims, and litigation arising in the ordinary course of business not specifically discussed herein. In the opinion of management, the final disposition of such matters will not have a material adverse effect on our consolidated financial position, cash flows or results of operations.

## ITEM 4. REMOVED AND RESERVED

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock traded on the NASDAQ Stock Market ("NASDAQ") under the NASDAQ symbol, "ANSR" since our initial public offering on May 28, 1998 through January 31, 2008. In conjunction with our name change, we began trading on the NASDAQ under the NASDAQ symbol, "HCKT," effective January 31, 2008. The following table sets forth for the fiscal periods indicated the high and low sales prices of the common stock, as reported on the NASDAQ.

	<u>High</u>	<u>Low</u>
<b><u>2010</u></b>		
Fourth Quarter	\$4.30	\$3.35
Third Quarter	\$4.49	\$2.70
Second Quarter	\$3.79	\$2.65
First Quarter	\$3.01	\$2.28
<b><u>2009</u></b>		
Fourth Quarter	\$3.79	\$2.60
Third Quarter	\$3.28	\$2.25
Second Quarter	\$2.63	\$1.97
First Quarter	\$3.42	\$1.78

The closing sale price for the common stock on March 7, 2011 was \$3.76.

As of March 7, 2011, there were approximately 323 holders of record of our common stock and 41,388,838 shares of common stock outstanding.

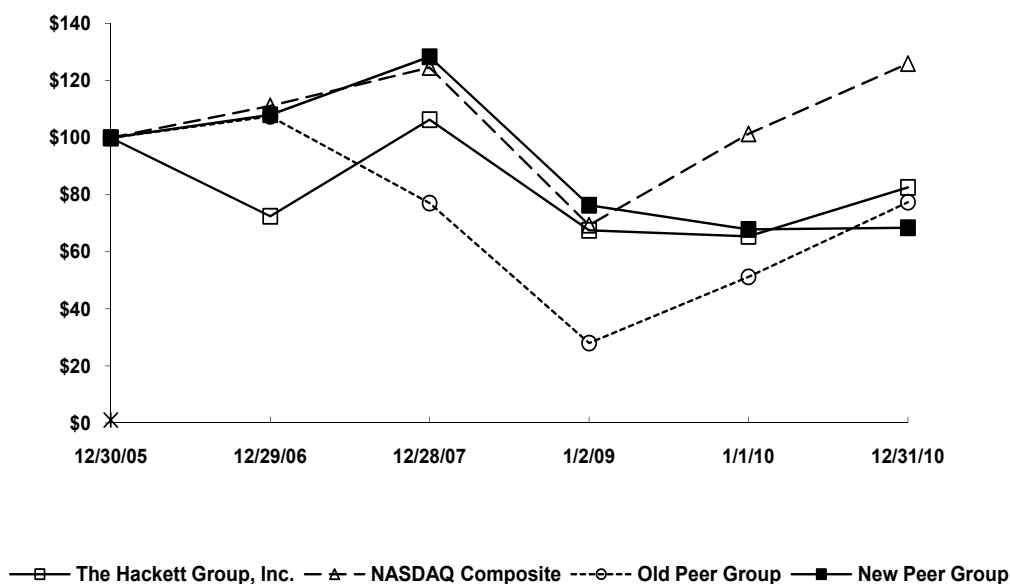
### Securities Authorized for Issuance under Equity Compensation Plans

Information appearing under the caption "Equity Compensation Plan Information" in the 2011 Proxy Statement is hereby incorporated by reference.

## Performance Graph

The following graph compares our cumulative total shareholder return since December 30, 2005 with the NASDAQ Composite Index and two different peer group indices, the “Old Peer Group” and the “New Peer Group.” The Old Peer Group includes BearingPoint Inc., Diamond Management & Technology Consultants, eLoyalty Corporation, Sapient Corp and Technology Solutions Company. The New Peer Group includes Edgewater Technology, Inc., eLoyalty Corporation, FTI Consulting, Inc., Huron Consulting Group, Inc., Information Services Group, Inc., and The Corporate Executive Board Company. The Company has elected to change its peer group because it believes the companies included in the New Peer Group better reflect the Company’s business and therefore, provide a more meaningful comparison of stock performance.

### COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\* Among The Hackett Group, Inc. and the NASDAQ Composite Index



\*\$100 invested on 12/30/05 in stock or index, including reinvestment of dividends.  
Fiscal year ending December 31.

	12/30/05	12/29/06	12/28/07	1/2/09	1/1/10	12/30/10
<b>The Hackett Group, Inc.</b>	\$100.00	\$ 72.47	\$106.35	\$67.53	\$ 65.41	\$ 82.59
<b>NASDAQ Composite</b>	\$100.00	\$111.16	\$124.64	\$69.33	\$101.32	\$125.99
<b>New Peer Group</b>	\$100.00	\$108.07	\$128.42	\$76.34	\$ 67.83	\$ 68.40
<b>Old Peer Group</b>	\$100.00	\$107.52	\$ 77.08	\$27.99	\$ 51.21	\$ 77.39

## Company Dividend Policy

We have not paid any cash dividends on our common stock, nor do we expect to pay any in the foreseeable future.

## Purchases of Equity Securities

We have an ongoing authorization from our Board of Directors to repurchase shares of our common stock in the open market or in negotiated transactions. As of December 31, 2010, the cumulative authorization was for up to \$70.0 million, with approximately \$4.5 million available for future purchases. In 2010, we repurchased approximately \$6.1 million of our common stock. This brings our cumulative purchases under the plan to \$65.5 million.

All repurchases are made in the open market or through privately negotiated transactions, subject to market conditions and trading restrictions. There is no expiration date on the current authorization and we did not make any determination to suspend or cancel purchases under the program. The following table summarizes our share repurchases during the year ended December 31, 2010:

<u>Period</u>	<u>Total Number of Shares</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares as Part of Publicly Announced Program</u>	<u>Maximum Dollar Value That May Yet be Purchased Under the Program</u>
Balance as of January 1, 2010	—	\$ —	—	\$ 578,515
January 2, 2010 to October 1, 2010	1,196,919	\$ 3.08	1,196,919	\$ 6,886,195*
October 2, 2010 to October 29, 2010	—	\$ —	—	\$ 6,886,195
October 30, 2010 to November 26, 2010	276,201	\$ 3.63	276,201	\$ 5,883,508
November 27, 2010 to December 31, 2010	388,358	\$ 3.53	388,358	\$ 4,513,383
	<u>1,861,478</u>	<u>\$ 3.26</u>	<u>1,861,478</u>	

\* During the year ended December 31, 2010, our Board of Directors approved an additional \$10.0 million to our share repurchase program, thereby increasing the authorization to \$70.0 million.

## ITEM 6. SELECTED FINANCIAL DATA

The following consolidated financial data sets forth selected financial information for Hackett as of and for each of the years in the five-year period ended December 31, 2010, and has been derived from our audited consolidated financial statements. The selected consolidated financial data should be read together with our consolidated financial statements and related notes thereto and with “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

	Year Ended				
	December 31, 2010	January 1, 2010	January 2, 2009	December 28, 2007	December 29, 2006
	<i>(in thousands, except per share data)</i>				
<b>Consolidated Statements of Operations Data:</b>					
Revenue:					
Revenue before reimbursements	\$ 180,899	\$129,019	\$173,217	\$ 158,973	\$ 162,167
Reimbursements	20,449	13,681	18,884	18,035	18,388
Total revenue (1)	201,348	142,700	192,101	177,008	180,555
Costs and expenses:					
Cost of service:					
Personnel costs before reimbursable expenses	112,692	84,407	96,844	91,853	96,637
Reimbursable expenses	20,449	13,681	18,884	18,035	18,388
Total cost of service	133,141	98,088	115,728	109,888	115,025
Selling, general and administrative costs	55,755	46,215	58,474	60,746	63,518
Restructuring costs	—	5,437	—	—	6,313
Collections from misappropriation, net	—	—	—	(2,574)	341
Total costs and operating expenses	188,896	149,740	174,202	168,060	185,197
Income (loss) from operations	12,452	(7,040)	17,899	8,948	(4,642)
Other income (expense):					
Non-cash acquisition earn-out shares re-measurement gain	1,727	—	—	—	—
Interest income, net	22	51	442	775	507
Loss on marketable investments	—	(35)	—	(450)	—
Income (loss) before income taxes	14,201	(7,024)	18,341	9,273	(4,135)
Income tax (benefit) expense	(26)	(212)	465	278	913
Net income (loss)	\$ 14,227	\$ (6,812)	\$ 17,876	\$ 8,995	\$ (5,048)
Basic net income (loss) per common share:					
Net income (loss) per common share	\$ 0.35	\$ (0.18)	\$ 0.44	\$ 0.20	\$ (0.11)
Weighted average common shares outstanding	40,349	38,240	40,471	44,127	44,653
Diluted net income (loss) per common share:					
Net income (loss) per common share	\$ 0.34	\$ (0.18)	\$ 0.43	\$ 0.20	\$ (0.11)
Weighted average common and common equivalent shares outstanding	42,372	38,240	41,498	44,978	44,653
<b>Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 25,337	\$ 15,004	\$ 32,060	\$ 20,061	\$ 8,832
Marketable investments	\$ —	\$ —	\$ 1,727	\$ 7,032	\$ 10,753
Restricted cash	\$ 1,610	\$ 1,475	\$ 600	\$ 600	\$ 600
Working capital	\$ 27,243	\$ 11,435	\$ 24,301	\$ 25,397	\$ 26,761
Total assets	\$ 150,801	\$136,535	\$133,664	\$ 135,459	\$ 133,266
Shareholders’ equity	\$ 113,240	\$ 98,252	\$ 93,917	\$ 98,819	\$ 98,455

(1) In November 2009, we acquired Archstone. As a result of the acquisition, total revenue included \$5.6 million in the 2009 results of operations.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Overview

Hackett, originally incorporated on April 23, 1997, is a leading strategic advisory and technology consulting firm that enables companies to achieve world-class business performance. By leveraging the comprehensive Hackett database, the world's leading repository of enterprise business process performance metrics and best practice intellectual capital, our business and technology solutions help clients improve performance and maximize returns on technology investments.

Hackett is a strategic advisory firm and a world leader in best practice research, benchmarking, business transformation and working capital management services which empirically defines and enables world-class enterprise performance. Hackett empirically defines world-class performance in sales, general and administrative and certain supply chain activities with analysis gained through more than 5,000 benchmark studies over 18 years at over 2,800 of the world's leading companies.

Hackett's combined capabilities include executive advisory programs, benchmarking, business transformation (with primary focus on strategy and operations improvement in supply chain, procurement, finance, enterprise performance management, human resources, information technology, and working capital management) and technology solutions, with corresponding offshore support.

In the following discussion, "Hackett" represents our total company, "The Hackett Group" encompasses our Benchmarking, Business Transformation and Executive Advisory groups, and "Hackett Technology Solutions" encompasses our technology groups, including SAP, Oracle and Oracle EPM.

### Critical Accounting Policies

In the ordinary course of business, we make a number of estimates and assumptions relating to the reporting of results of operations and financial position in conformity with generally accepted accounting principles in the United States. Actual results could differ significantly from those estimates under different assumptions and conditions. We believe the following discussion addresses our most critical accounting policies. These policies require management to exercise judgment that is often difficult, subjective and complex due to the necessity of estimating the effect of matters that are inherently uncertain.

#### *Revenue Recognition*

Our revenue is principally derived from fees for services generated on a project-by-project basis in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 605, *Revenue*. Revenue for services rendered is recognized on a time and materials basis or on a fixed-fee or capped-fee basis.

Revenue for time and materials contracts is recognized based on the number of hours worked by our consultants at an agreed upon rate per hour and is recognized in the period in which services are performed.

Revenue related to fixed-fee or capped-fee contracts is recognized on the proportional performance method of accounting based on the ratio of labor hours incurred to estimated total labor hours. This percentage is multiplied by the contracted dollar amount of the project to determine the amount of revenue to recognize in an accounting period. The contracted dollar amount used in this calculation excludes the amount the client pays us for reimbursable expenses. There are situations where the number of hours to complete projects may exceed our original estimate. These increases can be as a result of an increase in project scope, unforeseen events that arise, or the inability of the client or the delivery team to fulfill their responsibilities. On an on-going basis, our project delivery, Office of Risk Management and finance personnel review hours incurred and estimated total labor hours to complete projects. Any revisions in these estimates are reflected in the period in which they become known. If our estimates indicate that a contract loss will occur, a loss provision will be recorded in the period in which the loss first becomes probable and reasonably estimable. Contract losses are determined to be the amount by which the estimated direct costs of the contract exceed the estimated total revenue that will be generated by the contract and are included in total cost of service.

Revenue from advisory services is recognized ratably over the life of the agreements.

Revenue for contracts with multiple elements is allocated based on the fair value of the elements and is recognized in accordance with FASB Accounting Standards Update ("ASU") 2009-13, *Multiple-Deliverable Revenue Arrangements, a consensus of the FASB Emerging Issues Task Force*.

Additionally, we earn revenue from the sale of software, software licenses and maintenance contracts, which is recognized in accordance with FASB ASC Topic 985, *Software*. Revenue for the sale of software and software licenses is recognized upon contract execution and customer receipt of software. Revenue from maintenance contracts is recognized ratably over the life of the agreements.

Unbilled revenue represents revenue for services performed that have not been invoiced. If we do not accurately estimate the scope of the work to be performed, or we do not manage our projects properly within the planned periods of time, or we do not meet our clients' expectations under the contracts, then future consulting margins may be negatively affected or losses on existing contracts may need to be recognized. Any such reductions in margins or contract losses could be material to our results of operations.

Sales tax collected from customers and remitted to the applicable taxing authorities is accounted for on a net basis, with no impact on revenue.

Revenue before reimbursements excludes reimbursable expenses charged to clients. Reimbursements, which include travel and out-of-pocket expenses, are included in revenue, and an equivalent amount of reimbursable expenses is included in cost of service.

The agreements entered into in connection with a project, whether time and materials based or fixed-fee or capped-fee based, typically allow our clients to terminate early due to breach or for convenience with 30 days' notice. In the event of termination, the client is contractually required to pay for all time, materials and expenses incurred by us through the effective date of the termination. In addition, from time to time we enter into agreements with our clients that limit our right to enter into business relationships with specific competitors of that client for a specific time period. These provisions typically prohibit us from performing a defined range of services which we might otherwise be willing to perform for potential clients. These provisions are generally limited to six to twelve months and usually apply only to specific employees or the specific project team.

#### *Allowances for Doubtful Accounts*

We maintain allowances for doubtful accounts for estimated losses resulting from our clients not making required payments. Periodically, we review accounts receivable to assess our estimates of collectibility. Management critically reviews accounts receivable and analyzes historical bad debts, past-due accounts, client credit-worthiness and current economic trends when evaluating the adequacy of the allowance for doubtful accounts. If the financial condition of our clients were to deteriorate, resulting in their inability to make payments, additional allowances may be required.

#### *Long-Lived Assets (excluding Goodwill and Other Intangible Assets)*

We account for long-lived assets in accordance with the provisions of FASB ASC Topic 360, Property, *Plant and Equipment* ("ASC 360"). ASC 360 requires that long-lived assets be reviewed for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be fully recoverable. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if there has been an impairment. The amount of an impairment is calculated as the difference between the fair value of the asset and its carrying value. Estimates of future undiscounted cash flows are based on management's view of growth rates for the related business, anticipated future economic conditions and estimates of residual values.

#### *Goodwill and Other Intangible Assets*

All of our goodwill and intangible assets have been accounted for under the provisions of FASB ASC Topic 350, *Intangibles—Goodwill and Other* ("ASC 350"). ASC 350-20 requires that goodwill and intangible assets deemed to have indefinite lives not be amortized, but rather be tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate potential impairment. Finite-lived intangible assets are amortized over their useful lives and are subject to impairment evaluation under the provisions of ASC 350-30. The excess cost of the acquisition over the fair value of the net assets acquired is recorded as goodwill.

Goodwill is tested at least annually for impairment at the reporting unit level utilizing the market and income approaches. The reporting units consist of The Hackett Group (including Benchmarking, Business Transformation, Business Transformation Enterprise Performance Management ("EPM"), Strategy and Operations and Executive Advisory Programs) and Hackett Technology Solutions (including SAP, Oracle and Oracle EPM). In assessing the recoverability of goodwill and intangible assets, we make assumptions regarding various factors to determine if impairment tests are met. These estimates contain management's judgment, using appropriate and customary assumptions available at the time. As of December 31, 2010, none of our reporting units were at risk of failing step one, as pursuant to ASC 350.

Other intangible assets are tested for potential impairment whenever events or changes in circumstances suggest that the carrying value of an asset may not be fully recoverable in accordance with ASC 350. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if there has been an impairment. The amount of an impairment is calculated as the difference between the fair value of the asset and its carrying value. Estimates of future undiscounted cash flows are based on management's view of growth rates for the related business, anticipated future economic conditions and estimates of residual values. Other intangible assets arise from business combinations and consist of customer relationships, customer backlog and trademarks that are amortized on a straight-line or accelerated basis over periods of up to five years.

### *Stock Based Compensation*

We record stock based compensation in accordance with FASB ASC Topic 718, *Compensation-Stock Compensation* (“ASC 718”), using the modified-prospective-transition method.

ASC 718 requires entities to recognize compensation expense for awards of equity instruments to employees based on the grant-date fair value of those awards (with limited exceptions). ASC 718 also requires the benefits of tax deductions in excess of recognized compensation expense to be reported as a financing cash flow.

ASC 718 provides an alternative transition method of calculating the excess tax benefits available to absorb any tax deficiencies recognized which we have elected to adopt.

### *Restructuring Reserves*

Restructuring reserves reflect judgments and estimates of our ultimate costs of severance, closure and consolidation of facilities and settlement of contractual obligations under our operating leases, including sublease rental rates, absorption period to sublease space and other related costs. We reassess the reserve requirements to complete each individual plan under our restructuring programs at the end of each reporting period. If these estimates change in the future or actual results differ from our estimates, we may be required to record additional charges.

### *Income Taxes*

Income taxes are accounted for in accordance with FASB ASC Topic 740, *Income Taxes* (“ASC 740”). Under ASC 740, deferred tax assets and liabilities are determined based on differences between the financial reporting carrying values and tax bases of assets and liabilities, and are measured by using enacted tax rates expected to apply to taxable income in the years in which those differences are expected to reverse. Deferred income taxes also reflect the impact of certain state operating loss and tax credit carryforwards. A valuation allowance is provided if we believe it is more likely than not that all or some portion of the deferred tax asset will not be realized. An increase or decrease in the valuation allowance, if any, that results from a change in circumstances, and which causes a change in our judgment about the realizability of the related deferred tax asset, is included in the current tax provision.

In accordance with FASB ASC Topic 740-10, *Accounting for Uncertainty in Income Taxes* (“ASC 740-10”), we adopted a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on de-recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods and income tax disclosures. We report penalties and tax-related interest expense as a component of income tax expense.

### *Contingent Liabilities*

We have certain contingent liabilities that arise in the ordinary course of our business activities. We accrue contingent liabilities when it is probable that future expenditures will be made, and that such expenditures can be reasonably estimated. Reserves for contingent liabilities are reflected in our consolidated financial statements based on management’s assessment, along with legal counsel, of the expected outcome of the contingencies. If the final outcome of our contingencies differs adversely from that currently expected, it would result in income or a charge to earnings when determined.

The foregoing list was not intended to be a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by accounting principles generally accepted in the United States, with no need for us to judge the application. There are also areas in which our judgment in selecting any available alternative would not produce a materially different result. Please see our consolidated financial statements and related notes thereto included elsewhere in this Annual Report on Form 10-K, which contain accounting policies and other disclosures required by accounting principles generally accepted in the United States.

## Results of Operations

Our fiscal year generally consists of a 52-week period and periodically consists of a 53-week period as each fiscal year ends on the Friday closest to December 31. Fiscal years 2010, 2009 and 2008 ended on December 31, 2010, January 1, 2010 and January 2, 2009, respectively. References to a year included in this document refer to a fiscal year rather than a calendar year. The following table sets forth, for the periods indicated, our results of operations and the percentage relationship to total revenue of such results (in thousands):

	Year Ended					
	December 31, 2010		January 1, 2010		January 2, 2009	
Revenue:						
Revenue before reimbursements	\$180,899	89.9%	\$129,019	90.4%	\$ 173,217	90.2%
Reimbursements	20,449	10.1%	13,681	9.6%	18,884	9.8%
Total revenue	<u>201,348</u>	<u>100.0%</u>	<u>142,700</u>	<u>100.0%</u>	<u>192,101</u>	<u>100.0%</u>
Costs and expenses:						
Cost of service:						
Personnel costs before reimbursable expenses	112,692	56.0%	84,407	59.1%	96,844	50.4%
Reimbursable expenses	20,449	10.1%	13,681	9.6%	18,884	9.8%
Total cost of service	<u>133,141</u>	<u>66.1%</u>	<u>98,088</u>	<u>68.7%</u>	<u>115,728</u>	<u>60.2%</u>
Selling, general and administrative costs	55,755	27.7%	46,215	32.4%	58,474	30.4%
Restructuring costs	—	0.0%	5,437	3.8%	—	0.0%
Total costs and operating expenses	<u>188,896</u>	<u>93.8%</u>	<u>149,740</u>	<u>104.9%</u>	<u>174,202</u>	<u>90.6%</u>
Income (loss) from operations	12,452	6.2%	(7,040)	-4.9%	17,899	9.4%
Other income (expense):						
Non-cash acquisition earn-out shares re-measurement gain	1,727	0.9%	—	0.0%	—	0.0%
Interest income, net	22	0.0%	51	0.0%	442	0.2%
Loss on marketable investments	—	0.0%	(35)	0.0%	—	0.0%
Income (loss) before income taxes	14,201	7.1%	(7,024)	-4.9%	18,341	9.6%
Income tax (benefit) expense	(26)	0.0%	(212)	-0.1%	465	0.2%
Net income (loss)	<u>\$ 14,227</u>	<u>7.1%</u>	<u>\$ (6,812)</u>	<u>-4.8%</u>	<u>\$ 17,876</u>	<u>9.4%</u>

## Comparison of 2010 to 2009

*Overview.* We reported net income of \$14.2 million in 2010, primarily driven by improved U.S. customer demand which generated higher consultant utilization and operating margin improvements, and from the incremental operating margin contribution resulting from the Archstone Consulting (“Archstone”) acquisition completed in November 2009. We reported a net loss of \$6.8 million in 2009, primarily related to acquisition-related restructuring charges and other one-time costs that were incurred as a result of the Archstone acquisition, as well as the negative impact of the global recession on client demand.

*Revenue.* We are a global Company with operations primarily in the United States and Western Europe. Our revenue is denominated in multiple currencies, mostly the U.S. Dollar, British Pound and Euro, and as a result is affected by currency exchange rate fluctuations. The exchange rate fluctuation did not have a significant impact on comparisons between 2010 and 2009.



Hackett revenue increased 41% in 2010 as compared to 2009. The following table summarizes revenue (in thousands):

	<u>Year Ended</u>	
	<u>December 31, 2010</u>	<u>January 1, 2010</u>
The Hackett Group	\$ 144,884	\$102,055
Hackett Technology Solutions	56,464	40,645
Total revenue	<u>\$ 201,348</u>	<u>\$142,700</u>

Hackett Group revenue increased 42% to \$144.9 million in 2010, as compared to \$102.1 million in 2009. The increase in The Hackett Group revenue was primarily as a result of the Archstone acquisition which closed in November 2009.

The Hackett Group's international revenue accounted for 21% of the Hackett Group's total revenue in 2010, as compared to 25% in 2009. The decrease is mostly a result Archstone revenue, which is primarily a U.S.-based business, and from continuing weakness in European client demand.

The Hackett Technology Solutions group revenue increased 39% to \$56.5 million in 2010, as compared to \$40.6 million in 2009. The increase in Hackett Technology Solutions revenue was due to increased demand across all service groups.

Reimbursements as a percentage of revenue were comparable at 10% during 2010 and 2009. In 2010, no customer's revenue accounted for more than 5% of our total revenue and in 2009 one customer had revenue which accounted for 6% of our total revenue.

*Cost of Service.* Cost of service primarily consists of salaries, benefits and incentive compensation for consultants, subcontractor fees and reimbursable expenses associated with projects. Cost of service before reimbursable expenses increased 34% to \$112.7 million in 2010 from \$84.4 million in 2009. The increase in cost of service before reimbursable expenses was primarily due to the Archstone acquisition, as well as increased hiring activities commensurate with the increased U.S. market demand.

Total cost of service as a percentage of total revenue decreased to 66% in 2010 from 69% in 2009. This decrease was primarily due to improved consultant utilization across our service groups. The Hackett Group total revenue generated gross margins of 37% in 2010, compared to Hackett Technology Solutions which generated gross margins of 30% for the same period. On a net revenue basis, or revenue before reimbursements, The Hackett Group generated gross margins of 41% in 2010, as compared to 43% in 2009. This decrease was primarily driven by Archstone, which generated lower gross margins. Hackett Technology Solutions generated gross margins on a net revenue basis of 34%, as compared to 20% in 2009. Hackett Technology Solutions margins increased from 2009, which was adversely impacted by the global economic environment, as well as the impact of losses recognized on a fixed price technology implementation project.

*Selling, General and Administrative.* Selling, general and administrative costs increased 21% to \$55.8 million in 2010 from \$46.2 million in 2009. The increase was primarily due to higher 2010 incentive compensation accruals and incremental expenses resulting from the Archstone acquisition. As a percentage of revenue, selling, general and administrative costs decreased to 28% in 2010 from 32% in 2009, primarily due to the effective back-office integration of the Archstone acquisition.

*Restructuring Costs.* There were no restructuring costs incurred in 2010. Restructuring costs of \$5.4 million in 2009 were primarily comprised of \$5.9 million resulting from the November acquisition and integration of Archstone related to discounted lease buy-out actions, the down-sizing of facilities, and the related exit costs of those facilities and severance costs.

*Income Taxes.* In 2010, we recorded an income tax benefit of \$26 thousand, which represented an effective tax rate benefit of 0.2% of our income before income tax. In 2009, we recorded an income tax benefit of \$212 thousand, which represented an effective tax rate of 3.0% of our loss before income tax.

The liability method of accounting for deferred income taxes requires a valuation allowance against deferred tax assets if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. In determining the need for valuation allowances we consider evidence such as history of losses and general economic conditions. We have approximately \$47.8 million of U.S. federal net operating loss carryforwards as of December 31, 2010, most of which will expire by 2022 if not utilized. A valuation allowance has been provided primarily for all net operating loss carryforwards. Additionally, as of December 31, 2010, we had approximately \$14.0 million of foreign net operating loss carryforwards, of which \$6.4 million related to operations in the U.K., \$3.1 million related to operations in France and \$2.4 million related to operations in Germany. Most of the foreign net operating losses can be carried forward indefinitely. (See Note 9 in the notes to the consolidated financial statements.)

## Comparison of 2009 to 2008

*Overview.* Our results of operations in 2009 were adversely impacted by the global recessionary economic environment. Despite our offerings being well aligned with the pressure that all organizations faced to reduce costs and optimize cash balances, during the year we experienced delays in client decision-making and protracted sales cycles as clients rapidly reduced all of their discretionary spending. Throughout 2009, we counteracted the economic slowdown with cost saving actions which better aligned our resources to client demand. The economic environment drove lower client demand which resulted in lower revenue and operating profit when compared to our 2008 results.

We reported a net loss of \$6.8 million in 2009, as compared to net income of \$17.9 million in 2008, which primarily resulted from a decline in revenue as compared to 2008, and acquisition-related restructuring charges and other one-time costs that were incurred as a result of the Archstone acquisition which closed in November 2009. The acquisition-related costs were primarily due to the rationalization of lease obligations and integration-related severance costs. Additionally, our results were unfavorably impacted due to losses recognized on a fixed price technology implementation project.

*Revenue.* The exchange rate fluctuations had an impact on our revenue comparisons between 2009 and 2008; therefore, in the following revenue discussion we will disclose The Hackett Group revenue variances based on the U.S. Dollar reporting currency, as well as variances excluding the impact of currency fluctuations, otherwise referred to below as constant currency. Hackett Technology Solutions was not impacted by foreign currency rate fluctuations.

The following table summarizes revenue (in thousands):

	Year Ended	
	January 1, 2010	January 2, 2009
The Hackett Group	\$102,055	\$130,815
Hackett Technology Solutions	40,645	61,286
Total revenue	<u>\$142,700</u>	<u>\$192,101</u>

Revenue decreased 26%, or 25% in constant currency, to \$142.7 million in 2009 from \$192.1 million in 2008. The Hackett Group revenue decreased 22%, or 20% in constant currency, to \$102.1 million in 2009, as compared to \$130.8 million in 2008. The decrease in The Hackett Group revenue was mostly a result of delays in client decision-making and protracted sales cycles, both domestically and internationally, which negatively impacted revenue in 2009 when compared to 2008. The Hackett Group's international revenue, which is primarily based on the country of the contracting entity, represented 35%, or 36% in constant currency, of The Hackett Group's total revenue in 2009, as compared to 38% in 2008.

The Technology Solutions group revenue decreased 34% to \$40.6 million in 2009, as compared to \$61.3 million in 2008. The decrease in Hackett Technology Solutions revenue was primarily due to lower revenue from our Oracle Applications and Oracle EPM groups resulting from the global economic environment and the impact of the loss experienced on a large fixed price contract.

Reimbursements as a percentage of revenue were comparable at 10% during 2009 and 2008. In 2009, one customer's revenue accounted for 6% of our total revenue and in 2008 no customer had revenue greater than 5% of our total revenue.

*Cost of Service.* Cost of service primarily consists of salaries, benefits and incentive compensation for consultants, subcontractor costs and reimbursable expenses associated with projects. Cost of service before reimbursable expenses decreased 13% to \$84.4 million in 2009 from \$96.8 million in 2008. The decrease in cost of service before reimbursable expenses was primarily due to lower accruals for 2009 incentive compensation awards, primarily based on Company performance, and reductions in headcount that were made throughout 2009 to conform to market demand.

Total cost of service as a percentage of revenue increased to 69% in 2009 from 60% in 2008. This increase was primarily due to the decreases in revenue as previously discussed. The Hackett Group generated gross margins of 39% in 2009, compared to Hackett Technology Solutions which generated gross margins of 18% for the same period. On a net revenue, or revenue before reimbursements basis, The Hackett Group generated gross margins as a percentage of revenue of 43% in 2009, compared to Hackett Technology Solutions which generated gross margins as a percentage of net revenue of 20% for the same period.

*Selling, General and Administrative.* Selling, general and administrative costs decreased 21% to \$46.2 million in 2009 from \$58.5 million in 2008. The decrease was primarily due to lower 2009 incentive compensation accruals, lower commission expense due to the decrease in revenue as previously discussed, and various other cost reduction actions taken in 2009 to counteract the economic downturn. As a percentage of revenue, selling, general and administrative costs increased to 32% in 2009, as compared to 30% in 2008, primarily as a result of declining revenue.

*Restructuring Costs.* Restructuring costs of \$5.4 million in 2009 were primarily comprised of \$5.9 million resulting from the November acquisition and integration of Archstone related to discounted lease buy-out actions, the down-sizing of facilities, and the related exit costs of those facilities and severance costs. No restructuring costs were incurred in 2008.

*Income Taxes.* In 2009, we recorded an income tax benefit of \$212 thousand, which represented an effective tax rate of 3.0% of our loss before income tax. In 2008, we recorded income tax expense of \$465 thousand, which represented an effective tax rate of 2.5% of our income before income tax.

The liability method of accounting for deferred income taxes requires a valuation allowance against deferred tax assets if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. In determining the need for valuation allowances we consider evidence such as history of losses and general economic conditions. We had approximately \$53.5 million of U.S. federal net operating loss carryforwards as of January 1, 2010, most of which will expire by 2022 if not utilized. A valuation allowance has been provided primarily for all net operating loss carryforwards. Additionally, as of January 1, 2010, we had approximately \$14.8 million of foreign net operating loss carryforwards, of which \$7.1 million related to operations in the U.K. and \$2.4 million related to operations in Germany. Most of the foreign net operating losses can be carried forward indefinitely. (See Note 9 in the notes to the consolidated financial statements.)

### Liquidity and Capital Resources

As of December 31, 2010 and January 1, 2010, we had \$25.3 million and \$15.0 million of cash and cash equivalents, respectively. As of December 31, 2010 and January 1, 2010, we had \$1.6 million and \$1.5 million, respectively, on deposit with financial institutions that served as collateral for letters of credit for operating leases and for amounts related to future employee compensation agreements. These deposit accounts have been classified as restricted cash on the consolidated balance sheets.

The following table summarizes our cash flow activity (in thousands):

	<u>Year Ended</u>	
	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Operating activity cash flows	\$ 19,536	\$ (8,638)
Investing activity cash flows	\$ (3,616)	\$ 828
Financing activity cash flows	\$ (5,626)	\$ (9,431)

Net cash provided by operating activities was \$19.5 million in 2010, as compared to net cash used in operating activities of \$8.6 million in 2009. During 2010, net cash provided by operating activities was primarily attributable to net income, non-cash items including depreciation, amortization and stock compensation expense and the timing of other vendor payments, partially offset by increased accounts receivable and unbilled revenue.

During 2009, net cash used in operating activities was primarily attributable to the payout of 2008 incentive compensation awards of \$8.5 million and the timing of other vendor payments and payroll cycles, partially offset by collections of accounts receivable.

Net cash used in investing activities was \$3.6 million in 2010, as compared to net cash provided by \$0.8 million in 2009. During 2010, net cash used in investing activities was primarily attributable to \$3.5 million of capital expenditures.

During 2009, net cash provided by investing activities was primarily attributable to \$3.0 million of cash acquired in the acquisition of Archstone and \$1.7 million of redemptions from Bank of America's Columbia Strategic Cash Portfolio. These increases in cash were offset by \$3.0 million of capital expenditures and \$0.9 million of increased restricted cash.

Net cash used in financing activities was \$5.6 million in 2010, as compared to \$9.4 million in 2009. During 2010, net cash used in financing activities was primarily attributable to the repurchase of 1.9 million shares of our common stock at an average price of \$3.26 per share for \$6.1 million.

During 2009, net cash used in financing activities was primarily attributable to the repurchase of 2.6 million shares of our common stock at an average price of \$2.43 per share for \$6.4 million. Additionally, \$3.5 million was used for the payoff of the debt facility acquired with Archstone.

On July 30, 2002, we announced that our Board of Directors approved the repurchase of up to \$5.0 million of our common stock. Since the inception of our repurchase plan, our Board of Directors has approved the repurchase of an additional aggregate \$65.0 million of our common stock, thereby increasing the total program size to \$70.0 million as of December 31, 2010. Under the repurchase plan, we may buy back shares of our outstanding stock from time to time either on the open market or through privately negotiated transactions, subject to market conditions and trading restrictions. As of December 31, 2010, we had repurchased 18.8 million shares of our common stock at an average price of \$3.48 per share. We hold repurchased shares of our common stock as treasury stock on our consolidated balance sheets.

We currently believe that available funds and cash flows generated by operations will be sufficient to fund our working capital and capital expenditure requirements for at least the next twelve months. We may decide to raise additional funds in order to fund expansion, to develop new or enhance products and services, to respond to competitive pressures or to acquire complementary businesses or technologies. There is no assurance, however, that additional financing will be available when needed or desired.

There were no material capital commitments as of December 31, 2010. The following summarizes our future lease commitments under our non-cancelable operating leases as of December 31, 2010 (in thousands):

Less than 1 year	\$3,320
1-3 years	2,551
4-5 years	1,748
After 5 years	426
	<u>\$8,045</u>

#### **Off-Balance Sheet Arrangements**

We did not have any off-balance sheet arrangements as of December 31, 2010.

#### **Recently Issued Accounting Standards**

For discussion of recently issued accounting standards, please see “Item 8, Financial Statements and Supplementary Data” in Part II of this document.

#### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As of December 31, 2010, our exposure to market risk related primarily to changes in interest rates and foreign currency exchange rate risks.

##### **Interest Rate Risk**

We invest only with high credit quality issuers and we do not use derivative financial instruments in our investment portfolio.

##### **Exchange Rate Sensitivity**

We face exposure to adverse movements in foreign currency exchange rates, as a significant portion of our revenue, expenses, assets and liabilities are denominated in currencies other than the U.S. Dollar, primarily the British Pound and the Euro. These exposures may change over time as business practices evolve. Currently, we do not hold any derivative contracts that hedge our foreign currency risk, but we may adopt such strategies in the future.

For a discussion of the risks we face as a result of foreign currency fluctuations, please see “Item 1A, Risk Factors” in Part I of this document.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**THE HACKETT GROUP, INC.  
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## Report of Independent Registered Certified Public Accounting Firm

Board of Directors and Shareholders  
The Hackett Group, Inc.  
Miami, Florida

We have audited the accompanying consolidated balance sheets of The Hackett Group, Inc. (formerly Answerthink, Inc., prior to January 1, 2008) as of December 31, 2010 and January 1, 2010 and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss), and cash flows for each of the three years in the period ended December 31, 2010. In connection with our audits of the financial statements, we have also audited the financial statement schedule listed in the accompanying index. These consolidated financial statements and schedule are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedule. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Hackett Group, Inc. at December 31, 2010 and January 1, 2010, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), The Hackett Group, Inc.'s internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 10, 2011 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Miami, Florida  
March 10, 2011

**THE HACKETT GROUP, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
*(in thousands, except share data)*

	<u>December 31,</u> <u>2010</u>	<u>January 1,</u> <u>2010</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 25,337	\$ 15,004
Accounts receivable and unbilled revenue, net of allowance of \$1,486 and \$1,354 at December 31, 2010 and January 1, 2010, respectively	31,580	28,653
Prepaid expenses and other current assets	<u>5,056</u>	<u>2,683</u>
Total current assets	61,973	46,340
Restricted cash	1,610	1,475
Property and equipment, net	8,816	7,137
Other assets	2,779	4,871
Goodwill, net	<u>75,623</u>	<u>76,712</u>
Total assets	<u>\$ 150,801</u>	<u>\$136,535</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 5,590	\$ 3,674
Accrued expenses and other liabilities	<u>29,140</u>	<u>31,231</u>
Total current liabilities	34,730	34,905
Accrued expenses and other liabilities, non-current	<u>2,831</u>	<u>3,378</u>
Total liabilities	<u>37,561</u>	<u>38,283</u>
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, \$.001 par value, 1,250,000 shares authorized, none issued and outstanding	—	—
Common stock, \$.001 par value, 125,000,000 shares authorized; 60,099,198 and 57,652,536 shares issued at December 31, 2010 and January 1, 2010, respectively	60	57
Additional paid-in capital	308,598	301,366
Treasury stock, at cost, 18,838,310 and 16,976,832 shares at December 31, 2010 and January 1, 2010, respectively	(65,489)	(59,423)
Accumulated deficit	(124,898)	(139,125)
Accumulated other comprehensive loss	<u>(5,031)</u>	<u>(4,623)</u>
Total shareholders' equity	<u>113,240</u>	<u>98,252</u>
Total liabilities and shareholders' equity	<u>\$ 150,801</u>	<u>\$136,535</u>

The accompanying notes are an integral part of the consolidated financial statements.

**THE HACKETT GROUP, INC.**



**THE HACKETT GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)**  
*(in thousands)*

	Common Stock		Additional Paid in Capital	Treasury Stock		Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity	Comprehensive Income (Loss)
	Shares	Amount		Shares	Amount				
Balance at December 28, 2007	52,762	\$ 53	\$ 281,627	(9,883)	\$ (33,940)	\$ (150,189)	\$ 1,268	\$ 98,819	
Issuance of common stock	646	—	757	—	—	—	—	757	
Treasury stock purchased	—	—	—	(4,469)	(19,101)	—	—	(19,101)	
Issuance of restricted stock units, net of cancellations	—	—	(23)	—	—	—	—	(23)	
Stock compensation expense under ASC 718	—	—	60	—	—	—	—	60	
Amortization of restricted stock units	—	—	3,233	—	—	—	—	3,233	
Net income	—	—	—	—	—	17,876	—	17,876	\$ 17,876
Foreign currency translation	—	—	—	—	—	—	(7,704)	(7,704)	(7,704)
Total comprehensive income	—	—	—	—	—	—	—	—	\$ 10,172
Balance at January 2, 2009	53,408	\$ 53	\$ 285,654	(14,352)	\$ (53,041)	\$ (132,313)	\$ (6,436)	\$ 93,917	
Issuance of common stock	4,245	4	13,232	—	—	—	—	13,236	
Treasury stock purchased	—	—	—	(2,625)	(6,382)	—	—	(6,382)	
Issuance of restricted stock units, net of cancellations	—	—	(574)	—	—	—	—	(574)	
Stock compensation expense under ASC 718	—	—	1	—	—	—	—	1	
Amortization of restricted stock units	—	—	3,053	—	—	—	—	3,053	
Net loss	—	—	—	—	—	(6,812)	—	(6,812)	\$ (6,812)
Foreign currency translation	—	—	—	—	—	—	1,813	1,813	1,813
Total comprehensive loss	—	—	—	—	—	—	—	—	\$ (4,999)
Balance at January 1, 2010	57,653	\$ 57	\$ 301,366	(16,977)	\$ (59,423)	\$ (139,125)	\$ (4,623)	\$ 98,252	
Issuance of common stock	2,446	3	4,452	—	—	—	—	4,455	
Treasury stock purchased	—	—	—	(1,861)	(6,066)	—	—	(6,066)	
Issuance of restricted stock units, net of cancellations	—	—	(653)	—	—	—	—	(653)	
Amortization of restricted stock units	—	—	3,433	—	—	—	—	3,433	
Net income	—	—	—	—	—	14,227	—	14,227	\$ 14,227
Foreign currency translation	—	—	—	—	—	—	(408)	(408)	(408)
Total comprehensive income	—	—	—	—	—	—	—	—	\$ 13,819
Balance at December 31, 2010	<u>60,099</u>	<u>\$ 60</u>	<u>\$ 308,598</u>	<u>(18,838)</u>	<u>\$ (65,489)</u>	<u>\$ (124,898)</u>	<u>\$ (5,031)</u>	<u>\$ 113,240</u>	

The accompanying notes are an integral part of the consolidated financial statements.

**THE HACKETT GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(in thousands)*

	Year Ended		
	December 31, 2010	January 1, 2010	January 2, 2009
Cash flows from operating activities:			
Net income (loss)	\$ 14,227	\$ (6,812)	\$ 17,876
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation expense	1,837	1,862	2,052
Amortization expense	1,960	1,058	732
Provision for doubtful accounts	157	93	145
Loss (gain) on foreign currency transactions	382	610	(2,250)
Non-cash acquisition earn-out shares and re-measurement gain	(1,727)	—	—
Non-cash stock compensation expense	4,301	3,004	4,058
Loss (gain) on sale of property and equipment	—	46	(23)
Loss on marketable investments	—	35	—
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable and unbilled revenue	(3,667)	4,745	5,495
(Increase) decrease in prepaid expenses and other assets	(2,319)	702	(1,191)
Increase (decrease) in accounts payable	1,915	(2,061)	(259)
Increase (decrease) in accrued expenses and other liabilities	2,470	(11,920)	834
Net cash provided by (used in) operating activities	19,536	(8,638)	27,469
Cash flows from investing activities:			
Purchases of property and equipment	(3,481)	(2,989)	(2,188)
Proceeds from sales of property and equipment	—	—	23
Increase in restricted cash	(135)	(875)	—
Proceeds from sales, calls and maturities of marketable investments	—	1,692	5,305
Cash acquired in acquisition of business	—	3,000	—
Net cash (used in) provided by investing activities	(3,616)	828	3,140
Cash flows from financing activities:			
Repayment of borrowings acquired in acquisition	—	(3,459)	—
Proceeds from issuance of common stock	440	410	757
Repurchases of common stock	(6,066)	(6,382)	(19,101)
Net cash used in financing activities	(5,626)	(9,431)	(18,344)
Effect of exchange rate on cash	39	185	(266)
Net increase (decrease) in cash and cash equivalents	10,333	(17,056)	11,999
Cash and cash equivalents at beginning of year	15,004	32,060	20,061
Cash and cash equivalents at end of year	<u>\$ 25,337</u>	<u>\$ 15,004</u>	<u>\$ 32,060</u>
Supplemental disclosure of cash flow information:			
Cash paid for income taxes	\$ 255	\$ 364	\$ 461
Supplemental disclosure of non-cash investing and financing activities:			
Shares issued to sellers of Archstone Consulting	\$ 4,032	\$ 12,087	\$ —

The accompanying notes are an integral part of the consolidated financial statements.

**THE HACKETT GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Basis of Presentation and General Information**

*Nature of Business*

The Hackett Group, Inc. (“Hackett,” or the “Company”) is a leading strategic advisory and technology consulting firm that enables companies to achieve world-class business performance. Hackett’s combined capabilities include business advisory programs, benchmarking, business transformation, working capital management and technology solutions, with corresponding offshore support.

On January 1, 2008, the Company changed its name from Answerthink, Inc. (“Answerthink”) to The Hackett Group, Inc. The firm was originally incorporated on April 23, 1997. All prior references to Answerthink will now be reflected as Hackett as if the name change was effected for all years presented.

*Basis of Presentation and Consolidation*

The accompanying consolidated financial statements include the Company’s accounts and those of its wholly-owned subsidiaries which the Company is required to consolidate. The Company consolidates the assets, liabilities, and results of operations of its entities in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 160, *Consolidation*.

*Fiscal Year*

The Company’s fiscal year generally consists of a 52-week period and periodically consists of a 53-week period as each fiscal year ends on the Friday closest to December 31. Fiscal years 2010, 2009 and 2008 ended on December 31, 2010, January 1, 2010 and January 2, 2009, respectively. References to a year included in the consolidated financial statements refer to a fiscal year rather than a calendar year.

*Cash and Cash Equivalents and Restricted Cash*

The Company considers all short-term investments with maturities of three months or less to be cash equivalents. Due to the short maturity period of cash equivalents, the carrying amount of these instruments approximates fair market value. The Company places its temporary cash investments with high credit quality financial institutions. At times, such investments may be in excess of the F.D.I.C. insurance limits. The Company has not experienced any loss to date on these investments. All of the Company’s non-interest bearing cash balances were fully insured at December 31, 2010 due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. Under the program, there is no limit to the amount of insurance for eligible accounts. Beginning in 2013, insurance coverage will revert to \$250,000 per depositor at each financial institution, and our non-interest bearing cash balances may again exceed federally insured limits.

Restricted cash in 2010 and 2009 related to deposits with financial institutions that served as collateral for letters of credit for operating leases and for amounts related to future employee compensation agreements.

*Allowance for Doubtful Accounts*

The Company maintains allowances for doubtful accounts for estimated losses resulting from its clients not making required payments. Management makes estimates of the collectibility of the accounts receivable. Management also critically reviews accounts receivable and analyzes historical bad debts, past-due accounts, client credit-worthiness and current economic trends when evaluating the adequacy of the allowance for doubtful accounts.

*Property and Equipment, Net*

Property and equipment are recorded at cost. Depreciation is calculated to amortize the depreciable assets over their useful lives using the straight-line method and commences when the asset is placed in service. The range of estimated useful lives is three to seven years. Leasehold improvements are amortized on a straight-line basis over the term of the lease or the estimated useful life of the improvement, whichever is shorter. Expenditures for repairs and maintenance are charged to expense as incurred. Expenditures for betterments and major improvements are capitalized. The carrying amount of assets sold or retired and related accumulated depreciation are removed from the balance sheet in the year of disposal and any resulting gains or losses are included in the statements of operations.

**THE HACKETT GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Basis of Presentation and General Information (Continued)**

The Company capitalizes the costs of internal-use software in accordance with FASB ASC Topic 350-40, *Internal-Use Software* (“ASC 350-40”). ASC 350-40 provides guidance on applying generally accepted accounting principles in the United States in addressing whether and under what conditions the costs of internal-use software should be capitalized. The Company capitalizes certain costs, which generally include hardware, software, and payroll-related costs for employees who are directly associated with, and who devote time, to the development of internal-use computer software.

*Long-Lived Assets (excluding Goodwill and Other Intangible Assets)*

The Company accounts for long-lived assets in accordance with the provisions of FASB ASC Topic 360, *Property, Plant and Equipment* (“ASC 360”). ASC 360 requires that long-lived assets be reviewed for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be fully recoverable. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset’s carrying amount to determine if there has been an impairment. The amount of an impairment is calculated as the difference between the fair value of the asset and its carrying value. Estimates of future undiscounted cash flows are based on management’s view of growth rates for the related business, anticipated future economic conditions and estimates of residual values.

*Goodwill and Other Intangible Assets*

All of the Company’s goodwill and intangible assets have been accounted for under the provisions of FASB ASC Topic 350, *Intangibles—Goodwill and Other* (“ASC 350”). ASC 350-20 requires that goodwill and intangible assets deemed to have indefinite lives not be amortized, but rather be tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate potential impairment. Finite-lived intangible assets are amortized over their useful lives and are subject to impairment evaluation under the provisions of ASC 350-30. The excess cost of the acquisition over the fair value of the net assets acquired is recorded as goodwill.

Goodwill is tested at least annually for impairment at the reporting unit level utilizing the market and income approaches. The reporting units consist of The Hackett Group (including Benchmarking, Business Transformation, Business Transformation Enterprise Performance Management (“EPM”), Strategy and Operations and Executive Advisory Programs) and Hackett Technology Solutions (including SAP, Oracle and Oracle EPM). In assessing the recoverability of goodwill and intangible assets, the Company makes assumptions regarding various factors to determine if impairment tests are met. These estimates contain management’s judgment, using appropriate and customary assumptions available at the time. The Company performed its annual impairment test of goodwill in the fourth quarter of fiscal years 2010 and 2009 and determined that goodwill was not impaired. The carrying amount and activity of goodwill attributable to The Hackett Group and Hackett Technology Solutions was as follows (in thousands):

	<u>The Hackett Group</u>	<u>Hackett Technology Solutions</u>	<u>Total</u>
Balance at January 2, 2009	\$ 32,283	\$ 31,333	\$ 63,616
Additions (see Note 2)	11,744	—	11,744
Foreign currency translation adjustment	1,352	—	1,352
Balance at January 1, 2010	45,379	31,333	76,712
Additions/adjustments (see Note 2)	(358)	—	(358)
Foreign currency translation adjustment	(731)	—	(731)
Balance at December 31, 2010	<u>\$ 44,290</u>	<u>\$ 31,333</u>	<u>\$ 75,623</u>

Other intangible assets are tested for potential impairment whenever events or changes in circumstances suggest that the carrying value of an asset may not be fully recoverable in accordance with ASC 350. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset’s carrying amount to determine if there has been an impairment. The amount of an impairment is calculated as the difference between the fair value of the asset and its carrying value. Estimates of future undiscounted cash flows are based on management’s view of growth rates for the related business, anticipated future economic conditions and estimates of residual values. Other intangible assets arise from business combinations and consist of customer relationships, customer backlog and trademarks that are amortized on a straight-line or accelerated basis over periods of up to five years.

**THE HACKETT GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Basis of Presentation and General Information (Continued)**

Other intangible assets, included in other assets in the accompanying consolidated balance sheets, consist of the following (in thousands):

	<u>December 31,</u> <u>2010</u>	<u>January 1,</u> <u>2010</u>
Gross carrying amount	\$ 10,847	\$ 10,847
Less accumulated amortization	(8,414)	(6,438)
	<u>\$ 2,433</u>	<u>\$ 3,786</u>

*Revenue Recognition*

Revenue is principally derived from fees for services generated on a project-by-project basis in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 605, *Revenue*. Revenue for services rendered is recognized on a time and materials basis or on a fixed-fee or capped-fee basis.

Revenue for time and materials contracts is recognized based on the number of hours worked by our consultants at an agreed upon rate per hour and is recognized in the period in which services are performed.

Revenue related to fixed-fee or capped-fee contracts is recognized on the proportional performance method of accounting based on the ratio of labor hours incurred to estimated total labor hours. This percentage is multiplied by the contracted dollar amount of the project to determine the amount of revenue to recognize in an accounting period. The contracted dollar amount used in this calculation excludes the amount the client pays for reimbursable expenses. There are situations where the number of hours to complete projects may exceed the original estimate. These increases can be as a result of an increase in project scope, unforeseen events that arise, or the inability of the client or the delivery team to fulfill their responsibilities. On an on-going basis, project delivery, Office of Risk Management and finance personnel review hours incurred and estimated total labor hours to complete projects. Any revisions in these estimates are reflected in the period in which they become known. If the Company estimates indicate that a contract loss will occur, a loss provision will be recorded in the period in which the loss first becomes probable and reasonably estimable. Contract losses are determined to be the amount by which the estimated direct costs of the contract exceed the estimated total revenue that will be generated by the contract and are included in total cost of service.

Revenue from advisory services is recognized ratably over the life of the agreements.

Revenue for contracts with multiple elements is allocated based on the fair value of the elements and is recognized in accordance with FASB Accounting Standards Update (“ASU”) 2009-13, *Multiple-Deliverable Revenue Arrangements, a consensus of the FASB Emerging Issues Task Force*.

Additionally, the Company earns revenue from the sale of software, software licenses and maintenance contracts, which is recognized in accordance with FASB ASC Topic 985, *Software*. Revenue for the sale of software and software licenses is recognized upon contract execution and customer receipt of software. Revenue from maintenance contracts is recognized ratably over the life of the agreements.

Unbilled revenue represents revenue for services performed that have not been invoiced. If the Company does not accurately estimate the scope of the work to be performed, or does not manage its projects properly within the planned periods of time, or does not meet clients expectations under the contracts, then future consulting margins may be negatively affected or losses on existing contracts may need to be recognized. Any such reductions in margins or contract losses could be material to the Company’s results of operations.

Sales tax collected from customers and remitted to the applicable taxing authorities is accounted for on a net basis, with no impact on revenue.

Revenue before reimbursements excludes reimbursable expenses charged to clients. Reimbursements, which include travel and out-of-pocket expenses, are included in revenue, and an equivalent amount of reimbursable expenses is included in cost of service.

**THE HACKETT GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Basis of Presentation and General Information (Continued)**

The agreements entered into in connection with a project, whether time and materials based or fixed-fee or capped-fee based, typically allow clients to terminate early due to breach or for convenience with 30 days' notice. In the event of termination, the client is contractually required to pay for all time, materials and expenses incurred by the Company through the effective date of the termination. In addition, from time to time the Company enters into agreements with its clients that limit its right to enter into business relationships with specific competitors of that client for a specific time period. These provisions typically prohibit the Company from performing a defined range of services which it might otherwise be willing to perform for potential clients. These provisions are generally limited to six to twelve months and usually apply only to specific employees or the specific project team.

*Stock Based Compensation*

The Company records stock based compensation in accordance with FASB ASC Topic 718, *Compensation-Stock Compensation* ("ASC 718"), using the modified-prospective-transition method.

ASC 718 requires entities to recognize compensation expense for awards of equity instruments to employees based on the grant-date fair value of those awards (with limited exceptions). ASC 718 also requires the benefits of tax deductions in excess of recognized compensation expense to be reported as a financing cash flow.

ASC 718 provides an alternative transition method of calculating the excess tax benefits available to absorb any tax deficiencies recognized which the Company has elected to adopt.

*Income Taxes*

Income taxes are accounted for in accordance with FASB ASC Topic 740, *Income Taxes* ("ASC 740"). Under ASC 740, deferred tax assets and liabilities are determined based on differences between the financial reporting carrying values and tax bases of assets and liabilities, and are measured by using enacted tax rates expected to apply to taxable income in the years in which those differences are expected to reverse. Deferred income taxes also reflect the impact of certain state operating loss and tax credit carryforwards. A valuation allowance is provided if the Company believes it is more likely than not that all or some portion of the deferred tax asset will not be realized. An increase or decrease in the valuation allowance, if any, that results from a change in circumstances, and which causes a change in the Company's judgment about the realizability of the related deferred tax asset, is included in the current tax provision.

In accordance with FASB ASC Topic 740-10, *Accounting for Uncertainty in Income Taxes* ("ASC 740-10"), the Company adopted a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on de-recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods and income tax disclosures. The Company reports penalties and tax-related interest expense as a component of income tax expense.

*Net Income (Loss) per Common Share*

Basic net income (loss) per common share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. With regard to restricted stock units issued to employees, the calculation includes only the vested portion of such stock. Net income per share, assuming dilution, is computed by dividing the net income by the weighted average number of common shares outstanding, and will increase by the assumed conversion of other potentially dilutive securities during the period.

**THE HACKETT GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Basis of Presentation and General Information (Continued)**

The following table reconciles basic and dilutive weighted average shares:

	Year Ended		
	December 31, 2010	January 1, 2010	January 2, 2009
Basic weighted average common shares outstanding	40,348,749	38,240,460	40,471,451
Effect of dilutive securities:			
Unvested restricted stock units and common stock subject to vesting requirements issued to employees	1,531,367	—	913,019
Common stock issuable upon the exercise of stock options	41,822	—	113,325
Acquisition-related unregistered shares held in escrow	450,300	—	—
Dilutive weighted average common shares outstanding	<u>42,372,238</u>	<u>38,240,460</u>	<u>41,497,795</u>
Dilutive securities not included in diluted weighted average common shares outstanding:			
Unvested restricted stock units issued to employees	—	616,435	—
Common stock issuable upon the exercise of stock options	—	22,980	—
Acquisition-related unregistered shares held in escrow	—	150,100	—
	<u>—</u>	<u>789,515</u>	<u>—</u>

There were approximately 1.0 million, 1.1 million, and 1.3 million shares of common stock excluded from the above reconciliation for the years ended 2010, 2009, and 2008, respectively, as their inclusion would have had an anti-dilutive effect on diluted net income (loss) per share.

*Fair Value of Financial Instruments*

The Company's financial instruments consist of cash and cash equivalents, restricted cash, accounts receivable and unbilled revenue, accounts payable and accrued expenses and other liabilities.

As of January 2, 2009, the Company had a net balance of \$1.7 million invested in Bank of America's Columbia Strategic Cash Portfolio ("Portfolio") which was closed to redemptions and new investors as of December 2007. The balance was fully redeemed in 2009. As of December 31, 2010 and January 1, 2010, there was no balance on the consolidated balance sheets.

As of December 31, 2010 and January 1, 2010, the fair value of all financial instruments approximated their carrying value due to the short-term nature and maturity of these instruments.

*Concentration of Credit Risk*

The Company provides services primarily to Global 2000 companies and other sophisticated buyers of business consulting and information technology services. The Company performs ongoing credit evaluations of its major customers and maintains reserves for potential credit losses. In 2010 and 2008, no customer accounted for more than 5% of total revenue and in 2009, one customer accounted for 6% of total revenue.

*Management's Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**THE HACKETT GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Basis of Presentation and General Information (Continued)**

*Other Comprehensive Income (Loss)*

The Company reports its comprehensive income (loss) in accordance with FASB ASC Topic 220, *Comprehensive Income*, which establishes standards for reporting and presenting comprehensive income and its components in a full set of financial statements. Other comprehensive income (loss) consists of unrealized gains and losses on available-for-sale securities, and cumulative currency translation adjustments.

*Translation of Non-U.S. Currency Amounts*

The assets and liabilities held by the Company's foreign entities that have a functional currency other than the U.S. Dollar are translated into U.S. Dollars at exchange rates in effect at the end of each reporting period. Foreign entity revenue and expenses are translated into U.S. Dollars at the average rates that prevailed during the period. The resulting net translation gains and losses are reported as foreign currency translation adjustments in shareholders' equity as a component of accumulated other comprehensive income (loss). Gains and losses from foreign currency transactions are included in net income (loss).

*Segment Reporting*

The Company reports business segment information under the provisions of FASB ASC Topic 280, *Segment Reporting* ("ASC 280"). In accordance with ASC 280, the Company engages in business activities in one operating segment, which provides business and technology consulting services.

*Recent Accounting Pronouncements*

In October 2009, the FASB issued ASU 2009-13, which addresses the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. ASU 2009-13 is effective prospectively for revenue arrangements entered into or materially modified beginning in fiscal years on or after June 15, 2010, however, early adoption is permitted. The adoption of ASU 2009-13 did not have a material impact on the Company's consolidated financial statements.

In February 2010, the FASB issued ASU No. 2010-09, *Amendments to Certain Recognition and Disclosure Requirements*, ("ASU 2010-09") which amends FASB ASC Topic 855, *Subsequent Events*, to address certain implementation issues related to an entity's requirement to perform and disclose subsequent-events procedures. ASU 2010-09 requires SEC filers to evaluate subsequent events through the date the financial statements are issued and exempts SEC filers from disclosing the date through which subsequent events have been evaluated. ASU 2010-09 was effective immediately upon issuance. The adoption of ASU 2010-09 did not have a material impact on the Company's consolidated financial statements.

In December 2010, the FASB issued ASU 2010-28, *Intangibles - Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts* ("ASU 2010-28"). ASU 2010-28 modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. ASU 2010-28 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Company is currently evaluating the impact that the adoption of ASU 2010-28 will have on its consolidated financial statements.

In December 2010, the FASB issued ASU 2010-29, *Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations, a consensus of the FASB Emerging Issues Task Force* ("ASU 2010-29"). The objective of ASU 2010-29 is to address diversity in practice relating to the interpretation of pro forma revenue and earnings disclosure requirements for business combinations. Under ASU 2010-29, comparative financial statements should disclose revenue and earnings of the combined entity as if the business combinations that have occurred during the current year had been in effect as of the beginning of the comparable prior annual reporting period only. Additionally, ASU 2010-29 expands the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combinations included in reported pro forma revenue and earnings. ASU 2010-29 is effective prospectively for business combinations acquired on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The Company is currently evaluating the impact that the adoption of ASU 2010-29 will have on its consolidated financial statements.



**THE HACKETT GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Basis of Presentation and General Information (Continued)**

*Reclassifications*

Certain prior period amounts in the consolidated financial statements, and notes thereto, have been reclassified to conform to current period presentation.

**2. Acquisitions and Investing Activities**

Effective November 9, 2009, the Company acquired Archstone Consulting, LLC (“Archstone”) pursuant to an Asset Purchase Agreement (the “Asset Purchase Agreement”) under which the Company purchased from Archstone, Archstone Consulting UK Limited and Archstone Consulting BV (the “Sellers”) the assets used in connection with Archstone’s consulting business. The results of Archstone’s operations have been included in the Company’s consolidated financial statements since November 10, 2009.

Archstone, a company with operations in the United States, United Kingdom and Netherlands, specializes in supply chain, procurement and enterprise performance management consulting. Archstone primarily serves the consumer products, retail, pharmaceutical, financial services and manufacturing industry sectors. Archstone brings to Hackett strategic synergies through its highly skilled workforce and will provide Hackett with new industry-focused supply chain and procurement consulting capabilities which will strongly compliment Hackett’s general and administrative and working capital offerings.

The acquisition of Archstone was accounted for in accordance with FASB ASC Topic 805, *Business Combinations* (“ASC 805”). The purchase price for the assets acquired and liabilities assumed was 5.2 million unregistered shares of the Company’s common stock, of which 1.7 million unregistered shares were subject to an earn-out based on revenue achieved in 2010. The value of the unregistered shares was determined as \$3.48 per share, the closing value of the Hackett’s common stock on the effective date of acquisition. The following table presents the purchase price allocation of the assets acquired and liabilities assumed, based on the fair values (in thousands, except price per share):

<b>Purchase Price Consideration:</b>	
Unregistered shares transferred, net of earn-out shares	3,502
Contingent earn-out shares	1,655
Total share consideration	<u>5,157</u>
Closing share price on November 9, 2009	<u>\$ 3.48</u>
Total fair value of share consideration	<u>\$17,946</u>
Less estimated future share registration cost	<u>100</u>
Total consideration	<u><u>\$17,846</u></u>
<b>Allocation of Purchase Price:</b>	
Cash	\$ 3,000
Accounts receivable	8,327
Prepaid expenses and other current assets	<u>364</u>
Total current assets acquired	11,691
Property and equipment	254
Intangible assets	4,171
Goodwill	<u>11,744</u>
Total assets acquired	\$27,860
Accrued expenses and other liabilities, current	\$ 5,055
Line of credit	<u>3,459</u>
Total current liabilities acquired	8,514
Accrued expenses and other liabilities, non-current	<u>1,500</u>
Total liabilities assumed	<u>\$10,014</u>
Net assets acquired	<u><u>\$17,846</u></u>

With the exception of accounts receivable and long-lived assets, assets and liabilities were valued at the respective carrying amounts which approximates fair value.

**THE HACKETT GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**2. Acquisitions and Investing Activities (Continued)**

The purchase price allocation resulted in \$11.7 million that exceeded the estimated fair value of tangible and intangible assets and liabilities and was allocated to goodwill. The goodwill was included in the Hackett Group reporting unit. The Company believes the goodwill primarily represents the fair value of the assembled workforce acquired. The goodwill amortization is deductible for tax purposes.

The acquired intangible assets with definite lives are amortized over periods ranging from 2 years to 5 years. The following table presents the intangible assets acquired from Archstone as of December 31, 2010 and January 1, 2010:

<u>Category</u>	<u>Amount (in thousands)</u>	<u>Weighted Average Useful Life (in years)</u>
Customer base	\$ 3,028	2.92
Customer backlog	983	0.58
Tradename	160	1.01
	<u>\$ 4,171</u>	<u>2.30</u>

The Company only acquired certain assets and assumed certain liabilities from Archstone. The following unaudited pro forma information includes the operations of Archstone (excluding a division divested in 2008) and is provided assuming the acquisition had occurred as of January 3, 2009 and as of December 29, 2007, respectively (in thousands):

	<u>Year Ended</u>	
	<u>January 1, 2010</u>	<u>January 2, 2009</u>
	<i>(unaudited)</i>	
Total revenue	<u>\$ 182,073</u>	<u>\$ 254,727</u>
Net (loss) income	<u>\$ (12,073)</u>	<u>\$ 14,906</u>

On the acquisition date, the Company recorded a liability for the 1,655,000 earn-out unregistered shares based on the closing price on the date of acquisition. Based on actual net revenue achievements in 2009 and the 2010 annual planning process presented to the Company's Board of Directors, which is also the basis for performance compensation, as of January 1, 2010 the Company estimated that the \$45.0 million revenue target would be met by Archstone.

On May 11, 2010, prior to the end of the earn-out measurement period, the Company and the Sellers agreed to the final earn-out determination of 1,435,000 shares of the total 1,655,000 shares of common stock to be deemed earned, and therefore, 220,000 shares were forfeited by the Sellers. As a result of the fluctuation in the Company's share price and in accordance with ASC 805, the Company recorded a \$1.7 million non-cash re-measurement gain during the year ended December 31, 2010 in the consolidated statement of operations.

As a result of the acquisition, the Company recorded \$261 thousand of acquisition-related costs which were included in selling, general and administrative costs in the consolidated statements of operations for the year ended January 1, 2010.

In addition, the Company issued 941 thousand unregistered shares to former Archstone executives as new employees of the Company that will vest over a two to five year period and are contingent on continued employment. The aggregate grant date fair value of these awards is \$3.5 million. The fair value of these shares is accounted for as compensation expense over the vesting periods.

The Company includes its acquired intangible assets with definite lives in other assets, net in the accompanying consolidated balance sheets. As of December 31, 2010 and January 1, 2010, intangible assets totaled \$2.4 million and \$4.4 million, respectively, which is net of accumulated amortization of \$12.3 million and \$10.3 million, respectively, and foreign currency fluctuations for intangible assets denominated in the British Pound. All of the Company's intangible assets are expected to be fully amortized by the end of 2014. The estimated future amortization expense of intangible assets as of December 31, 2010 is as follows: \$0.8 million in 2011, \$0.5 million in 2012, \$0.6 million in 2013 and \$0.5 million in 2014.

**THE HACKETT GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**3. Fair Value Measurement**

The Company records its assets and liabilities in accordance with FASB ASC Topic 820, *Fair Value Measurements and Disclosures* (“ASC 820”). ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820 describes the following three levels of inputs that may be used to measure fair value:

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable inputs that are not corroborated by market data

As of December 31, 2010 and January 1, 2010 the carrying value of cash and cash equivalents, restricted cash, accounts receivable and unbilled revenue, accounts payable, leases and accrued expenses and other liabilities, approximated the respective fair value due to the short-term nature and maturity of these instruments.

As of January 2, 2009, the Company had an investment in Bank of America’s Columbia Strategic Cash Portfolio (“Portfolio”). The Portfolio units were no longer trading and, therefore, had little or no observable market data. During 2009, the Company’s remaining balance in the Portfolio was redeemed and as a result the Company recorded an additional loss on the marketable investments of \$35 thousand. Based on the valuation methodology used to determine the fair value, the Company categorized the Portfolio as a Level 3 financial asset.

**4. Accounts Receivable and Unbilled Revenue, Net**

Accounts receivable and unbilled revenue, net, consists of the following (in thousands):

	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Accounts receivable	\$ 22,115	\$ 22,340
Unbilled revenue	10,951	7,667
Allowance for doubtful accounts	(1,486)	(1,354)
	<u>\$ 31,580</u>	<u>\$ 28,653</u>

Accounts receivable as of December 31, 2010 and January 1, 2010, is net of uncollected advanced billings. Unbilled revenue as of December 31, 2010 and January 1, 2010, includes recognized recoverable costs and accrued profits on contracts for which billings had not been presented to clients.

**5. Property and Equipment, net**

Property and equipment, net, consists of the following (in thousands):

	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Equipment	\$ 10,667	\$ 10,626
Software	15,836	12,824
Leasehold improvements	1,654	1,654
Furniture and fixtures	940	677
Automobile	26	33
	<u>29,123</u>	<u>25,814</u>
Less accumulated depreciation	(20,307)	(18,677)
	<u>\$ 8,816</u>	<u>\$ 7,137</u>

Depreciation expense for the years ended December 31, 2010, January 1, 2010, and January 2, 2009 was \$1.8 million, \$1.9 million, and \$2.1 million, respectively, and is included in selling, general and administrative costs in the accompanying consolidated statements of operations.

**THE HACKETT GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**6. Accrued Expenses and Other Liabilities**

Accrued expenses and other liabilities consist of the following (in thousands):

	<u>December 31,</u> <u>2010</u>	<u>January 1,</u> <u>2010</u>
Accrued compensation and benefits	\$ 5,610	\$ 4,994
Accrued bonuses	9,354	2,049
Accrued restructuring related expenses	1,732	5,296
Deferred revenue	6,716	6,800
Accrued sales, use, franchise and VAT tax	1,802	1,736
Contingent consideration for earn-out shares	—	5,759
Other accrued expenses	3,926	4,597
	<u>          </u>	<u>          </u>
Current accrued expenses and other liabilities	\$ 29,140	\$ 31,231
Accrued restructuring related expenses - non-current	265	1,836
Other accrued expenses - non-current	2,566	1,542
	<u>          </u>	<u>          </u>
Non-current accrued expenses and other liabilities	2,831	3,378
	<u>          </u>	<u>          </u>
Total accrued expenses and other liabilities	<u>\$ 31,971</u>	<u>\$ 34,609</u>

**7. Restricted Cash**

As of December 31, 2010 and January 1, 2010, the Company had \$1.6 million and \$1.5 million, respectively, on deposit with financial institutions that served as collateral for letters of credit for operating leases and for amounts related to future employee compensation agreements.

**8. Lease Commitments**

The Company has operating lease agreements for its premises that expire on various dates through December 2016. Rent expense, net of subleases for the years ended December 31, 2010, January 1, 2010, and January 2, 2009 was \$1.8 million, \$1.7 million and \$1.8 million, respectively.

Future minimum lease commitments and sublease receipts under non-cancelable operating leases as of December 31, 2010 are as follows (in thousands):

	<u>Rental</u> <u>Payments</u>	<u>Sublease</u> <u>Receipts</u>
2011	\$ 3,320	\$ 474
2012	1,444	—
2013	1,107	—
2014	991	—
2015	757	—
Thereafter	426	—
	<u>          </u>	<u>          </u>
Total	<u>\$ 8,045</u>	<u>\$ 474</u>

**9. Income Taxes**

The Company files federal income tax returns, as well as multiple state, local and foreign jurisdiction tax returns. A number of years may elapse before an uncertain tax position is audited and finally resolved. While it is often difficult to predict the final outcome or the timing of resolution on any particular uncertain tax position, the Company believes that its reserves for income taxes reflect the most probable outcome. The Company adjusts these reserves, as well as the related interest, in light of changing facts and circumstances. The resolution of a matter would be recognized as an adjustment to the provision for income taxes and the effective tax rate in the period of resolution. The Company is no longer subject to examinations of its federal income tax returns by the Internal Revenue Service for years through 2006. All significant state, local and foreign matters have been concluded for years through 2006.

**THE HACKETT GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**9. Income Taxes (Continued)**

The components of income (loss) before income taxes are as follows (in thousands):

	Year Ended		
	December 31, 2010	January 1, 2010	January 2, 2009
Domestic	\$ 14,204	\$ (325)	\$ 14,967
Foreign	(3)	(6,699)	3,374
Income (loss) before income taxes	<u>\$ 14,201</u>	<u>\$ (7,024)</u>	<u>\$ 18,341</u>

The components of income tax (benefit) expense are as follows (in thousands):

	Year Ended		
	December 31, 2010	January 1, 2010	January 2, 2009
Current tax (benefit) expense			
Federal	\$ (191)	\$ (294)	\$ 278
State	239	72	164
Foreign	(74)	10	23
	<u>(26)</u>	<u>(212)</u>	<u>465</u>
Deferred tax (benefit) expense			
Federal	—	—	—
State	—	—	—
Foreign	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>
Income tax (benefit) expense	<u>\$ (26)</u>	<u>\$ (212)</u>	<u>\$ 465</u>

A reconciliation of the federal statutory tax rate with the effective tax rate is as follows:

	Year Ended		
	December 31, 2010	January 1, 2010	January 2, 2009
U.S statutory income tax expense (benefit) rate	35.0%	(35.0)%	35.0%
State income taxes, net of federal income tax benefit	1.1	0.7	0.6
Valuation allowance (reduction)	(36.7)	15.4	(32.8)
Meals and entertainment	1.5	2.5	1.1
Intangible amortization	0.7	1.6	0.7
Foreign exchange loss (gain)	0.4	3.7	(5.4)
Other, net	(2.2)	8.1	3.3
Effective tax rate	<u>(0.2)%</u>	<u>(3.0)%</u>	<u>2.5%</u>

**THE HACKETT GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**9. Income Taxes (Continued)**

The components of the net deferred income tax asset (liability) are as follows (in thousands):

	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Deferred income tax assets:		
Purchased research and development	\$ 184	\$ 290
Allowance for doubtful accounts	587	535
Net operating loss and tax credits carryforward	23,910	26,587
Accrued expenses and other liabilities	<u>5,694</u>	<u>6,218</u>
	30,375	33,630
Valuation allowance	<u>(21,337)</u>	<u>(26,545)</u>
	9,038	7,085
Deferred income tax liabilities:		
Depreciation and amortization	(2,002)	(1,073)
Tax over book amortization on goodwill	(6,883)	(5,502)
Other items	<u>(153)</u>	<u>(510)</u>
	<u>(9,038)</u>	<u>(7,085)</u>
Net deferred income tax asset (liability)	<u>\$ —</u>	<u>\$ —</u>

As of December 31, 2010, the Company had approximately \$47.8 million of U.S. federal net operating loss carryforwards available for tax purposes, primarily resulting from a worthless stock deduction taken in 2002, most of which expire by 2022 if not utilized. Additionally, at December 31, 2010, the Company had approximately \$14.0 million of foreign net operating loss carryforwards, of which approximately \$6.4 million related to operations in the UK, \$3.1 million related to operations in France and \$2.4 million related to operations in Germany. Most of the foreign net operating losses may be carried forward indefinitely.

The liability method of accounting for deferred income taxes requires a valuation allowance against deferred tax assets if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. In determining the need for valuation allowances the Company considers evidence such as history of losses and general economic conditions. At December 31, 2010 and January 1, 2010, the Company had established a valuation allowance of approximately \$21.3 million and \$26.5 million, respectively, to reduce deferred income tax assets primarily related to net operating loss and tax credit carryforwards.

Penalties and tax-related interest expense are reported as a component of income tax expense. For the years ended December 31, 2010, January 1, 2010 and January 2, 2009 the total amount of accrued income tax-related interest and penalties was \$170 thousand, \$170 thousand and \$254 thousand, respectively.

In accordance with ASC 740-10, the Company prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on de-recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods and income tax disclosures.

The following table sets forth the detail and activity of the ASC 740-10 liability during the twelve months ended December 31, 2010 and January 1, 2010 (in thousands):

	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Beginning balance	\$ 370	\$ 768
Additions	—	6
Reduction due to lapse of applicable statute of limitations	(185)	(221)
Other	<u>(15)</u>	<u>(183)</u>
Ending balance	<u>\$ 170</u>	<u>\$ 370</u>

**THE HACKETT GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**9. Income Taxes (Continued)**

As of December 31, 2010 and January 1, 2010, the ASC 740-10 liability of \$170 thousand and \$370 thousand, respectively, was classified as a current liability and included in the current portion of the accrued expenses and other liabilities in the accompanying consolidated balance sheets. The Company does not believe there will be any material changes in its unrecognized tax positions over the next twelve months. The reversal of ASC 740-10 tax liabilities as of December 31, 2010 and January 1, 2010 of \$170 thousand and \$370 thousand, respectively, would have a favorable impact on the effective tax rate in future periods.

**10. Stock Based Compensation**

*Stock Plans*

Total share based compensation included in net income for the year ended December 31, 2010 was \$4.3 million. The number of shares available for future issuance under the plans as of December 31, 2010 were 8,168,915. The Company issues new shares as shares are required to be delivered under the plan.

*Stock Options*

The Company has granted stock options to employees and directors of the Company at exercise prices equal to the market value of the stock at the date of grant. The options generally vest ratably over four years, based on continued employment, with a maximum term of ten years.

Stock option activity under the Company's stock option plans for the year ended December 31, 2010 is summarized as follows:

	<u>Option Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Outstanding as of January 1, 2010	1,202,380	\$ 5.88		
Exercised	(17,553)	2.68		
Forfeited or expired	(202,499)	7.45		
Outstanding as of December 31, 2010	<u>982,328</u>	<u>\$ 5.62</u>	<u>\$ 2.59</u>	<u>\$ 173,214</u>
Exercisable at December 31, 2010	<u>981,870</u>	<u>\$ 5.62</u>	<u>\$ 2.59</u>	<u>\$ 173,214</u>

A summary of the Company's stock option activity for the years ended January 1, 2010 and January 2, 2009 was as follows:

	<u>January 1, 2010</u>		<u>January 2, 2009</u>	
	<u>Option Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Option Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding at beginning of year	1,327,497	\$ 6.03	1,567,598	\$ 5.97
Exercised	(5,500)	2.10	(63,939)	3.60
Forfeited or expired	(119,617)	7.81	(176,162)	6.31
Outstanding at end of year	<u>1,202,380</u>	<u>\$ 5.88</u>	<u>1,327,497</u>	<u>\$ 6.03</u>
Exercisable at end of year	<u>1,201,672</u>	<u>\$ 5.88</u>	<u>1,321,247</u>	<u>\$ 6.04</u>

Other information pertaining to stock option activity during the years ended December 31, 2010, January 1, 2010, and January 2, 2009 was as follows (in thousands):

	<u>Year Ended</u>		
	<u>December 31, 2010</u>	<u>January 1, 2010</u>	<u>January 2, 2009</u>
Total fair value of stock options vested	\$ —	\$ —	\$ 718
Total intrinsic value of stock options exercised	\$ 11	\$ 8	\$ 102

**THE HACKETT GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**10. Stock Based Compensation (Continued)**

The following table summarizes information about the Company's stock options outstanding as of December 31, 2010:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$0.00 - \$4.06	181,356	2.4	\$ 2.62	180,898	\$ 2.62
\$4.07 - \$8.13	759,314	2.7	6.09	759,314	6.09
\$8.14 - \$12.19	40,400	0.9	9.52	40,400	9.52
\$12.20 - \$24.38	1,258	0.0	21.63	1,258	21.63
	<u>982,328</u>	<u>2.6</u>	<u>\$ 5.62</u>	<u>981,870</u>	<u>\$ 5.62</u>

*Restricted Stock Units*

Under the stock plans, participants may be granted restricted stock units, each of which represents a conditional right to receive a common share in the future. The restricted stock units granted under this plan generally vest over one of the following vesting schedules: (1) a four-year period, with 50% vesting on the second anniversary and 25% of the shares vesting on the third and fourth anniversaries of the grant date, (2) a four-year period, with 25% vesting on the first, second, third and fourth anniversary, or (3) a three-year period with 33% vesting on the first, second and third anniversary. Upon vesting, the restricted stock units will convert into an equivalent number of shares of common stock. The amount of expense relating to the restricted stock units is based on the closing market price of the Company's common stock on the date of grant and is amortized on a straight-line basis over the applicable requisite service period. Restricted stock unit activity for the year ended December 31, 2010 was as follows:

	Number of Restricted Stock Units	Weighted Average Grant-Date Fair Value
Nonvested balance as of January 1, 2010	2,461,208	\$ 3.11
Granted	833,396	2.98
Vested	(906,474)	3.24
Forfeited	(176,543)	3.88
Nonvested balance as of December 31, 2010	<u>2,211,587</u>	<u>\$ 2.95</u>

The Company recorded restricted stock unit based compensation expense of \$3.6 million, \$2.6 million and \$3.9 million in 2010, 2009 and 2008, respectively, which is included in stock compensation expense, based on the vesting provisions of the restricted stock units and the fair market value of the stock on the grant date. As of December 31, 2010, there was \$2.9 million of total restricted stock unit compensation related to the nonvested awards not yet recognized, which is expected to be recognized over a weighted average period of 1.73 years.

*Common Stock Subject to Vesting Requirements*

Shares of common stock subject to vesting requirements were issued to employees of Archstone and REL. Employees of these acquired companies vest in these shares over a period of up to five years. Compensation was based on the market value of the Company's common stock at the time of grant and is recognized on a straight-line basis. The activity for common stock subject to vesting requirements for the year ended December 31, 2010 was as follows:

	Number of Shares of Common Stock Subject to Vesting Requirements	Weighted Average Grant-Date Fair Value
Nonvested balance as of January 1, 2010	1,027,454	\$ 3.78
Granted	340,941	2.73
Vested	(127,579)	3.86
Forfeited	(398,912)	3.67
Nonvested balance as of December 31, 2010	<u>841,904</u>	<u>\$ 3.40</u>



**THE HACKETT GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**10. Stock Based Compensation (Continued)**

Recorded compensation expense of \$663 thousand, \$381 thousand and \$290 thousand, during the years ended December 31, 2010, January 1, 2010 and January 2, 2009, respectively, related to common stock subject to vesting requirements. As of December 31, 2010, there was \$1.4 million of total stock based compensation related to common stock subject to vesting requirements not yet recognized, which is expected to be recognized over a weighted average period of 2.92 years.

**11. Shareholders' Equity**

*Employee Stock Purchase Plan*

Effective July 1, 1998, the Company adopted an Employee Stock Purchase Plan to provide substantially all employees who have completed three months of service as of the beginning of an offering period an opportunity to purchase shares of its common stock through payroll deductions. Purchases on any one grant are limited to 10% of eligible compensation. Shares of the Company's common stock may be purchased by employees at six-month intervals at 95% of the fair market value on the last trading day of each six-month period. The aggregate fair market value, determined as of the first trading date of the offering period, of shares purchased by an employee may not exceed \$25,000 annually. The Employee Stock Purchase Plan expires on July 1, 2018. A total of 4,275,000 shares of common stock are available for purchase under the plan with a limit of 400,000 shares of common stock to be issued per offering period. For plan years 2010, 2009 and 2008, 132,015 shares, 168,887 shares and 136,988 shares, respectively, were issued.

*Treasury Stock*

On July 30, 2002, the Company announced that its Board of Directors approved the repurchase of up to \$5.0 million of the Company's common stock. Since the inception of the repurchase plan, the Board of Directors approved the repurchase of an additional \$65.0 million of the Company's common stock, thereby increasing the total program size to \$70.0 million. Under the repurchase plan, the Company may buy back shares of its outstanding stock from time to time either on the open market or through privately negotiated transactions, subject to market conditions and trading restrictions. As of December 31, 2010 and January 1, 2010, the Company had repurchased 18.8 million shares and 17.0 million shares of its common stock, respectively, at an average price of \$3.48 and \$3.50 per share, respectively. As of December 31, 2010, the Company had approximately \$4.5 million available under the Company's buyback program. The Company holds repurchased shares of its common stock as treasury stock and accounts for treasury stock under the cost method.

*Shareholder Rights Plan*

On February 13, 2004, the Company's Board of Directors adopted a Shareholder Rights Plan. Under the Plan, a dividend of one preferred share purchase right (a "Right") was declared for each share of common stock of the Company that was outstanding on February 26, 2004. Each Right entitles the holder to purchase from the Company one one-thousandth of a share of Series A Junior Preferred Stock at a purchase price of \$32.50, subject to adjustment.

The Rights will trade automatically with the common stock and will not be exercisable until a person or group has become an "acquiring person" by acquiring 15% or more of the Company's outstanding common stock, or a person or group commences, or publicly announces a tender offer that will result in such a person or group owning 15% or more of the Company's outstanding common stock. However, Liberty Wanger Asset Management, L.P. (now known as Columbia Wanger Asset Management, L.P.), together with its affiliates and associates will be permitted to acquire up to 20% of the common stock without making the rights exercisable. Upon announcement that any person or group has become an acquiring person, each Right will entitle all rightholders (other than the acquiring person) to purchase, for the exercise price of \$32.50, a number of shares of the Company's common stock having a market value equal to twice the exercise price. Rightholders would also be entitled to purchase common stock of the acquiring person having a value of twice the exercise price if, after a person had become an acquiring person, the Company were to enter into certain mergers or other transactions. If any person becomes an acquiring person, the Board of Directors may, at its option and subject to certain limitations, exchange one share of common stock for each Right.

The Rights have certain anti-takeover effects, in that they would cause substantial dilution to a person or group that attempts to acquire a significant interest in the Company on terms not approved by the Board of Directors. In the event that the Board of Directors determines a transaction to be in the best interests of the Company and its shareholders, the Board of Directors may redeem the Rights for \$0.001 per share at any time prior to a person or group becoming an acquiring person. The Rights will expire on February 13, 2014.

**THE HACKETT GROUP, INC.**  
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**12. Benefit Plan**

The Company maintains a 401(k) plan covering all eligible employees. Subject to certain dollar limits, eligible employees may contribute up to 15% of their pre-tax annual compensation to the plan. The Company may make discretionary contributions on an annual basis. During fiscal years 2010, 2009 and 2008, the Company made matching contributions of 25% of employee contributions up to 4% of their gross salaries. The Company's matching contributions were \$0.3 million in each of the fiscal years ended December 31, 2010, January 1, 2010, and January 2, 2009.

**13. Restructuring Costs**

The Company recorded restructuring costs in 2001 and 2002 primarily related to reductions in consultants and functional support and for the closure and consolidation of facilities and related exit costs. In 2003, 2004, 2005 and 2006, the Company increased these reserves as a result of additional closures and consolidation of facilities, lower than expected sublease rates and longer than expected time estimates to sublease excess facilities. In 2005 and 2006, the Company recorded restructuring costs for the consolidation of facilities and related exit costs as a result of the REL acquisition. In 2009, the Company recorded restructuring costs resulting from the acquisition and integration of Archstone related to discounted lease buy-out actions, the down-sizing of facilities and the related exit costs of those facilities and severance costs (see Note 2).

No restructuring costs were incurred in 2010 and 2008.

The following tables set forth the detail and activity in the restructuring expense accruals (in thousands):

	<u>Severance and Other Employee Costs</u>	<u>Exit, Closure and Consolidation of Facilities</u>	<u>Total</u>
Accrual balance at December 28, 2007	\$ 147	\$ 5,539	\$5,686
2009 Additions, net	3,048	2,378	5,426
2008 Expenditures	(147)	(1,246)	(1,393)
2009 Expenditures	(1,051)	(1,536)	(2,587)
2010 Expenditures	(1,826)	(3,309)	(5,135)
Accrual balance at December 31, 2010	<u>\$ 171</u>	<u>\$ 1,826</u>	<u>\$1,997</u>

**14. Transactions with Related Parties**

In connection with the Company's repurchase of common stock in 2010 and 2009, the Board of Directors approved the Company's buy back of 103,492 shares and 3,931 shares, respectively, of outstanding common stock from employees of the Company and Board of Directors at an average price of \$3.47 and \$2.53 per share, respectively. These shares were included in the Company's treasury stock on the accompanying consolidated balance sheets at December 31, 2010 and January 1, 2010.

**15. Litigation**

The Company is involved in legal proceedings, claims, and litigation arising in the ordinary course of business not specifically discussed herein. In the opinion of management, the final disposition of such matters will not have a material adverse effect on the Company's consolidated financial position, cash flows or results of operations.

**16. Geographic and Service Group Information**

Revenue, which is primarily based on the country of the Company's contracting entity, is attributed to geographic areas as follows (in thousands):

	<u>Year Ended</u>		
	<u>December 31, 2010</u>	<u>January 1, 2010</u>	<u>January 2, 2009</u>
Revenue:			
North America	\$ 158,231	\$106,865	\$141,906
International (primarily European countries)	43,117	35,835	50,195
Total revenue	<u>\$ 201,348</u>	<u>\$142,700</u>	<u>\$192,101</u>

**THE HACKETT GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**16. Geographic and Service Group Information (Continued)**

Long-lived assets are attributed to geographic areas as follows (in thousands):

	<u>December 31,</u> <u>2010</u>	<u>January 1,</u> <u>2010</u>
Long-Lived Assets:		
North America	\$ 71,625	\$ 73,742
International (primarily European countries)	<u>15,593</u>	<u>14,978</u>
Total long-lived assets	<u>\$ 87,218</u>	<u>\$ 88,720</u>

As of December 31, 2010, foreign assets included \$15.0 million of goodwill related to the REL and Archstone acquisitions and \$0.2 million of intangible assets related to the Archstone acquisition. As of January 1, 2010, foreign assets included \$14.4 million of goodwill and intangible assets related to the REL acquisition. As of January 1, 2010, domestic assets included \$15.9 million of goodwill and intangible assets related to the Archstone acquisition which were provisionally allocated to domestic assets.

The Company's revenue is derived from the following service groups (in thousands):

	<u>Year Ended</u>		
	<u>December 31,</u> <u>2010</u>	<u>January 1,</u> <u>2010</u>	<u>January 2,</u> <u>2009</u>
The Hackett Group	\$ 144,884	\$102,055	\$130,815
Hackett Technology Solutions	<u>56,464</u>	<u>40,645</u>	<u>61,286</u>
Total revenue	<u>\$ 201,348</u>	<u>\$142,700</u>	<u>\$192,101</u>

**17. Quarterly Financial Information (unaudited)**

The following table presents unaudited supplemental quarterly financial information for the years ended December 31, 2010 and January 1, 2010 (in thousands, except per share data):

	<u>Quarter Ended</u>			
	<u>April 2,</u> <u>2010</u>	<u>July 2,</u> <u>2010</u>	<u>October 1,</u> <u>2010</u>	<u>December 31,</u> <u>2010</u>
Total revenue	\$46,728	\$53,685	\$ 52,305	\$ 48,630
Income from operations	\$ 1,859	\$ 3,752	\$ 3,914	\$ 2,927
Income before income taxes	\$ 2,808	\$ 4,540	\$ 3,921	\$ 2,932
Net income	\$ 2,698	\$ 4,423	\$ 4,107	\$ 2,999
Basic and diluted net income per common share	\$ 0.07	\$ 0.11	\$ 0.10	\$ 0.07
Diluted net income per common share	\$ 0.07	\$ 0.10	\$ 0.10	\$ 0.07

	<u>Quarter Ended</u>			
	<u>April 3,</u> <u>2009</u>	<u>July 3,</u> <u>2009</u>	<u>October 2,</u> <u>2009</u>	<u>January 1,</u> <u>2010</u>
Total revenue	\$39,516	\$34,616	\$ 34,003	\$ 34,565
Income (loss) from operations	\$ 877	\$ 210	\$ 790	\$ (8,917)
Income (loss) before income taxes	\$ 902	\$ 186	\$ 796	\$ (8,908)
Net income (loss)	\$ 839	\$ 160	\$ 816	\$ (8,627)
Basic and diluted net income (loss) per common share	\$ 0.02	\$ 0.00	\$ 0.02	\$ (0.22)
Diluted net income (loss) per common share	\$ 0.02	\$ 0.00	\$ 0.02	\$ (0.22)

Quarterly basic and diluted net income (loss) per common share were computed independently for each quarter and do not necessarily total to the year to date basic and diluted net income (loss) per common share.

During the fourth quarter of 2009, the Company acquired Archstone (see Note 2) and recorded revenue of \$5.6 million and restructuring costs of \$5.9 million related to the acquisition (see Note 13).

**THE HACKETT GROUP, INC.**  
**SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS AND RESERVES**  
**YEARS ENDED DECEMBER 31, 2010, JANUARY 1, 2010 AND JANUARY 2, 2009**  
*(in thousands)*

<u>Allowance for Doubtful Accounts</u>	<u>Balance at Beginning of Year</u>	<u>Charge to Expense</u>	<u>Write-offs, net of Recoveries</u>	<u>Balance at End of Year</u>
Year Ended December 31, 2010	\$ 1,354	\$ 157	\$ (25)	\$ 1,486
Year Ended January 1, 2010	\$ 1,631	\$ 93	\$ (370)	\$ 1,354
Year Ended January 2, 2009	\$ 1,484	\$ 145	\$ 2	\$ 1,631

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

**Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Annual Report on Form 10-K.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during the three months ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission as of and for the year ended December 31, 2010. Based on our evaluation under the framework in "Internal Control – Integrated Framework," our management concluded that our internal control over financial reporting was effective as of the end of the period covered by this Annual Report.

The Company's independent registered certified public accounting firm has audited our internal control over financial reporting as of December 31, 2010 and has expressed an unqualified opinion thereon.

## Report of Independent Registered Certified Public Accounting Firm

Board of Directors and Shareholders  
The Hackett Group, Inc.  
Miami, Florida

We have audited The Hackett Group, Inc.'s internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Hackett Group, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A, Control and Procedures – Management's Report on Internal Control over Financial Reporting". Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, The Hackett Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of The Hackett Group, Inc. as of December 31, 2010 and January 1, 2010 and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss), and cash flows for each of the three years in the period ended December 31, 2010 and our report dated March 10, 2011 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Miami, Florida  
March 10, 2011

**ITEM 9B. OTHER INFORMATION**

None

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Information responsive to this Item is incorporated herein by reference to the Company's definitive 2011 Proxy Statement for the 2011 Annual Meeting of Shareholders.

**ITEM 11. EXECUTIVE COMPENSATION**

Information responsive to this Item is incorporated herein by reference to the Company's definitive 2011 Proxy Statement for the 2011 Annual Meeting of Shareholders.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Information responsive to this Item is incorporated herein by reference to the Company's definitive 2011 Proxy Statement for the 2011 Annual Meeting of Shareholders.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

Information responsive to this Item is incorporated herein by reference to the Company's definitive 2011 Proxy Statement for the 2011 Annual Meeting of Shareholders.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

Information appearing under the caption "Fees Paid to Independent Accountants" in the 2011 Proxy Statement is hereby incorporated by reference.

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) The following documents are filed as a part of this Form:

1. Financial Statements

The Consolidated Financial Statements filed as part of this report are listed and indexed on page 25. Schedules other than those listed in the index have been omitted because they are not applicable or the required information has been included elsewhere in this report.

2. Financial Statement Schedules

Schedule II — Valuation and Qualifying Accounts and Reserves are included in this report. Schedules other than those listed in the index have been omitted because they are not applicable or the information required to be set forth therein is contained, or incorporated by reference, in the Consolidated Financial Statements of The Hackett Group, Inc. or notes thereto.

3. Exhibits: See Index to Exhibits on page 53

The Exhibits listed in the accompanying Index to Exhibits are filed or incorporated by reference as part of this report.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Miami, State of Florida, on March 10, 2011.

### THE HACKETT GROUP, INC.

By: /s/ Ted A. Fernandez

Ted A. Fernandez  
Chief Executive Officer and Chairman

Pursuant to the requirements of the Securities Act of 1934, this Form 10-K has been signed by the following persons on behalf of the Registrant in the capacities and on the date indicated.

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Ted A. Fernandez</u> Ted A. Fernandez	Chief Executive Officer and Chairman (Principal Executive Officer)	March 10, 2011
<u>/s/ Robert A. Ramirez</u> Robert A. Ramirez	Executive Vice President, Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	March 10, 2011
<u>/s/ David N. Dungan</u> David N. Dungan	Chief Operating Officer and Director	March 10, 2011
<u>/s/ Terence M. Graunke</u> Terence M. Graunke	Director	March 10, 2011
<u>/s/ Richard Hamlin</u> Richard Hamlin	Director	March 10, 2011
<u>/s/ John R. Harris</u> John R. Harris	Director	March 10, 2011
<u>/s/ Edwin A. Huston</u> Edwin A. Huston	Director	March 10, 2011
<u>/s/ Alan T. G. Wix</u> Alan T. G. Wix	Director	March 10, 2011



## INDEX TO EXHIBITS

<u>Exhibit No.</u>	<u>Exhibit Description</u>
2.1	Share Purchase Agreement dated November 29, 2005 between The Hackett Group Limited, Answerthink, Inc. and the Sellers of REL Consultancy Group Limited (incorporated herein by reference to the Registrant's Form 8-K dated December 1, 2005).
2.2	Asset Purchase Agreement acquiring Archstone Consulting, LLC. In accordance with the instructions to Item 601(b)(2) of Regulation S-K, the schedules and exhibits to the Asset Purchase Agreement are not filed herewith. The Asset Purchase Agreement identifies such schedules and exhibits, including the general nature of their content. The Company undertakes to provide such schedules and exhibits to the Securities and Exchange Commission upon request (incorporated by reference to the Registrant's Form 8-K filed on November 13, 2009).
3.1	Second Amended and Restated Articles of Incorporation of the Registrant, as amended (incorporated herein by reference to the Registrant's Form 10-K for the year ended December 29, 2000).
3.2	Amended and Restated Bylaws of the Registrant, as amended (incorporated herein by reference to the Registrant's Form 10-K for the year ended December 29, 2000).
3.3	Articles of Amendment of the Third Amended and Restated Articles of Incorporation of the Registrant (incorporated herein by reference to the Registrant's Form 10-K for the year ended December 28, 2007).
3.4	Amendment to Amended and Restated Bylaws of The Hackett Group (incorporated by reference to the Registrant's Form 8-K filed on March 31, 2008).
10.1	Registrant's 1998 Stock Option and Incentive Plan (incorporated herein by reference to the Registrant's Registration Statement on Form S-8 (333-64542)).
10.2	Amendment to Registrant's 1998 Stock Option and Incentive Plan (incorporated herein by reference to the Registrant's Form 10-K for the year ended December 28, 2001).
10.3	Form of Employment Agreement entered into between the Registrant and Mr. Dungan (incorporated herein by reference to the Registrant's Form 10-K for the year ended December 28, 2001).
10.4	Form of Employment Agreement entered into between the Registrant and each of Messrs. Fernandez, Frank and Knotts (incorporated herein by reference to the Registrant's Registration Statement on Form S-1 (333-48123)).
10.5	AnswerThink Consulting Group, Inc. Employee Stock Purchase Plan, as amended (incorporated herein by reference to the Registrant's Registration Statement on Form S-8 (333-108640)).
10.6	Amendment to Registrant's Employee Stock Purchase Plan (incorporated herein by reference to the Registrant's Form 10-K/A filed on February 15, 2007).
10.7	Securities Purchase Agreement by and among THINK New Ideas, Inc., Capital Ventures International and Marshall Capital Management, Inc. (incorporated herein by reference to THINK New Ideas, Inc.'s Form 8-K dated March 12, 1999).
10.8	Registration Rights Agreement dated as of March 3, 1999 by and among THINK New Ideas, Inc., Capital Ventures International and Marshall Capital Management, Inc. (incorporated herein by reference to THINK New Ideas, Inc.'s Form 8-K dated March 12, 1999).
10.9	Amendment to Employment Agreement between Answerthink, Inc. and Ted A. Fernandez (incorporated herein by reference to the Registrant's Form 10-Q dated November 10, 2004).
10.10	Amendment to Employment Agreement between Answerthink, Inc. and David N. Dungan (incorporated herein by reference to the Registrant's Form 10-Q dated November 10, 2004).
10.11	Lawson Software & The Hackett Group Advisory Alliance Agreement dated May 9, 2005 (incorporated herein by reference to the Registrant's Form 8-K dated May 13, 2005).
10.12	Amendment dated June 10, 2005 to Executive Agreement between Answerthink, Inc. and Ted A. Fernandez (incorporated herein by reference to the Registrant's Form 8-K dated June 16, 2005).

- 10.13 Employment Agreement dated November 9, 2005 between the Registrant and Grant M. Fitzwilliam (incorporated herein by reference to the Registrant's Form 10-Q dated November 9, 2005).
- 10.15 First Amendment to Employment Agreement between Answerthink, Inc. and Grant M. Fitzwilliam, effective August 1, 2007 (incorporated herein by reference to the Registrant's Form 10-Q dated July 31, 2007).
- 10.16 Employment Agreement dated August 1, 2007 between the Registrant and Robert A. Ramirez (incorporated herein by reference to the Registrant's Form 10-Q dated July 31, 2007).
- 10.17 Third Amendment to Employment Agreement between the Registrant and Ted A. Fernandez (incorporated herein by reference to the Registrant's Form 8-K dated January 2, 2009).
- 10.18 Third Amendment to Employment Agreement between the Registrant and David N. Dungan (incorporated herein by reference to the Registrant's Form 8-K dated January 2, 2009).
- 21.1 Subsidiaries of the Registrant (exhibits filed herewith).
- 23.1 Consent of BDO USA, LLP (exhibits filed herewith).
- 31.1 Certification by CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (exhibits filed herewith).
- 31.2 Certification by CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (exhibits filed herewith).
- 32 Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (exhibits filed herewith).

**Corporate Headquarters**

The Hackett Group, Inc.  
1001 Brickell Bay Drive, Suite 3000  
Miami, FL 33131  
Telephone: 305-375-8005  
Facsimile: 305-379-8810  
[www.thehackettgroup.com](http://www.thehackettgroup.com)

**Annual Meeting**

The Hackett Group shareholders are invited to attend our Annual Meeting on Friday, May 6, 2011 at 11:00 am at:  
Corporate Headquarters  
1001 Brickell Bay Drive, Suite 3000  
Miami, FL 33131

**Transfer Agent**

Computershare Trust Company, NA  
PO Box 43078  
Providence, RI 02940-3078  
1-877-282-1168  
<http://www.computershare.com/investor>

**Independent Auditors**

BDO Seidman, LLP  
Miami, FL

**Board of Directors**

Ted A. Fernandez  
Chairman & Chief Executive Officer  
The Hackett Group, Inc.

David N. Dungan  
Vice Chairman & Chief Operating Officer  
The Hackett Group, Inc.

Richard N. Hamlin  
Retired Partner, KPMG LLP

John R. Harris  
Operating Partner  
glendonTodd Capital LLC &  
Chief Executive Officer  
Chemical Information Services

Edwin A. Huston  
Retired Vice Chairman  
Ryder System, Inc.

Terence M. Graunke  
Chairman & Co-founder  
Lake Capital Management, LLC

Alan T.G. Wix  
Former Chairman of the Board  
Fiva Marketing, Ltd.



We made great progress in 2010... and are pleased with our strong performance as well as the prospects for 2011. When you consider our powerful brand, our unique ability to combine our proprietary intellectual capital with our terrific talent as depicted in our new Hackett Performance Exchange dashboard offerings, we are eager to see what 2011 offers.



**Ted A. Fernandez**  
Chairman and Chief Executive Officer



# The Hackett Group

World Class Defined and Enabled

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