



The Hackett Group

World Class Defined and Enabled

2014 Annual Report



I believe that we have never been in a better position strategically. The unique value of our IP and the potential it offers when coupled with our terrific talent and improving execution are strong proof points.



Ted A. Fernandez
Chairman and Chief Executive Officer

Dear Shareholders,

Once again, I am pleased to update you on our progress over the past year. We reported strong operating results, with revenue of \$236.7 million, an increase of 6% over last year. Pro forma diluted net earnings per share for 2014 was \$0.56, up 37% over 2013.

Having said that, it is important to look back on the year to fully appreciate how much we accomplished. Our 2013 results were severely disrupted in the fourth quarter by the significant drop in European revenues offset the solid gains achieved in the U.S. during that year. The weak European performance carried into 2014, so we acted swiftly and took the necessary actions in Europe to reduce our operating costs consistent with that marketplace's demand volatility. In the first quarter we also closed an important acquisition in the application managed services area which strongly complements our market leading Enterprise Performance Management ("EPM") transformation and technology implementation capabilities. These actions along with other investments we had made in 2013 to increase our sales investment in our strategically important Benchmarking and Executive Advisory groups, which further impacted the performance of our Business Transformation groups in the U.S., positioned a large part of our success during 2014.

On the balance sheet side, in the fourth quarter of 2014 our Board of Directors approved and paid an annual dividend of 12 cents which represented a 20% increase over the amount paid in the prior year. In early 2015, the Board also approved a further increase to our annual dividend program, raising the annual dividend to 14 cents or an additional 17%, which will now be paid semi-annually. This increase was to continue to reflect our desire to reward those shareholders that are long-term holders of our stock as part of our overall strategy to return capital to shareholders.

On the investment front, we benefitted from the synergies from our EPM Application Management Services acquisition. Additionally, we continued to develop and attract talent and expand our brand by continuing to build our proprietary Best Practices Intellectual Property. Our investment in Intellectual Property ("IP") has expanded from the technology and performance analytics capabilities we developed in launching the Hackett Performance Exchange ("HPE") which automatically extracts information from leading ERP systems to how we use the benchmarking performance data and best practice imple-

mentation insight and accelerators to create value for our clients and potential partners.

As we look forward, we expect continued growth from our US business across nearly all of our groups. We also expect activity to be stable to slightly improving internationally as we expand our offerings abroad even if it comes with a more volatile decision-making environment when compared to the US.

Strategically, we will continue to look for ways to leverage our IP to help differentiate and support the sale and delivery of our Executive Advisory and Consulting offerings. What is clearly different as we enter 2015 is that we now see the potential to leverage our IP through new external channels by using it to help others sell and deliver their offerings. In the same way we use it to help differentiate our capabilities, we are now exploring ways to share this IP to help other solution providers to do the same.

One of the key drivers for our success in the U.S. has been the focus on growing our Benchmarking and Executive Advisory "wedge offerings", which we accomplished by expanding our dedicated sales channel and our offerings. Both of these offerings are highly differentiated in the marketplace and provide significant access to leading global companies and create cross-selling leverage for our other business transformation and technology services.

The other key driver of our growth strategy has been to continue to expand our market leading Enterprise Performance Management business. In 2014, we were recognized as Oracle's top EPM influence partner of the year in North America for the second year in a row. EPM now represents approximately 46% of our North American Hackett Group revenues. Additionally, our new EPM Application Managed Services group provides us with both the opportunity for recurring application managed services ("AMS") revenue as well as the opportunity to leverage offshore resources to deliver our EPM implementation services more cost effectively. Both the extension of capability in this area and the ability to leverage highly trained offshore resources very effectively add strongly to our ability to transform and implement EPM solutions. Equally important has been the significant AMS capability we have built in our SAP ERP practice. The AMS capability in both our EPM and ERP Groups allows us to maintain a post implementation re-

curing revenue relationship with clients which has strengthen both of these groups significantly.

As we said throughout 2014, we believe that some of our international volatility may be a result of a more limited solution offering in Europe. We will continue to invest in the expansion of our EPM capability in Europe. We believe by more closely mirroring our US capabilities in Europe we can improve our ability to grow in Europe and also further strengthen our global delivery capabilities which are important for large multinational engagements.

Our strategy is to continue to build our brand by building new offerings and capabilities around our unmatched IP in order to serve clients strategically and, whenever possible, continuously.

We believe clients that leverage our IP are more likely to allow us to serve them more broadly. IP-based services enhance our opportunities to serve clients remotely, continuously and more profitably. Our goal is to use our unique IP to establish a strategic relationship with our clients directly or through strategic alliances and channels and to further use that entry point to introduce our business transformation and technology consulting and AMS capabilities. Specific to new channels we are now seeing new opportunities to use our IP to do more than enable us to differentiate our offerings and improve the sale and delivery of our offerings. We now also believe we can use our IP to help others sell and deliver their offerings more powerfully and thereby extending their value add delivered to clients. These opportunities are in the early stages, but we hope to be able to provide specific examples in the upcoming year.

This strategy would allow us to increase our client base, profitability and increase revenue per client. It would also represent an increase in recurring revenue due to the way these services are provided and contracted. The best example of this strategy continues to be the revenue leverage we have experienced from our Executive Advisory client base.

Specific to Executive Advisory client base, our long-term goal 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, and eventually through our Hackett Performance Exchange. At the end of 2014 our Executive Advisory members totaled 930 across 285 clients. For the year, over 40% of our Hackett sales were to Executive Advisory clients, which continues to demonstrate the leverage of this entry or IP wedge offering.

On the Hackett Performance Exchange front, we continue to build our pipeline as we learn how best to sell and leverage this new capability. We also continue to explore alliances that could allow us to expand the sale of this unique offering. We now know that this new platform will become a critical component of all of our Benchmarking offerings over the next several years and will help us further differentiate our market leading Benchmarking offerings

Lastly, even though we believe that we have the client base, offerings and market coverage to grow our business, we continue to look for acquisitions and alliances that can strategically leverage our IP and add scope, scale or capabilities which can accelerate our growth.

In summary, we reported strong annual results. We are also optimistic that the changes and investments we have made throughout the year, in our IP, our sales channel, and in extending our EPM capabilities will lead to improving results.

More importantly, I believe that we have never been in a better position strategically. The unique value of our IP and the potential it offers when coupled with our terrific talent and improving execution are strong proof points.

As always, let me close by thanking our associates and shareholders for your ongoing support and commitment to our organization.



Ted A. Fernandez
Chairman & CEO
The Hackett Group, Inc.

**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 January 2, 2015

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 No.)

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

Large Accelerated Filer <input type="checkbox"/>	Accelerated Filer <input checked="" type="checkbox"/>
Non-accelerated Filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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 \$132,322,230 on June 27, 2014 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 10, 2015 was 29,842,993.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Annual Report on Form 10-K incorporates by reference certain portions of the registrant's proxy statement for its 2015 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.
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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 could 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, foreign exchange rates and interest rates. An additional description of our risk factors is described in Part I – 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

In this Annual Report on 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. We were originally incorporated on April 23, 1997.

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 11,000 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 (“Archstone”), Hackett offers Strategy and 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 Enterprise Resource Planning Solutions group (“ERP Solutions”), Hackett offers business application consulting services that help maximize returns on investments for SAP technologies. Hackett has worked with over 5,000 major corporations and government agencies, including 93% of the Dow Jones Industrials, 86% of the Fortune 100, 87% of the DAX 30 and 51% of the FTSE 100.

Although we continued to experience gradual economic improvement in the U.S. during 2014, corporate decision making in Western Europe decision continued to be volatile throughout the year. As we enter 2015, we expect U.S. market conditions to continue to be healthy. Relative to International, which is primarily Western Europe, we expect activity to be stable to improving. However, we continue to expect decision making to remain volatile when compared to the U.S. marketplace. We expect 2.0% to 3.0% GDP growth in the U.S.; however, we remain cautious about our expectations for improved demand in Western Europe but we know most recent growth revision for the region calls for 1+% GDP growth. Global organizations continue to recognize the need to drive sustainable productivity improvement as they look to be competitive in the growing but complex global economy. Global growth opportunities require organizations to build global standards and to drive operating excellence based on the regional growth opportunities defined by the markets that they serve. We believe that many organizations have yet to make the global and regional organizational changes commensurate with the varying regional market conditions. We believe that our offerings are well aligned with the demands that all organizations will continue to experience during a period of slow and volatile economic growth. We will continue to ensure that our clients understand that our unique intellectual capital along with our expanding implementation capabilities will enable them to identify and implement necessary performance improvement initiatives in a targeted and timely manner.

Specifically, organizations must make certain 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 while both leveraging global standards and resources, and executing based on the specific regional requirements. 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, we believe that our Company is 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 an actionable 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 organizational 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 utilize Capability Maturity Models to better understand our client’s capabilities and organizational maturity, so that we can determine the level of performance that they can realistically pursue. In addition, we utilize Hackett’s 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 on a project to ensure that best practices are identified and implemented, whenever possible. This coordinated approach addresses people, process, information and technology.

Because Hackett solutions are based on Hackett-Certified™ best 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 and reduced implementation risk.

The BPI approach often begins with a clear understanding of current performance, which is normally 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 seven key business components which include organization and governance, process design, process sourcing, service placement, information, enabling technology and skills and talent, 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™ best 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 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 best of breed software, while limiting customization. BPI establishes the foundation for improved performance.

We believe the combination of optimized processes, best practice-based business applications 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 international accounting firms; international, national and regional strategic consulting and systems implementation 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 acknowledge that many of our competitors are larger but 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 and Executive Advisory offerings.

In spite of our size relative to our competitor group, we believe our competitive position is distinct. With Hackett’s best practice intellectual capital and its direct link to our BPI approach, we believe we can empirically and objectively 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 more than 11,000 benchmark studies over 21 years at over 3,500 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, 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.** We believe that 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 client 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 upon 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. What is clearly different as we enter 2015 is that we now see the potential to leverage our IP through new external channels. We are now exploring ways to use our IP to help others sell and deliver their offerings, thereby extending the value add they deliver to their clients, and perhaps also providing us with an opportunity to introduce our other services.
- **Introduce New IP-centric Offerings.** We have developed a new performance management dashboard called the “Hackett Performance Exchange”, HPE.” In 2013 and 2012, we worked closely with our participating launch member clients to validate our targeted functionality and value proposition. This new dashboard offering should allow us to benchmark and monitor the performance improvement opportunity of key operating processes. This offering securely extracts operating information directly from a client’s ERP system which allows them to measure and compare their performance to Hackett peer and world class standards. For clients that run current versions of Oracle and SAP software, this solution is fully automated, requiring limited client time to set up and populate and also provides for electronic access over various devices. In addition to HPE, we also continue to look for ways to leverage our proprietary “IP” through new offerings and other external channels.
- **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 and performance gains and improved returns on their organizational and technology investments. Many 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 innovation in business process automation. In 2015, we expect to further invest in the automation and further integration of our various metrics, best practices and best practice acceleration tools.
- **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 growth will be our ability to attract, retain, develop and motivate associates. We continue to invest in associate development programs that are specifically targeted to improve our go-to-market and delivery execution.
- **Leverage our offshore capabilities.** Leveraging an offshore resource capability to support the delivery of our offerings has been a key strategy for our organization. Our facilities in Hyderabad, India and Montevideo, Uruguay (Oracle EPM business acquired in 2014) allow us to increase operational efficiencies and build targeted key capabilities that can appropriately support the delivery of our offerings and internal functional teams.

- **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 plan to pursue acquisitions that are accretive or have strong growth prospects, and 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.
- **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 5,000 organizations globally. This includes 93% of the Dow Jones Industrials, 86% of the Fortune 100, 87% of the DAX 30 and 51% of the FTSE 100. Ongoing studies are conducted in a wide range of areas, including selling, general and administrative, finance, human resources, information technology, procurement, enterprise performance management, shared service centers and working capital management. Hackett has identified over 2,000 best practices for over 105 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 flow 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.

ERP Solutions

Our ERP Solutions professionals help clients choose and deploy the software applications that best meet their needs and objectives. Our expertise is focused on SAP ERP (with primary focus on Life Sciences and Consumer Goods). 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 ERP Solutions 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 off-shore application development and

Application Maintenance and Support (“AMS”) services. These services include post-implementation support for select business application and infrastructure platforms. Our ERP Solutions group also includes a division responsible for the sale of the SAP suite of ERP applications.

During the quarter ended March 29, 2013, we exited the Oracle ERP implementation business practice, which is separate and distinct from our Oracle Enterprise Performance Management (“EPM”) practice.

See Note 1 and Note 17 to our consolidated financial statements included in this Annual Report on Form 10-K regarding segment reporting and geographic and service group information.

CLIENTS

We focus on developing long-term client relationships with Global 2000 firms and other sophisticated buyers of business and IT consulting services. During 2014, 2013 and 2012, our ten most significant clients accounted for 21%, 20% and 18% of revenue, respectively, and during each year one client generated 3% of total revenue for each year. 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 that 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. We have a regional sales and market development effort in both North America and Europe, so we can better coordinate the sales and marketing messages from our 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. Our technology 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, 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 thereby 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 enabling 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, our partners and 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 January 2, 2015, we had 904 associates, excluding subcontractors, 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 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 Councils, which operate in each of the cities where we have offices, is to strive to make 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.

INTELLECTUAL PROPERTY

We have obtained trademark registrations for The Hackett Group and Book of Numbers and various other names and logos, and we own registrations for certain of our other trademarks in the United States and abroad. We believe that the establishment of these marks is an important part to our strategy of expanding the brand recognition we have built around our empirical knowledge capital.

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 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. 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 charters for the Audit Committee, Compensation Committee and Nominating and Governance 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 and regional economic conditions.

Global and regional economic conditions may affect our clients' businesses and the markets they serve. A substantial or prolonged economic downturn, weak or uncertain economic conditions or similar factors 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 brand 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 2014, our ten largest clients accounted for 21% 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 acquire in the future may demand time and attention from our senior management.

Integrating businesses we 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. We may be unsuccessful in negotiating 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.

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 a 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 expected 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 secrets, 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 our IP, 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, the Euro and the Australian Dollar. 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.

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 office is 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, 2020. We also have offices in Atlanta, Chicago, New York, Philadelphia, San Francisco, Frankfurt, London, Amsterdam, Paris, Montevideo, Hyderabad and Sydney. As of January 2, 2015, we had operating leases that expire on various dates through December 2022. 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. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Our common stock is traded under the NASDAQ symbol, "HCKT". 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:

2014	High	Low
Fourth Quarter	\$ 9.37	\$ 5.82
Third Quarter	\$ 6.41	\$ 5.80
Second Quarter	\$ 6.48	\$ 5.78
First Quarter	\$ 6.30	\$ 5.76
2013	High	Low
Fourth Quarter	\$ 7.48	\$ 5.47
Third Quarter	\$ 7.13	\$ 5.14
Second Quarter	\$ 5.30	\$ 4.42
First Quarter	\$ 5.09	\$ 3.89

The closing sale price for the common stock on March 10, 2015, was \$8.97.

As of March 10, 2015, there were 284 holders of record of our common stock and 29,842,993 shares of common stock outstanding.

Securities Authorized for Issuance under Equity Compensation Plans

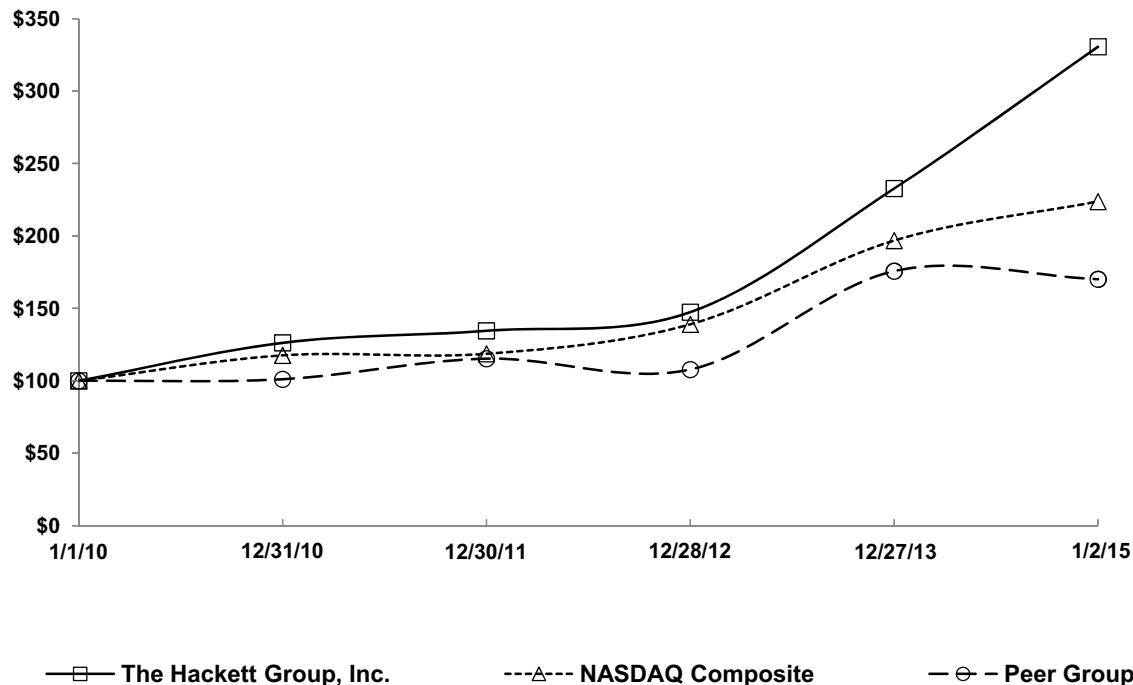
Information appearing under the caption "Equity Compensation Plan Information" in the 2015 Proxy Statement is hereby incorporated by reference.

Performance Graph

The following graph compares our cumulative total shareholder return since January 1, 2010 with the NASDAQ Composite Index and a peer group index composed of other companies with similar business models identified below. The graph assumes that the value of the investment in our common stock and each index (including reinvestment of dividends) was \$100 on January 1, 2010.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among The Hackett Group, Inc., the NASDAQ Composite Index, and a Peer Group



*\$100 invested on 1/1/10 in stock or 12/31/09 in index, including reinvestment of dividends. Index calculated on month-end basis.

	1/1/10	12/31/10	12/30/11	12/28/12	12/27/13	1/2/15
The Hackett Group, Inc.	\$ 100.00	\$ 126.26	\$ 134.53	\$ 147.43	\$ 232.78	\$ 330.62
NASDAQ Composite Index	\$ 100.00	\$ 117.61	\$ 118.70	\$ 139.00	\$ 196.83	\$ 223.74
Peer Group	\$ 100.00	\$ 101.04	\$ 115.27	\$ 107.78	\$ 175.70	\$ 170.10

The Peer Group includes Edgewater Technology, Inc., FTI Consulting, Inc., Huron Consulting Group, Inc., Information Services Group, Inc., and The Corporate Executive Board Company.

Company Dividend Policy

In December 2012, we announced an annual dividend program. In 2014, we paid an annual dividend of \$0.12 per share or \$3.5 million to shareholders of record as of close of business on December 10, 2014. In December 2013 and 2012, we paid annual dividends of \$0.10 per share, or \$3.1 million to shareholders of record as of close of business on December 10, 2013 and December 20, 2012, respectively. Subsequent to January 2, 2015, we announced an increase in the dividend from \$0.12 to \$0.14 per share, which will be paid on a semi-annual basis in 2015. Our credit agreement contains restrictions on our ability to declare dividends and repurchase shares. The declaration of dividends shall at all times be subject to the final determination of our Board of Directors that a

dividend is prudent at that time in consideration of the needs of the business and other factors including the ability to pay dividends under our credit agreement.

Purchases of Equity Securities

On October 15, 2013, we completed a tender offer to purchase approximately 1.0 million shares of our common stock at a purchase price of \$7.00 per share, for an aggregate cost of \$6.9 million, excluding fees and expenses related to the tender offer. The 1.0 million shares accepted for purchase represented approximately 3% of our issued and outstanding shares of common stock at that time. See Note 12 to our consolidated financial statements included in this Annual Report on Form 10-K.

On March 21, 2012, we completed a tender offer to purchase 11.0 million shares of our common stock at a purchase price of \$5.00 per share, for an aggregate cost of approximately \$55.0 million, excluding fees and expenses related to the tender offer. The 11.0 million shares accepted for purchase represented approximately 27% of our issued and outstanding shares of common stock at that time. See Note 12 to our consolidated financial statements included in this Annual Report on Form 10-K.

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, excluding the above mentioned tender offer transaction. The repurchase plan was first announced on July 30, 2002. 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 January 2, 2015:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Dollar Value of Shares That May Yet be Purchased Under the Program
Balance as of December 27, 2013	—	\$ —	—	\$ 4,594,028
December 28, 2013 to September 26, 2014	1,692,254	\$ 6.07	1,692,254	\$ 4,321,933
September 27, 2014 to October 24, 2014	108,113	\$ 6.08	108,113	\$ 3,665,104
October 25, 2014 to November 21, 2014	—	\$ —	—	\$ 3,665,104
November 22, 2014 to January 2, 2015	—	\$ —	—	\$ 3,665,104
	1,800,367	\$ 6.07	1,800,367	

During 2014, our Board of Directors authorized an additional \$10.0 million to repurchase shares of our common stock. As of January 2, 2015, the cumulative authorization was for up to \$95.0 million with cumulative purchases under the plan of \$91.3 million, leaving \$3.7 million available for future purchases.

ITEM 6. SELECTED FINANCIAL DATA

The following consolidated financial data sets forth our selected financial information as of and for each of the years in the five-year period ended January 2, 2015, and has been derived from our audited consolidated financial statements. The selected consolidated financial data should be read together with our consolidated financial statements, related notes thereto and with “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

	Year Ended				
	January 2, 2015	December 27, 2013	December 28, 2012	December 30, 2011	December 31, 2010
Consolidated Statement of Operations Data:					
<i>(in thousands, except per share data)</i>					
Revenue:					
Revenue before reimbursements	\$ 213,519	\$ 200,391	\$ 199,749	\$ 186,676	\$ 171,302
Reimbursements	23,218	23,439	22,987	22,387	18,966
Total revenue ⁽¹⁾	<u>236,737</u>	<u>223,830</u>	<u>222,736</u>	<u>209,063</u>	<u>190,268</u>
Costs and expenses:					
Cost of service:					
Personnel costs before reimbursable expenses ⁽²⁾	138,958	130,456	125,912	115,719	105,334
Reimbursable expenses	23,218	23,439	22,987	22,387	18,966
Total cost of service	<u>162,176</u>	<u>153,895</u>	<u>148,899</u>	<u>138,106</u>	<u>124,300</u>
Selling, general and administrative costs	61,386	54,208	56,997	54,058	53,774
Bargain purchase gain from acquisition ⁽³⁾	(3,015)	—	—	—	—
Restructuring costs (benefit)	3,604	—	(211)	—	—
Total costs and operating expenses	<u>224,151</u>	<u>208,103</u>	<u>205,685</u>	<u>192,164</u>	<u>178,074</u>
Operating income	<u>12,586</u>	<u>15,727</u>	<u>17,051</u>	<u>16,899</u>	<u>12,194</u>
Other income (expense):					
Non-cash acquisition earn-out shares re-measurement gain	—	—	—	—	1,727
Interest (expense) income, net ⁽⁴⁾	(620)	(465)	(610)	33	22
Income from continuing operations before income taxes	<u>11,966</u>	<u>15,262</u>	<u>16,441</u>	<u>16,932</u>	<u>13,943</u>
Income tax expense (benefit) ⁽⁵⁾	2,255	6,398	(478)	(4,495)	(26)
Income from continuing operations	<u>9,711</u>	<u>8,864</u>	<u>16,919</u>	<u>21,427</u>	<u>13,969</u>
(Loss) income from discontinued operations	—	(135)	(222)	342	258
Net income	<u>\$ 9,711</u>	<u>\$ 8,729</u>	<u>\$ 16,697</u>	<u>\$ 21,769</u>	<u>\$ 14,227</u>
Basic net income per common share:					
Income per common share from continuing operations	\$ 0.34	\$ 0.29	\$ 0.54	\$ 0.54	\$ 0.34
(Loss) income per common share from discontinued operations	—	—	(0.01)	0.01	0.01
Net income per common share	<u>\$ 0.34</u>	<u>\$ 0.29</u>	<u>\$ 0.53</u>	<u>\$ 0.55</u>	<u>\$ 0.35</u>
Diluted net income per common share:					
Income per common share from continuing operations	\$ 0.33	\$ 0.28	\$ 0.51	\$ 0.51	\$ 0.33
(Loss) income per common share from discontinued operations	—	(0.01)	(0.01)	0.01	0.01
Net income per common share	<u>\$ 0.33</u>	<u>\$ 0.27</u>	<u>\$ 0.50</u>	<u>\$ 0.52</u>	<u>\$ 0.34</u>
Weighted average common shares outstanding:					
Basic	28,718	30,283	31,704	39,895	40,349
Diluted	29,881	32,116	33,511	41,875	42,372
Consolidated Balance Sheet Data:					
Cash and cash equivalent	\$ 14,608	\$ 18,199	\$ 16,906	\$ 32,936	\$ 25,337
Restricted cash	\$ —	\$ 354	\$ 683	\$ 885	\$ 1,610
Working capital	\$ 18,246	\$ 25,897	\$ 23,761	\$ 42,013	\$ 27,243
Total assets	\$ 152,786	\$ 150,318	\$ 153,921	\$ 167,426	\$ 150,801
Long-term debt	\$ 18,263	\$ 19,029	\$ 22,105	\$ —	\$ —
Shareholders' equity	\$ 89,788	\$ 93,176	\$ 94,726	\$ 130,248	\$ 113,240
Dividends paid per share	\$ 0.12	\$ 0.10	\$ 0.10	\$ —	\$ —

- (1) In January 2014, we acquired Technolab, an EPM AMS business. As a result of the acquisition, our 2014 results of operations included \$10.3 million in total revenue from Technolab.
- (2) Fiscal year 2014 includes acquisition-related compensation expense of \$4.3 million from the acquisition of Technolab, an EPM AMS business.
- (3) Fiscal year 2014 includes a bargain purchase gain from the acquisition of Technolab, an EPM AMS business. See Note 16 to our consolidated statements included in this Annual Report.
- (4) Interest expense relates to the Credit Facility which was entered into in February 2012.
- (5) Fiscal years 2012 and 2011 include the benefit for the release of \$6.7 million and \$5.3 million, respectively, of deferred income tax asset valuation allowance.

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 11,000 benchmark studies over 21 years at over 3,500 of the world's leading companies.

Hackett's combined capabilities include executive advisory programs, benchmarking, business transformation 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, Executive Advisory, Enterprise Performance Management ("EPM") and EPM Application Maintenance and Support ("AMS") groups. "ERP Solutions" encompasses our SAP ERP Technology and SAP Maintenance groups.

During the first quarter of 2013, we exited the Oracle ERP implementation practice, which is separate and distinct from our Oracle EPM practice. The transaction was not material to our consolidated financial statements, however, the following information has been recast to exclude activity related to the business.

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 ("GAAP"). 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 on issues that are 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. 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 be recognized 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, 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. These costs are included in total cost of service.

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

Additionally, we earn revenue from the resale of software licenses and maintenance contracts. Revenue for the resale 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.

Revenue for contracts with multiple elements is allocated based on the respective selling price of the individual elements.

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, 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 collectability. 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)

Long-lived assets are 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.

Business Combinations

We account for business combinations using the acquisition method of accounting. This method requires the use of fair values in determining the carrying values of the purchased assets and assumed liabilities, which are recorded at fair value at acquisition date, and identifiable intangible assets are recorded at fair value. Costs directly related to the business combinations are recorded as expenses as they are incurred. Fair values are subject to refinement for up to one year after the closing date of an acquisition as information relative to closing date fair values become available. A bargain purchase gain on an acquisition occurs when the net of the estimated fair value of the assets acquired and liabilities assumed exceeds the consideration paid.

Goodwill and Other Intangible Assets

Goodwill and intangible assets deemed to have indefinite lives are not amortized, but rather are 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 evaluations. 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. The reporting units are The Hackett Group (including Benchmarking, Business Transformation, Business Transformation EPM, Strategy and Operations and Executive Advisory Programs) and Hackett Technology Solutions (including SAP ERP and AMS, Oracle EPM and EPM AMS). In assessing the recoverability of goodwill and intangible assets, we make estimates based on 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 January 2, 2015, neither of our reporting units were at risk of failing step one.

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. 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 recognize compensation expense for awards of equity instruments to employees based on the grant-date fair value of those awards, with limited exceptions, over the requisite service period.

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

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.

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 when 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 GAAP, 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. 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 GAAP.

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 2014, 2013 and 2012 ended on January 2, 2015, December 27, 2013 and December 28, 2012, respectively. References to a year included in this document refer to a fiscal year rather than a calendar year.

Adjusted non-GAAP information is provided to enhance the understanding of the Company's financial performance and is reconciled to the Company's GAAP information in the tables below. In our quarterly earnings announcements, we refer to adjusted non-GAAP information as "pro forma", which is unaudited.

References to adjusted non-GAAP results specifically exclude non-cash stock compensation expense, intangible asset amortization expense, other one-time acquisition related income and expense, restructuring charges and assumes a normalized tax rate.

The following table sets forth, for the periods indicated, our results of operations and the percentage relationship to revenue before reimbursements of such results (in thousands, except per share amounts), as well as related adjusted non-GAAP information.

	Twelve Months Ended								
	January 2, 2015		December 27, 2013		December 28, 2012				
Revenue:									
Revenue before reimbursements	\$	213,519	100%	\$	200,391	100%	\$	199,749	100%
Reimbursements		<u>23,218</u>			<u>23,439</u>			<u>22,987</u>	
Total revenue		236,737			223,830			222,736	
Costs and expenses:									
Cost of service:									
Personnel costs		131,962	62%		127,172	63%		122,922	62%
Non-cash stock compensation expense		2,656			2,453			2,198	
Acquisition-related stock compensation expense		900			831			792	
Acquisition consideration reflected as compensation expense		3,440			-			-	
Reimbursable expenses		<u>23,218</u>			<u>23,439</u>			<u>22,987</u>	
Total cost of service		162,176			153,895			148,899	
Selling, general and administrative costs		56,240	26%		50,583	25%		53,926	27%
Non-cash stock compensation expense		2,814			2,835			2,524	
Acquisition related costs		120			188			-	
Amortization of intangible assets		<u>2,212</u>			<u>602</u>			<u>547</u>	
Total selling, general, and administrative expenses		61,386	29%		54,208	27%		56,997	29%
Bargain purchase gain from acquisition		(3,015)			-			-	
Restructuring costs (benefit)		<u>3,604</u>			<u>-</u>			<u>(211)</u>	
Total costs and operating expenses		<u>224,151</u>			<u>208,103</u>			<u>205,685</u>	
Income from operations		12,586	6%		15,727	8%		17,051	9%
Other income (expense):									
Interest income		6			7			20	
Interest expense		<u>(626)</u>			<u>(472)</u>			<u>(630)</u>	
Income from continuing operations before income taxes		11,966	6%		15,262	8%		16,441	8%
Income tax expense (benefit)		<u>2,255</u>	1%		<u>6,398</u>	3%		<u>(478)</u>	0%
Income from continuing operations		9,711			8,864			16,919	
Loss from discontinued operations		<u>-</u>			<u>(135)</u>			<u>(222)</u>	
Net income	\$	<u>9,711</u>	5%	\$	<u>8,729</u>	4%	\$	<u>16,697</u>	8%
Diluted net income per common share	\$	<u>0.33</u>		\$	<u>0.27</u>		\$	<u>0.50</u>	

	Twelve Months Ended		
	January 2, 2015	December 27, 2013	December 28, 2012
Adjusted non-GAAP data (unaudited):			
Income from continuing operations before income taxes	\$ 11,966	\$ 15,262	\$ 16,441
Bargain purchase gain from acquisition	(3,015)	-	-
Non-cash stock compensation expense	5,470	5,288	4,722
Acquisition-related stock compensation expense	900	831	792
Acquisition-related compensation expense	3,440	-	-
Acquisition-related costs	120	188	-
Restructuring costs (benefit)	3,604	-	(211)
Amortization of intangible assets	2,212	602	547
Adjusted non-GAAP income before income taxes	24,697	22,171	22,291
Adjusted non-GAAP income tax expense	7,847 32%	8,868 40%	8,916 40%
Adjusted non-GAAP net income	<u>\$ 16,850</u>	<u>\$ 13,303</u>	<u>\$ 13,375</u>
Adjusted non-GAAP diluted net income per share	<u>\$ 0.56</u>	<u>\$ 0.41</u>	<u>\$ 0.40</u>
Adjusted non-GAAP gross margin (1)	\$ 81,557 38%	\$ 73,219 37%	\$ 76,827 39%

(1) Adjusted non-GAAP gross margin is revenue before reimbursable expenses less personnel costs before reimbursable expenses.

Comparison of 2014 to 2013

Overview. We are a global company with operations primarily in the United States and Western Europe. Our revenue is denominated in multiple currencies, primarily the U.S. Dollar, British Pound, Euro and Australian Dollar, and as a result is affected by currency exchange rate fluctuations. The exchange rate fluctuations did not have a significant impact on comparisons between 2014 and 2013. Revenues are analyzed based on geographic location of engagement team personnel.

Revenue. Our 2013 results were severely disrupted in the fourth quarter by the significant drop in European revenues offset the solid gains achieved in the U.S. during that year. The weak European performance carried into 2014, so we acted swiftly and took the necessary actions in Europe to reduce our operating costs consistent with the marketplace's demand volatility. In the first quarter we also closed an important acquisition in the Application Managed Services ("AMS") area which strongly complements our market leading Enterprise Performance Management ("EPM") transformation and technology implementation capabilities. These actions, along with other investments we made in 2013 to increase our sales in our strategically important Benchmarking and Executive Advisory groups, which further impacted the performance of our Business Transformation groups in the U.S., helped to position us for success in 2014.

Total Company revenue increased 6% to \$236.7 million in 2014 from \$223.8 million in 2013. Excluding the acquisition of the EPM AMS business purchased in 2014, North American revenues were up approximately 4%, with International revenues down 9% for the fiscal year. The Company's international revenues accounted for 19% and 20% in 2014 and 2013, respectively.

Reimbursements as a percentage of total revenue were 10% during both 2014 and 2013. In 2014 and 2013, no customer accounted for more than 5% of our total revenue.

Total Cost of Service. Cost of service consists of personnel costs, which are comprised of salaries, benefits incentive compensation for consultants and subcontractor fees; acquisition related compensation costs relating to the EPM AMS business acquired in January 2014; non-cash stock compensation expense; and reimbursable expenses associated with projects.

Personnel costs increased 4% to \$132.0 million, or 62% of net revenues, in 2014 from \$127.2 million, or 63% of net revenues in 2013. The increase was primarily a result of the increased headcount due to the acquisition of the EPM AMS business in January 2014. Excluding the incremental personnel costs as a result of the acquisition, total personnel costs decreased less than 1% to \$126.9 million, or 62% of net revenues. This decrease was primarily due to lower European personnel costs and the transition to a more traditional resource model.

As a result, total Company adjusted non-GAAP gross margin was 38% of net revenues, as compared to 37% in the previous year.

Selling, General and Administrative. Selling, general and administrative costs increased 11% to \$56.2 million in 2014, or 26% of net revenues, from \$50.6 million, or 25% of net revenues, in 2013. The one percent increase is primarily due to increased incentive compensation accruals and selling costs commensurate with our improved Company performance.

Amortization of Intangible Assets. Amortization expense increased to \$2.2 million in 2014, as compared to \$0.6 million in 2013, as a result of intangible assets acquired as part of the EPM AMS acquisition in January 2014.

Bargain Purchase Gain from Acquisition. During the first quarter of 2014, we acquired and accounted for certain assets and liabilities of Technolab International Corporation (“Technolab”). At closing, the Seller received \$3.0 million in cash, not subject to vesting, and \$1.0 million in stock, subject to service vesting. Additionally, the seller had the ability to earn up to \$8.0 million in a combination of cash, not subject to service vesting, and stock, subject to service vesting, based on a one year profitability based earn-out. Subsequent to year end, the amounts paid to the Seller at closing in stock, as well as the amounts earned as part of the earn-out due to the Seller in cash, not subject to service vesting, and stock, subject to service vesting, which were originally treated as purchase consideration were re-characterized and accounted for as compensation expense.

After these adjustments, of the total \$12.0 million of Technolab purchase consideration, we reflected \$3.0 million as purchase consideration and will reflect \$9.0 million as compensation expense, of which \$4.3 million was recognized in 2014. These adjustments resulted in the bargain purchase gain of \$3.0 million, which is reflected in our financial statements.

Restructuring Costs. During 2014, we recorded restructuring costs of \$3.6 million, primarily for reductions in consultants and office leases in Europe. These actions were taken as a result of our continued volatility in demand in our European markets.

Income Taxes. In 2014, we recorded income tax expense of \$2.3 million, which reflected an effective tax rate of 18.8% for certain federal, foreign and state taxes. Excluding the one-time purchase accounting benefit from the 2014 acquisition, our effective tax rate was 30.7%. In 2013, we recorded income tax expense of \$6.4 million, which reflected an effective tax rate of 42.3% for certain federal, foreign and state taxes. The decrease from 2014 was primarily the result of a more favorable geographical mix of taxable income.

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.

For tax purposes, as of January 2, 2015, we had a total of \$23.7 million of U.S. federal and foreign net operating loss carryforwards of which \$12.0 million related to U.S. and \$11.7 million relate to foreign operations, primarily in the U.K. Additionally, as of January 2, 2015, we had \$3.1 million of U.S. state net operating loss carryforwards.

Comparison of 2013 to 2012

Overview. Our revenue is denominated in multiple currencies, mostly the U.S. Dollar, British Pound, Euro and Australian Dollar, and as a result is affected by currency exchange rate fluctuations. The exchange rate fluctuations did not have a significant impact on comparisons between 2013 and 2012.

Revenue. Total Company revenue increased slightly to \$223.8 million in 2013, from \$222.7 million in 2012. After solid performance through the first three quarters of the fiscal year, weak performance from our European and Australian operations offset solid gains achieved in North America. We experienced improvements in our Hackett U.S. business throughout the year, with growth across most of our groups. This improvement was somewhat offset by slower growth from our ERP group.

The Company's 2013 North American revenue increased 4% from 2012, while the international revenue decreased 12% during the same time period. The Company's international revenue, accounted for 20% and 23% of total Company revenue in 2013 and 2012, respectively.

Reimbursements as a percentage of total revenue were 10% during both 2013 and 2012. In 2013 and 2012, no customer accounted for more than 5% of our total revenue.

Total Cost of Service. Cost of service consists of personnel costs, which are comprised of salaries, benefits incentive compensation for consultants, subcontractor fees, and reimbursable expenses associated with projects.

Personnel costs increased 3% to \$127.2 million, or 63% of net revenues, in 2013 from \$122.9 million, or 62% of net revenues in 2012. The increase in personnel costs was primarily due to greater utilization of subcontractors in our SAP ERP and Oracle EPM technology implementation groups.

As a result, total Company adjusted non-GAAP gross margin was 37% of net revenues, as compared to 39% in the previous year.

Selling, General and Administrative. Selling, general and administrative costs decreased 6% to \$50.6 million in 2013 from \$53.9 million in 2012. As a percentage of revenue before reimbursements, selling, general and administrative costs decreased to 25% in 2013 from 27% in 2012, primarily due to cost containment initiatives implemented in 2013.

Income Taxes. In 2013, we recorded income tax expense of \$6.4 million, which reflected an effective tax rate of 42.3% for certain federal, foreign and state taxes. In 2012, we reported an income tax benefit of \$0.5 million. This resulted from a \$6.7 million tax benefit due to the release of valuation allowances related to the net operating loss carryforwards not previously recognized.

For tax purposes, as of December 27, 2013, we had a total of \$36.7 million of U.S. and foreign net operating loss carryforwards, of which \$16.5 million related to U.S. and \$20.2 million related to foreign operations, primarily in the U.K. Additionally, as of December 27, 2013, we had \$3.1 million of U.S. state net operating loss carryforwards.

Liquidity and Capital Resources

As of January 2, 2015 and December 27, 2013, we had \$14.6 million and \$18.2 million of cash and cash equivalents, respectively.

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

	Year Ended	
	January 2, 2015	December 27, 2013
Cash flows provided by operating activities	\$ 16,012	\$ 24,259
Cash flows used in investing activities	\$ (5,098)	\$ (1,739)
Cash flows used in financing activities	\$ (14,535)	\$ (21,249)

Cash Flows from Operating Activities

Net cash provided by operating activities was \$16.0 million in 2014, as compared to \$24.3 million in 2013. The decrease in the cash flows from operations primarily related to an increase in accounts receivable and unbilled revenue, and an additional payroll cycle in 2014 resulting from a 53 week fiscal year, and higher incentive compensation payments when compared to the previous year.

Cash Flows from Investing Activities

Net cash used in investing activities was \$5.1 million in 2014, as compared to \$1.7 million in 2013. The increase in the usage of cash was primarily attributable to net cash consideration paid for the EPM AMS acquisition and higher capital expenditures in 2014 related to the global rollout of new laptops for our associates, which occurs every three to four years.

Cash Flows from Financing Activities

Net cash used in financing activities was \$14.5 million in 2014 and \$21.2 million in 2013. In 2014, cash was utilized to repurchase stock for \$11.0 million, pay dividends of \$3.5 million, and a net pay down debt of \$1.0 million. In 2013, cash was utilized to repurchase stock for \$13.0 million, a net pay down of debt of \$6.0 million, and dividend payments of \$3.1 million. Strategically, we continue to leverage our strong balance sheet and cash flow to return capital to our shareholders by repurchasing stock and by the issuance of dividends when strategic acquisitions are not available.

We currently believe that available funds (including the cash on hand and funds available for borrowing under the revolving line of credit of \$20.0 million), 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 January 2, 2015. The following table summarizes our future Amended Term Loan principal payments and lease commitments under our non-cancelable operating leases as of January 2, 2015 (in thousands):

Contractual Obligations	Total	Less Than 1 Year	1-3 Years	4-5 Years	More Than 5 Years
Short-term debt obligations ⁽¹⁾	\$ —	\$ —	\$ —	\$ —	\$ —
Long-term debt obligations ⁽¹⁾	18,263	—	11,622	6,641	—
Operating lease obligations	8,027	1,933	3,072	1,871	1,151
Total	\$ 26,290	\$ 1,933	\$ 14,694	\$ 8,512	\$ 1,151

(1) Excludes interest charges on borrowings and the fee on the amount of any unused commitment that we may be obligated to pay under our Revolver or Amended Term Loan, as such amounts vary and cannot be estimated. See Note 9 to our consolidated financial statements included in this Annual Report on Form 10-K.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of January 2, 2015.

Recently Issued Accounting Standards

For discussion of recently issued accounting standards, see Note 1 to our consolidated financial statements included in this Annual Report on Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of January 2, 2015, our exposure to market risk related primarily to changes in interest rates and foreign currency exchange rate risks.

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to the Credit Facility, which is subject to variable interest rates. The interest rates per annum applicable to loans under the Credit Facility will be, at our option, equal to either a base rate or a LIBOR rate for one-, two-, three- or nine-month interest periods chosen by us in each case, plus an applicable margin percentage. A 100 basis point increase in our interest rate under our Credit Facility would not have had a material impact on our 2014 results of operations.

Exchange Rate Sensitivity

We face exposure to adverse movements in foreign currency exchange rates, as a portion of our revenue, expenses, assets and liabilities are denominated in currencies other than the U.S. Dollar, primarily the British Pound, the Euro and the Australian Dollar. 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, see “Item 1A. Risk Factors” in Part I of this report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

**THE HACKETT GROUP, INC.
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Report of Independent Registered 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. as of January 2, 2015 and December 27, 2013 and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended January 2, 2015. In connection with our audits of the financial statements, we have also audited the financial statement schedule listed in the accompanying index. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 January 2, 2015 and December 27, 2013, and the results of its operations and its cash flows for each of the three years in the period ended January 2, 2015, 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 January 2, 2015, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 18, 2015 expressed an adverse opinion thereon.

Miami, Florida
March 18, 2015

/s/ BDO USA, LLP
Certified Public Accountants

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

	<u>January 2, 2015</u>	<u>December 27, 2013</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 14,608	\$ 18,199
Accounts receivable and unbilled revenue, net of allowance of \$1,330 and \$1,674 at January 2, 2015 and December 27, 2013, respectively	37,421	34,011
Deferred tax asset, net	2,828	5,130
Prepaid expenses and other current assets	2,199	2,283
Total current assets	<u>57,056</u>	<u>59,623</u>
Restricted cash	—	354
Property and equipment, net	13,753	13,019
Other assets	6,548	1,039
Goodwill, net	75,429	76,283
Total assets	<u>\$ 152,786</u>	<u>\$ 150,318</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 7,909	\$ 8,080
Accrued expenses and other liabilities	30,901	25,646
Total current liabilities	<u>38,810</u>	<u>33,726</u>
Non-current deferred tax liability, net	5,925	4,387
Long-term debt	18,263	19,029
Total liabilities	<u>62,998</u>	<u>57,142</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; 53,203,395 and 52,143,103 shares issued at January 2, 2015 and December 27, 2013, respectively	53	52
Additional paid-in capital	264,912	261,861
Treasury stock, at cost, 23,989,776 and 22,189,409 shares at January 2, 2015 and December 27, 2013, respectively	(91,335)	(80,406)
Accumulated deficit	(77,677)	(83,880)
Accumulated other comprehensive loss	(6,165)	(4,451)
Total shareholders' equity	<u>89,788</u>	<u>93,176</u>
Total liabilities and shareholders' equity	<u>\$ 152,786</u>	<u>\$ 150,318</u>

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

THE HACKETT GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Year Ended		
	January 2, 2015	December 27, 2013	December 28, 2012
Revenue:			
Revenue before reimbursements	\$ 213,519	\$ 200,391	\$ 199,749
Reimbursements	23,218	23,439	22,987
Total revenue	<u>236,737</u>	<u>223,830</u>	<u>222,736</u>
Costs and expenses:			
Cost of service:			
Personnel costs before reimbursable expenses (includes \$3,556, \$3,284 and \$2,990 of stock compensation expense in 2014, 2013 and 2012, respectively)	138,958	130,456	125,912
Reimbursable expenses	23,218	23,439	22,987
Total cost of service	<u>162,176</u>	<u>153,895</u>	<u>148,899</u>
Selling, general and administrative costs (includes \$2,814, \$2,835 and \$2,524 of stock compensation expense in 2014, 2013 and 2012, respectively)	61,386	54,208	56,997
Bargain purchase gain from acquisition	(3,015)	—	—
Restructuring cost (benefit)	3,604	—	(211)
Total costs and operating expenses	<u>224,151</u>	<u>208,103</u>	<u>205,685</u>
Operating income	12,586	15,727	17,051
Other income (expense):			
Interest income	6	7	20
Interest expense	(626)	(472)	(630)
Income from continuing operations before income taxes	11,966	15,262	16,441
Income tax expense (benefit)	2,255	6,398	(478)
Income from continuing operations	9,711	8,864	16,919
Loss from discontinued operations	—	(135)	(222)
Net income	<u>\$ 9,711</u>	<u>\$ 8,729</u>	<u>\$ 16,697</u>
Basic net income per common share:			
Income per common share from continuing operations	\$ 0.34	\$ 0.29	\$ 0.54
Loss per common share from discontinued operations	—	—	(0.01)
Net income per common share	<u>\$ 0.34</u>	<u>\$ 0.29</u>	<u>\$ 0.53</u>
Diluted net income per common share:			
Income per common share from continuing operations	\$ 0.33	\$ 0.28	\$ 0.51
Loss per common share from discontinued operations	—	(0.01)	(0.01)
Net income per common share	<u>\$ 0.33</u>	<u>\$ 0.27</u>	<u>\$ 0.50</u>
Weighted average common shares outstanding:			
Basic	28,718	30,283	31,704
Diluted	29,881	32,116	33,511

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

THE HACKETT GROUP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Year Ended		
	January 2, 2015	December 27, 2013	December 28, 2012
Net income	\$ 9,711	\$ 8,729	\$ 16,697
Foreign currency translation adjustment	(1,714)	53	938
Total comprehensive income	<u>\$ 7,997</u>	<u>\$ 8,782</u>	<u>\$ 17,635</u>

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

THE HACKETT GROUP, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands)

	Common Stock		Additional Paid in Capital	Treasury Stock		Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount		Shares	Amount			
Balance at December 30, 2011	61,315	\$ 61	\$ 313,202	(21,171)	\$ (74,444)	\$ (103,129)	\$ (5,442)	\$ 130,248
Issuance of common stock	1,921	2	231	—	—	—	—	233
Common stock purchased through Tender Offer	(11,000)	(11)	(55,576)	—	—	—	—	(55,587)
Amortization of restricted stock units and common stock subject to vesting requirements	—	—	5,278	—	—	—	—	5,278
Dividend payment	—	—	—	—	—	(3,081)	—	(3,081)
Net income	—	—	—	—	—	16,697	—	16,697
Foreign currency translation	—	—	—	—	—	—	938	938
Balance at December 28, 2012	<u>52,236</u>	<u>\$ 52</u>	<u>\$ 263,135</u>	<u>(21,171)</u>	<u>\$ (74,444)</u>	<u>\$ (89,513)</u>	<u>\$ (4,504)</u>	<u>\$ 94,726</u>
Issuance of common stock	890	1	(95)	—	—	—	—	(94)
Treasury stock purchased	—	—	—	(1,018)	(5,962)	—	—	(5,962)
Common stock purchased through Tender Offer	(983)	(1)	(7,169)	—	—	—	—	(7,170)
Amortization of restricted stock units and common stock subject to vesting requirements	—	—	5,990	—	—	—	—	5,990
Dividend payment	—	—	—	—	—	(3,096)	—	(3,096)
Net income	—	—	—	—	—	8,729	—	8,729
Foreign currency translation	—	—	—	—	—	—	53	53
Balance at December 27, 2013	<u>52,143</u>	<u>\$ 52</u>	<u>\$ 261,861</u>	<u>(22,189)</u>	<u>\$ (80,406)</u>	<u>\$ (83,880)</u>	<u>\$ (4,451)</u>	<u>\$ 93,176</u>
Issuance of common stock	1,060	1	(1,837)	—	—	—	—	(1,836)
Treasury stock purchased	—	—	—	(1,800)	(10,929)	—	—	(10,929)
Amortization of restricted stock units and common stock subject to vesting requirements	—	—	4,888	—	—	—	—	4,888
Dividend payment	—	—	—	—	—	(3,508)	—	(3,508)
Net income	—	—	—	—	—	9,711	—	9,711
Foreign currency translation	—	—	—	—	—	—	(1,714)	(1,714)
Balance at January 2, 2015	<u>53,203</u>	<u>\$ 53</u>	<u>\$ 264,912</u>	<u>(23,989)</u>	<u>\$ (91,335)</u>	<u>\$ (77,677)</u>	<u>\$ (6,165)</u>	<u>\$ 89,788</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		
	January 2, 2015	December 27, 2013	December 28, 2012
Cash flows from operating activities:			
Net income	\$ 9,711	\$ 8,729	\$ 16,697
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense	2,357	1,883	2,080
Amortization expense	2,212	602	547
Amortization of debt issuance costs	95	96	82
Provision for doubtful accounts	785	742	657
Loss (gain) on foreign currency transaction	8	(4)	187
Restructuring costs (benefit)	3,604	—	(211)
Non-cash stock compensation expense	6,370	6,119	5,522
Bargain purchase gain from acquisition	(3,015)	—	—
Deferred income tax expense (benefit)	1,949	5,705	(1,191)
Changes in assets and liabilities, net of acquisition:			
(Increase) decrease in accounts receivable and unbilled revenue	(2,848)	1,841	(2,317)
Decrease in prepaid expenses and other assets	42	514	95
(Decrease) increase in accounts payable	(171)	369	278
Decrease in accrued expenses and other liabilities	(5,087)	(2,337)	(2,074)
Net cash provided by operating activities	<u>16,012</u>	<u>24,259</u>	<u>20,352</u>
Cash flows from investing activities:			
Purchases of property and equipment	(3,097)	(2,068)	(3,252)
Cash consideration paid for acquisition	(2,877)	—	—
Cash acquired in acquisition	522	—	—
Decrease in restricted cash	354	329	202
Net cash used in investing activities	<u>(5,098)</u>	<u>(1,739)</u>	<u>(3,050)</u>
Cash flows from financing activities:			
Debt proceeds	10,500	11,002	40,000
Payment of debt proceeds	(11,487)	(16,974)	(15,000)
Debt issuance costs	(22)	(129)	(482)
Dividends paid	(3,508)	(3,096)	(3,081)
Proceeds from issuance of common stock	937	1,080	752
Repurchases of common stock	(10,955)	(13,132)	(55,587)
Net cash used in financing activities	<u>(14,535)</u>	<u>(21,249)</u>	<u>(33,398)</u>
Effect of exchange rate on cash	30	22	66
Net (decrease) increase in cash and cash equivalents	(3,591)	1,293	(16,030)
Cash and cash equivalents at beginning of year	18,199	16,906	32,936
Cash and cash equivalents at end of year	<u>\$ 14,608</u>	<u>\$ 18,199</u>	<u>\$ 16,906</u>
Supplemental disclosure of cash flow information:			
Cash paid for income taxes	\$ 893	\$ 684	\$ 230
Cash paid for interest	\$ 538	\$ 338	\$ 547

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 global strategic advisory firm and a leader in best practice advisory, benchmarking, and transformation consulting services, including shared services, offshoring and outsourcing advice.

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.

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 2014, 2013 and 2012 ended on January 2, 2015, December 27, 2013 and December, 28, 2012, 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.

Restricted cash in 2013 and 2012 related to future employee compensation agreements. As of January 2, 2015, the Company did not have any restricted cash balances.

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 collectability of 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. If the financial condition of the Company’s clients were to deteriorate, resulting in their inability to make payments, additional allowances may be required.

Dividends

In December 2012, the Company’s Board of Directors approved the initiation of an annual cash dividend program in the amount of \$0.10 per share. In 2014, the Company’s Board of Directors approved an increase in the dividend payment from \$0.10 per share to \$0.12 per share. Subsequent to fiscal 2014, the Company’s Board of Directors approved a semi-annual dividend program and an increase in the dividend to \$0.14 per share. The Company’s dividend policy is reviewed periodically by the Board of Directors. The amount and timing of all dividend payments is subject to the discretion of the Board of Directors and will depend upon business conditions, contractual obligations, legal restrictions, results of operations, financial conditions and other factors.

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 consolidated statements of operations.

The Company capitalizes the costs of internal-use software, which generally includes 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.

THE HACKETT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation and General Information (Continued)

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

Long-lived assets are 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.

Business Combinations

The Company accounts for business combinations using the acquisition method of accounting. This method requires the use of fair values in determining the carrying values of the purchased assets and assumed liabilities, which are recorded at fair value at acquisition date, and identifiable intangible assets are recorded at fair value. Costs directly related to the business combinations are recorded as expenses as they are incurred. Fair values are subject to refinement for up to one year after the closing date of an acquisition as information relative to closing date fair values become available. A bargain purchase gain on an acquisition occurs when the net of the estimated fair value of the assets acquired and liabilities assumed exceeds the consideration paid.

Goodwill and Other Intangible Assets

Goodwill and intangible assets deemed to have indefinite lives are not amortized, but rather are 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. 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 approach. 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 ERP and SAP Application Maintenance and Support ("AMS"), Oracle EPM and EPM AMS). In assessing the recoverability of goodwill and intangible assets, the Company utilizes the market approach and makes estimates based on assumptions regarding various factors to determine if impairment tests are met. The market approach utilizes valuation multiples based on operating data from publicly traded companies within the same industry. Multiples derived from guideline companies provide an indication of how much a knowledgeable investor in the marketplace would be willing to pay for a company. These multiples are then applied to the Company's reporting units to arrive at an indication of value. This approach contains management's judgment, using appropriate and customary assumptions available at the time.

During the year ended December 27, 2013, the Company exited its Oracle ERP implementation business practice and as a result allocated \$0.2 million of related goodwill to this transaction. The Oracle ERP implementation business is separate and distinct from the Company's Oracle EPM business and was included in the Hackett Technology Solutions reporting unit.

The Company performed its annual impairment test of goodwill in the fourth quarter of fiscal years 2014 and 2013 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):

	The Hackett Group	Hackett Technology Solutions	Total
Balance at December 28, 2012	\$ 44,887	\$ 31,333	\$ 76,220
Allocation of goodwill related to discontinued operations	—	(199)	(199)
Foreign currency translation adjustment	262	—	262
Balance at December 27, 2013	45,149	31,134	76,283
Foreign currency translation adjustment	(854)	—	(854)
Balance at January 2, 2015	<u>\$ 44,295</u>	<u>\$ 31,134</u>	<u>\$ 75,429</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. 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):

	January 2, 2015	December 27, 2013
Gross carrying amount	\$ 22,448	\$ 14,699
Accumulated amortization	(16,472)	(14,260)
Foreign currency translation adjustment	33	6
	\$ 6,009	\$ 445

All of the Company's intangible assets are expected to be fully amortized by the end of 2018. The estimated future amortization expense of intangible assets as of January 2, 2015 is as follows: \$2.2 million in 2015, \$1.2 million in 2016, \$1.3 million in 2017 and \$1.3 million in 2018. See Note 16 for further discussion.

Revenue Recognition

Revenue is principally derived from fees for services generated on a project-by-project basis. 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.

Additionally, the Company earns revenue from the resale of software licenses and maintenance contracts. Revenue for the resale 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.

Revenue for contracts with multiple elements is allocated based on the respective selling price of the individual elements and is recognized in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 605-25, *Multiple-Deliverable Revenue Arrangements, a consensus of the FASB Emerging Issues Task Force*.

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 recognizes compensation expense for awards of equity instruments to employees based on the grant-date fair value of those awards, with limited exceptions, over the requisite service period.

Restructuring Reserves

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

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 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 per Common Share

Basic net income per common share is computed by dividing net income by the weighted average number of common shares outstanding during the period. With regard to common stock subject to vesting requirements and restricted stock units issued to employees, the calculation includes only the vested portion of such stock.

The potential issuance of common shares upon the exercise, conversion or vesting of unvested restricted stock units, common stock subject to vesting, stock options and stock appreciation right units ("SARs"), as calculated under the treasury stock method, may be dilutive. Diluted net income per share 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 following table reconciles basic and diluted weighted average shares:

	Year Ended		
	January 2, 2015	December 27, 2013	December 28, 2012
Basic weighted average common shares outstanding	28,718,263	30,283,298	31,703,544
Effect of dilutive securities:			
Unvested restricted stock units and common stock subject to vesting requirements issued to employees	1,152,974	1,809,565	1,765,351
Common stock issuable upon the exercise of stock options	9,765	22,802	41,817
Dilutive weighted average common shares outstanding	<u>29,881,002</u>	<u>32,115,665</u>	<u>33,510,712</u>

THE HACKETT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation and General Information (Continued)

There were 0.3 million, 0.8 million, and 3.9 million shares of awards granted excluded from the above reconciliation for the years ended 2014, 2013, and 2012, respectively, as their inclusion would have had an anti-dilutive effect on diluted net income per share. The decrease in 2013 of anti-dilutive shares is due to the issuance of performance-based options granted during the quarter ended March 30, 2012, which were surrendered and replaced with SARs in 2013. See Note 11 for further detail.

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, accrued expenses and other liabilities and debt. As of January 2, 2015 and December 27, 2013, the carrying amount of each financial instrument, with the exception of debt, approximated the instrument's fair value due to the short-term nature and maturity of these instruments.

The Company uses significant other observable market data or assumptions (Level 2 inputs as defined in accounting guidance) that it believes market participants would use in pricing debt. The fair value of the debt approximated its carrying amount using Level 2 inputs, due to the short-term variable interest rates based on market rates utilizing the market approach.

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 2014, 2013 and 2012 no customer accounted for more than 5% of total revenue.

Management's Estimates

The preparation of financial statements in conformity with U.S. GAAP 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.

Other Comprehensive Income

The Company reports its comprehensive income 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 consists of net income 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. Gains and losses from foreign currency transactions are included in net income.

Segment Reporting

The Company engages in business activities in one operating segment, which provides business and technology consulting services.

Recent Accounting Pronouncements

In May 2014, the FASB issued guidance on revenue recognition, which provides for a single, principles-based model for revenue recognition and replaces the existing revenue recognition guidance. The guidance is effective for annual and interim periods beginning on or after December 15, 2016 and will replace most existing revenue recognition guidance under U.S. GAAP when it becomes effective. It permits the use of either a retrospective or cumulative effect transition method and early adoption is not permitted. The Company has not yet selected a transition method and is in the process of evaluating the effect this standard will have on its consolidated financial statements and related disclosures.

Reclassifications

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

THE HACKETT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. 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 January 2, 2015 and December 27, 2013, the carrying value of cash and cash equivalents, restricted cash, accounts receivable and unbilled revenue, accounts payable, leases and accrued expenses and other liabilities, with the exception of debt, approximated the respective fair value due to the short-term nature and maturity of these instruments.

The Company uses significant other observable market data or assumptions (Level 2 inputs as defined in accounting guidance) that it believes market participants would use in pricing debt. The fair value of the debt approximated its carrying amount using Level 2 inputs, due to the short-term variable interest rates based on market rates utilizing the market approach.

3. Accounts Receivable and Unbilled Revenue, Net

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

	January 2, 2015	December 27, 2013
Accounts receivable	\$ 28,154	\$ 27,147
Unbilled revenue	10,597	8,538
Allowance for doubtful accounts	(1,330)	(1,674)
	<u>\$ 37,421</u>	<u>\$ 34,011</u>

Accounts receivable as of January 2, 2015 and December 27, 2013, is net of uncollected advanced billings. Unbilled revenue as of January 2, 2015 and December 27, 2013 includes recognized recoverable costs and accrued profits on contracts for which billings had not been presented to clients.

4. Property and Equipment, net

	January 2, 2015	December 27, 2013
Equipment	\$ 6,044	\$ 4,814
Software	21,604	19,815
Leasehold improvements	454	518
Furniture and fixtures	498	609
	<u>28,600</u>	<u>25,756</u>
Less accumulated depreciation	(14,847)	(12,737)
	<u>\$ 13,753</u>	<u>\$ 13,019</u>

Depreciation expense for the years ended January 2, 2015, December 27, 2013 and December 28, 2012, was \$2.4 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.

5. Restricted Cash

As of December 27, 2013, the Company had \$0.4 million on deposit with financial institutions that served as collateral for amounts related to certain employee compensation agreements. As of January 2, 2015, the Company did not have any restricted cash balances.

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):

	January 2, 2015	December 27, 2013
Accrued compensation and benefits	\$ 3,266	\$ 5,163
Accrued bonuses	7,682	5,899
Accrued restructuring related expenses	270	134
Deferred revenue	8,896	8,345
Accrued Technolab earnout liability	3,440	—
Accrued sales, use, franchise and VAT tax	1,977	1,393
Other accrued expenses	5,370	4,712
Total accrued expenses and other liabilities	<u>\$ 30,901</u>	<u>\$ 25,646</u>

7. Lease Commitments

The Company has operating lease agreements for its premises that expire on various dates through December 2022. Rent expense, net of subleases, for the years ended January 2, 2015, December 27, 2013 and December 28, 2012 was \$2.2 million, \$1.9 million and \$2.1 million, respectively.

Future minimum lease commitments under non-cancelable operating leases as of January 2, 2015, are as follows (in thousands):

	<u>Rental Payments</u>
2015	\$ 1,933
2016	1,846
2017	1,226
2018	969
2019	902
Thereafter	1,151
Total	<u>\$ 8,027</u>

8. Restructuring Costs

During 2014, the Company recorded restructuring costs of \$3.6 million, primarily for reductions in consultants and functional support personnel in Europe. These actions were taken as a result of the continued decline in demand in the Company's European markets. The Company effected these changes to reduce its costs to better align the overall cost structure and organization with anticipated demand for the Company services.

As of January 2, 2015, the Company had \$0.3 million remaining in commitments relating to employee severance costs and down-sizing of office leases. As of December 27, 2013, the remaining restructuring reserves related to early vendor termination fees.

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, 2012	\$ —	\$ 246	\$ 246
2013 expenditures	—	(112)	(112)
Accrual balance at December 27, 2013	\$ —	\$ 134	\$ 134
2014 additions	3,534	70	3,604
2014 expenditures	(3,313)	(155)	(3,468)
Accrual balance at January 2, 2015	<u>\$ 221</u>	<u>\$ 49</u>	<u>\$ 270</u>

THE HACKETT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Credit Facility

On February 21, 2012, the Company entered into a credit agreement with Bank of America, N.A. Under the credit agreement, Bank of America, N.A. agreed to lend the Company up to \$20.0 million pursuant to a revolving line of credit (the "Revolver") and up to \$30.0 million pursuant to a term loan (the "Term Loan," and together with the Revolver, the "Credit Facility").

On August 27, 2013, the Company amended and restated the credit agreement (the "Credit Agreement") with Bank of America to finance a tender offer for shares of its common stock completed in October 2013. See Note 12 for further detail. The Credit Agreement was amended and restated to:

- provide for up to additional \$17.0 million of borrowing under the Term Loan (the "Amended Term Loan" and together with the Revolver, the "Amended Credit Facility") and
- extend the maturity date on the Revolver and the Amended Term Loan to August 27, 2018, five years from the date of the amendment and restatement of the Credit Agreement.

As of January 2, 2015 the Company had \$18.3 million principal amount outstanding on the Amended Term Loan and a zero balance outstanding on the Revolver. As of December 27, 2013, the Company had \$19.0 million principal amount outstanding on the Amended Term Loan and a zero balance outstanding on the Revolver.

The obligations of the Company under the Amended Credit Facility are guaranteed by active existing and future material U.S. subsidiaries of the Company and are secured by substantially all of the existing and future property and assets of the Company (subject to certain exceptions).

The interest rates per annum applicable to loans under the Amended Credit Facility will be at the Company's option, equal to either a base rate or a LIBOR base rate, plus an applicable margin percentage. As of January 2, 2015, the interest rate per annum was 1.92%. The applicable margin percentage is based on the consolidated leverage ratio. As of January 2, 2015, the applicable margin percentage was 1.75% per annum based on the consolidated leverage ratio, in the case of LIBOR rate advances, and 1.00% per annum, in the case of base rate advances.

The Company is subject to certain covenants and exceptions, including total consolidated leverage, fixed cost coverage and liquidity requirements.

In connection with the Credit Facility, the Company incurred \$0.6 million of debt issuance costs. These costs are amortized over the remaining life of the Credit Facility and are included in Other Assets in the consolidated balance sheet.

The Revolver matures on August 27, 2018, whereas the Amended Term Loan requires amortization of principal in equal quarterly payment installments from December 31, 2013 through August 27, 2018. As of January 2, 2015, the Company had prepaid \$6.6 million of the Amended Term Loan mandatory principal amortization and did not have an outstanding balance on its Revolver. The future schedule of annual amortization of principal is as follows (in thousands):

	Principal Amortization Payments
2015	\$ —
2016	4,981
2017	6,641
2018	6,641
Total	\$ 18,263

10. 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 2010 and all significant state, local and foreign matters have been concluded for years through 2010.

THE HACKETT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Income Taxes (Continued)

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

	Year Ended		
	January 2, 2015	December 27, 2013	December 28, 2012
Domestic	\$ 6,549	\$ 15,823	\$ 15,269
Foreign	5,417	(696)	950
Income before income taxes	<u>\$ 11,966</u>	<u>\$ 15,127</u>	<u>\$ 16,219</u>

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

	Year Ended		
	January 2, 2015	December 27, 2013	December 28, 2012
Current tax expense (benefit)			
Federal	\$ 155	\$ 10	\$ (314)
State	131	530	961
Foreign	132	103	66
	<u>418</u>	<u>643</u>	<u>713</u>
Deferred tax expense (benefit)			
Federal	200	6,450	4,532
State	(238)	394	(3,587)
Foreign	1,875	(1,089)	(2,136)
	<u>1,837</u>	<u>5,755</u>	<u>(1,191)</u>
Income tax expense (benefit)	<u>\$ 2,255</u>	<u>\$ 6,398</u>	<u>\$ (478)</u>

The income tax benefits in 2012 included the release of valuation allowance of \$6.7 million.

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

	Year Ended		
	January 2, 2015	December 27, 2013	December 28, 2012
U.S statutory income tax expense rate	35.0 %	35.0 %	35.0 %
State income taxes, net of federal income tax expense	(0.6)	4.0	8.0
Valuation reduction	(1.0)	(0.5)	(47.7)
Meals and entertainment	2.0	1.7	1.5
Foreign rate differential	(10.6)	1.0	(0.2)
Bargain purchase gain	(8.7)	—	—
Foreign exchange loss	0.1	0.4	0.1
Other, net	2.6	0.7	0.3
Effective tax rate	<u>18.8 %</u>	<u>42.3 %</u>	<u>(3.0) %</u>

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

	Year Ended	
	January 2, 2015	December 27, 2013
Deferred income tax assets:		
Allowance for doubtful accounts	\$ 518	\$ 661
Net operating loss and tax credits carryforward	9,283	12,855
Accrued expenses and other liabilities	3,160	3,967
	<u>12,961</u>	<u>17,483</u>
Valuation allowance	(1,452)	(1,569)
	<u>11,509</u>	<u>15,914</u>
Deferred income tax liabilities:		
Depreciation	(4,628)	(4,614)
Tax over book amortization on goodwill and intangibles	(9,872)	(10,546)
Other items	(106)	(11)
	<u>(14,606)</u>	<u>(15,171)</u>
Net deferred income tax asset (liability)	<u>\$ (3,097)</u>	<u>\$ 743</u>

THE HACKETT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Income Taxes (Continued)

As of January 2, 2015 the Company had \$12.0 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 will expire by 2022 if not utilized. As of January 2, 2015, the Company had \$3.1 million of U.S. state net operating loss carryforwards. Additionally, at January 2, 2015, the Company had \$11.7 million of foreign net operating loss carryforwards, of which \$5.5 million related to operations in the U.K., \$1.3 million related to operations in France and \$0.6 million related to operations in Germany. A significant amount 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 January 2, 2015 and December 27, 2013, the Company had a valuation allowance of \$1.5 million and \$1.6 million to reduce deferred income tax assets primarily related to foreign and state net operating loss and tax credit carryforwards.

The undistributed earnings in foreign subsidiaries of approximately \$2.0 million are permanently invested abroad and will not be repatriated to the U.S. in the foreseeable future. Because they are considered to be indefinitely reinvested, no U.S. federal or state deferred income taxes have been provided on these earnings. Upon distribution of those earnings, in the form of dividends or otherwise, the Company would be subject to both U.S. income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to the various foreign countries in which it operates. Because of the availability of U.S. foreign tax credits, it is not practicable to determine the U.S. foreign income tax liability that would be payable if such earnings were not reinvested indefinitely.

Penalties and tax-related interest expense are reported as a component of income tax expense. For the years ended January 2, 2015 and December 27, 2013 the total amount of accrued income tax-related interest and penalties was \$357 thousand and \$226 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 January 2, 2015 and December 27, 2013 (in thousands):

	Year Ended	
	January 2, 2015	December 27, 2013
Beginning balance	\$ 716	\$ 1,015
Additions based on tax positions	76	—
Reduction for prior year tax deductions	—	(299)
Ending balance	<u>\$ 792</u>	<u>\$ 716</u>

As of January 2, 2015 and December 27, 2013, the ASC 740-10 liability of \$0.8 million and \$0.7 million, 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 January 2, 2015 and December 27, 2013 would have a favorable impact on the effective tax rate in future periods.

11. Stock Based Compensation

Stock Plans

Total share based compensation included in net income for the year ended January 2, 2015 was \$6.4 million. The number of shares available for future issuance under the Company's stock plans as of January 2, 2015 were 1,726,938. The Company issues new shares as shares are required to be delivered under the plan.

Stock Options and SARs

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.

THE HACKETT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Stock Based Compensation (Continued)

Stock option activity under the Company's stock option plans for the year ended January 2, 2015 is summarized as follows:

	Option Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding as of December 27, 2013	366,714	\$ 4.39		
Exercised	(8,750)	4.04		
Forfeited or expired	(60,297)	6.35		
Outstanding as of January 2, 2015	<u>297,667</u>	<u>\$ 4.00</u>	<u>6.79</u>	<u>\$ 1,399,979</u>
Exercisable at January 2, 2015	<u>17,667</u>	<u>\$ 3.96</u>	<u>0.44</u>	<u>\$ 83,798</u>

A summary of the Company's stock option activity for the years ended December 27, 2013 and December 28, 2012 was as follows:

	December 27, 2013		December 28, 2012	
	Option Shares	Weighted Average Exercise Price	Option Shares	Weighted Average Exercise Price
Outstanding at beginning of year	3,898,864	\$ 4.34	867,375	\$ 5.53
Granted ⁽¹⁾	—	—	3,196,563	4.00
Exercised	(109,683)	4.29	(76,986)	2.53
Forfeited or expired ⁽¹⁾	(3,422,467)	4.33	(88,088)	5.46
Outstanding at end of year	<u>366,714</u>	<u>\$ 4.39</u>	<u>3,898,864</u>	<u>\$ 4.34</u>
Exercisable at end of year	<u>86,714</u>	<u>\$ 5.63</u>	<u>702,301</u>	<u>\$ 5.86</u>

(1) Includes 2,916,563 of unvested performance-based stock options granted in 2012 and subsequently surrendered and replaced with SARs in 2013 and 470,000 vested stock options surrendered in 2013 and replaced with SARs. See SARs discussion below.

The fair value of the SARs and stock options is estimated using the Black-Scholes option pricing valuation model. The determination of fair value is affected by the Company's stock price, expected stock price volatility, expected term of the award and the risk-free rate of interest. The weighted average fair value of the stock options granted in 2012 was \$1.31. The following assumptions were used to determine the fair value of the stock options granted to employees in 2012:

Expected volatility	43%
Risk-free rate	0.35%
Expected term (in years)	2-6

Other information pertaining to stock option activity during the years ended January 2, 2015, December 27, 2013 and December 28, 2012 was as follows (in thousands):

	Year Ended		
	January 2, 2015	December 27, 2013	December 28, 2012
Total intrinsic value of stock options exercised	\$ 36	\$ 163	\$ 177

The following table summarizes information about the Company's stock options outstanding:

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 - \$4.00	297,667	6.79	\$ 4.00	17,667	\$ 3.96

THE HACKETT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Stock Based Compensation (Continued)

On February 8, 2012, the Compensation Committee approved the fiscal year 2012 through 2015 equity compensation target for the Chief Executive Officer and Chief Operating Officer. Under this target, a single performance-based option grant was made to the Company's Chief Executive Officer and the Chief Operating Officer of 1,912,500 options and 1,004,063 options, respectively, totaling 2,916,563 options, each with an exercise price of \$4.00 and a fair value of \$1.31. One-half of the options vest upon the achievement of at least 50% growth of pro forma earnings per share and the remaining half vest upon the achievement of at least 50% pro forma EBITDA growth. Each metric can be achieved at any time during the six-year term of the award based on a trailing twelve month period measured quarterly. The grants will expire if neither target is achieved during the six-year term. The base year for the performance calculation is fiscal 2011 for both pro forma earnings per share and pro forma EBITDA performance targets.

In March of 2013, the performance-based stock option grants were surrendered by the Company's Chief Executive Officer and Chief Operating Officer and replaced with SARs, totaling 2,916,563, equal in number to the number of options granted to each of them in 2012. The terms and conditions and the specific performance targets that must be achieved in order for the SARs to vest are the same as those of the surrendered options, with the exception that the SARs will be settled in cash, stock or any combination thereof, at the Company's discretion.

In addition, 470,000 vested stock options were surrendered and replaced with SARs with an extended life during 2013. Subsequently, in 2014, the extended life of the SARs was rescinded and the SARs expired unexercised.

SAR activity for the year ended January 2, 2015 was as follows:

	Number of SARs	Weighted Average Exercise Price	Weighted Average Fair Value
Outstanding as of December 27, 2013	3,386,563	\$ 4.31	\$ 0.99
Expired	(470,000)	6.25	1.23
Outstanding as of January 2, 2015	<u>2,916,563</u>	<u>\$ 4.00</u>	<u>\$ 0.96</u>
Exercisable at January 2, 2015	<u>—</u>	<u>\$ —</u>	<u>\$ —</u>

The following assumptions were used to determine the fair value of the SARs granted to employees in 2013:

Expected volatility	43%
Risk-free rate	0.35%
Expected term (in years)	2

As of January 2, 2015, 100% of total outstanding options and SARs were performance-based. The Company has recorded \$0.5 million of compensation expense in 2014 and 2013 and \$0.6 million in 2012, related to these options and SARs in accordance with ASC 718, "Stock Compensation".

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 January 2, 2015, was as follows:

	Number of Restricted Stock Units	Weighted Average Grant-Date Fair Value
Nonvested balance as of December 27, 2013	2,910,304	\$ 4.17
Granted	914,233	6.00
Vested	(1,321,949)	3.95
Forfeited	(187,375)	6.51
Nonvested balance as of January 2, 2015	<u>2,315,213</u>	<u>\$ 5.41</u>

THE HACKETT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Stock Based Compensation (Continued)

The Company recorded restricted stock units based compensation expense of \$5.0 million, \$4.8 million and \$4.2 million in 2014, 2013 and 2012, 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 January 2, 2015, there was \$6.5 million of total restricted stock units compensation related to the nonvested awards not yet recognized, which is expected to be recognized over a weighted average period of 1.94 years.

Common Stock Subject to Vesting Requirements

Shares of common stock subject to vesting requirements were issued to employees of acquired companies. These shares vest 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 January 2, 2015 was as follows:

	Number of Shares of Common Stock Subject to Vesting Requirements	Weighted Average Grant-Date Fair Value
Nonvested balance as of December 27, 2013	177,647	\$ 3.31
Granted	164,474	6.04
Vested	(77,647)	2.73
Nonvested balance as of January 2, 2015	<u>264,474</u>	<u>\$ 7.54</u>

The Company recorded compensation expense of \$0.9 million, \$0.8 million and \$0.7 million, during the years ended January 2, 2015, December 27, 2013 and December 28, 2012, respectively, related to common stock subject to vesting requirements. As of January 2, 2015, there was \$1.0 million of total stock based compensation related to granted common stock subject to vesting requirements not yet recognized, which is expected to be recognized over a weighted average period of 3.0 years.

Common stock subject to vesting requirements of \$4.6 million will be issued in 2015 in relation to the equity portion of the Technolab earn-out. These shares will be subject to a four year vesting period. Compensation expense of \$0.7 million was recorded in 2014 for these shares.

12. Shareholders' Equity

Tender Offer

On August 28, 2013, the Company announced a tender offer to purchase up to \$35.75 million in value of shares of its common stock, \$0.001 par value per share, at a price not greater than \$6.50 nor less than \$5.75 per share, to the seller in cash, less any applicable withholding taxes and without interest (the "Offer"). On September 26, 2013, the Company amended the Offer (the "Amended Offer") to increase the price range at which it would purchase its common stock to a range of not greater than \$7.00 nor less than \$6.50 per share and to decrease the dollar amount of the Offer to \$25.0 million. The Amended Offer was completed on October 15, 2013, with the Company purchasing approximately 1.0 million shares of its common stock at a purchase price of \$7.00 per share, for an aggregate cost of approximately \$6.9 million, excluding fees and expenses related to the Amended Offer. The 1.0 million shares represented approximately 3% of the Company's issued and outstanding shares of common stock at that time. The Company financed the Amended Offer from borrowings under the Amended Term Loan under its existing Credit Facility. See Note 9 for further detail.

On March 21, 2012, the Company completed a tender offer to purchase 11.0 million shares of its common stock at a purchase price of \$5.00 per share, for an aggregate cost of approximately \$55.0 million, excluding fees and expenses relating to the tender offer. The 11.0 million shares accepted for purchase represented approximately 27% of the Company's issued and outstanding shares of common stock at that time.

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 2014, 2013 and 2012, 94,333 shares, 113,905 shares and 117,757 shares, respectively, were issued.

THE HACKETT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Shareholders' Equity (Continued)

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 \$90.0 million of the Company's common stock, thereby increasing the total program size to \$95.0 million as of January 2, 2015. As of January 2, 2015, the Company had effected cumulative purchases under the plan of \$91.3 million, leaving \$3.7 million available for future purchases. 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, excluding the above mentioned tender offers.

During 2014 and 2013, the Company repurchased 1.8 million and 1.0 million shares of its common stock, respectively, at an average price per share of \$6.07 and \$5.86, respectively, for a total cost of \$11.0 million and \$6.0 million, respectively. As of January 2, 2015 and December 27, 2013, the Company had repurchased 24.0 million and 22.2 million shares of its common stock, respectively, at an average price of \$3.81 and \$3.62 per share, respectively. As of January 2, 2015, the Company had \$3.7 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.

Dividends

On December 7, 2012, the Company's Board of Directors adopted a dividend policy pursuant to which the Company intended to pay annual cash dividends on its common stock. In December 2014, the Board of Directors declared and paid annual cash dividends of \$0.12 per common share, or a total of \$3.5 million, to holders of the Company's common stock. In December 2013 and 2012, the Board of Directors declared and paid annual cash dividends of \$0.10 per common share, or a total of \$3.1 million, to holders of the Company's common stock. These dividends were paid from U.S. domestic sources and are accounted for as an increase to retained deficit.

Subsequent to January 2, 2015, the Company's Board of Directors announced that its annual dividend would increase \$0.14 per common share and be paid semi-annually.

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.

The Rights had certain anti-takeover effects, in that they would have caused substantial dilution to a person or group that attempted to acquire a significant interest in the Company on terms not approved by the Board of Directors. The Rights expired on February 13, 2014.

13. 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 2014, 2013 and 2012, 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 for each of the fiscal years ended January 2, 2015, December 27, 2013 and December 28, 2012.

THE HACKETT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Transactions with Related Parties

There were no related party transactions in 2014, 2013 or 2012.

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. Acquisition

During the quarter ended March 28, 2014, the Company acquired the U.S., Canada and Uruguay operations of Technolab International Corporation ("Technolab"), an EPM AMS business.

Management's initial purchase consideration was \$3.0 million in cash and \$1.0 million in shares of the Company's common stock, which are subject to vesting. In addition, the Sellers had the ability to earn an additional \$8.0 million in contingent consideration in cash and stock subject to an earn-out based on actual results achieved. The cash was not subject to vesting, however the stock was subject to service vesting.

During the fourth quarter of 2014, measurement period adjustments related to the Technolab acquisition were finalized. Also, during the fourth quarter of 2014, \$9.0 million of cash and equity which were previously accounted for as purchase consideration will now be reflected as compensation expense over the respective vesting period; \$4.3 million of which was reflected as compensation expense in 2014. This re-characterization of purchase consideration to compensation expense resulted in a bargain purchase gain of \$3.0 million on the acquisition, a deferred tax liability of \$1.9 million and intangible assets with definite lives of \$7.7 million; which will be amortized over periods ranging from 2 years to 5 years. The adjustments mentioned above are reflected in Note 18 for each of the 2014 fiscal quarters.

The following table presents the purchase price allocation of the assets acquired and liabilities assumed, based on the fair values (in thousands):

	Purchase Price Allocation
Total consideration	\$ 3,000
Allocation of purchase price	
Cash	522
Accounts receivable	1,346
Total current assets acquired	1,868
Intangible assets	7,749
Total assets acquired	9,617
Accrued expenses and other liabilities	1,711
Deferred tax liability	1,891
Total liabilities acquired	3,602
Net assets identifiable assets	\$ 6,015
Bargain purchase gain on acquisition	\$ 3,015

The application of the acquisition method of accounting resulted in a bargain purchase gain of approximately \$3.0 million.

Pro forma results of Technolab have not been presented as the acquisition closed at the beginning of 2014 and therefore, the full year results of Technolab are included in the Company's consolidated financial results. Technolab contributed total revenue of \$10.3 million and contribution before depreciation, amortization, interest, corporate overhead allocation and taxes of \$3.3 million.

THE HACKETT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. Acquisition (Continued)

The acquired intangible assets with definite lives are amortized over periods ranging from 2 to 5 years. The following table presents the intangible assets acquired from Technolab as of January 2, 2015:

Category	Amount (in thousands)	Useful Life (in years)
Customer Base	\$ 4,727	5
Trade Name	115	2
Customer Backlog	2,031	2
Non-Compete	876	5
	<u>\$ 7,749</u>	

17. 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):

	Year Ended		
	January 2, 2015	December 27, 2013	December 28, 2012
Revenue:			
North America	\$ 190,050	\$ 179,539	\$ 173,650
International (primarily European countries)	46,687	44,291	49,086
Total revenue	<u>\$ 236,737</u>	<u>\$ 223,830</u>	<u>\$ 222,736</u>

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

	January 2, 2015	December 27, 2013	December 28, 2012
Long-Lived Assets:			
North America	\$ 80,152	\$ 74,095	\$ 74,407
International (primarily European countries)	15,578	16,246	16,270
Total long-lived assets	<u>\$ 95,730</u>	<u>\$ 90,341</u>	<u>\$ 90,677</u>

As of January 2, 2015, December 27, 2013 and December 28, 2012, foreign assets included \$15.0 million, \$15.8 million and \$15.6 million, respectively, of goodwill related to the REL and Archstone acquisitions.

In the following table, The Hackett Group service group encompasses Benchmarking, Business Transformation and Executive Advisory groups, and includes EPM Technologies. The ERP Solutions group encompasses SAP ERP (in thousands):

	Year Ended		
	January 2, 2015	December 27, 2013	December 28, 2012
The Hackett Group	\$ 196,145	\$ 184,112	\$ 187,787
ERP Solutions	40,592	39,718	34,949
Total revenue	<u>\$ 236,737</u>	<u>\$ 223,830</u>	<u>\$ 222,736</u>

THE HACKETT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. Quarterly Financial Information (unaudited)

The following table presents unaudited supplemental quarterly financial information for the years ended January 2, 2015 and December 27, 2013 (in thousands, except per share data):

	Quarter Ended ⁽¹⁾			
	March 28, 2014	June 27, 2014	September 26, 2014	January 2, 2015
Total revenue	\$ 54,905	\$ 61,052	\$ 60,437	\$ 60,343
Operating income (loss) ⁽²⁾⁽³⁾	\$ (1,680)	\$ 5,026	\$ 5,059	\$ 4,181
Income (loss) from continuing operations ⁽²⁾⁽³⁾	\$ (2,046)	\$ 3,475	\$ 3,591	\$ 4,691
Income (loss) from discontinued operations ⁽⁴⁾	\$ —	\$ —	\$ —	\$ —
Net income (loss) ⁽²⁾⁽³⁾	\$ (2,046)	\$ 3,475	\$ 3,591	\$ 4,691
Basic net income (loss) per common share:				
Income (loss) per common share from continuing operations	\$ (0.07)	\$ 0.12	\$ 0.13	\$ 0.17
Income (loss) per common share from discontinued operations ⁽⁴⁾	—	—	—	—
Net income (loss) per common share	<u>\$ (0.07)</u>	<u>\$ 0.12</u>	<u>\$ 0.13</u>	<u>\$ 0.17</u>
Diluted net income (loss) per common share:				
Income (loss) per common share from continuing operations	\$ (0.07)	\$ 0.12	\$ 0.12	\$ 0.16
Income (loss) per common share from discontinued operations ⁽⁴⁾	—	—	—	—
Net income (loss) per common share	<u>\$ (0.07)</u>	<u>\$ 0.12</u>	<u>\$ 0.12</u>	<u>\$ 0.16</u>

	Quarter Ended			
	March 29, 2013	June 28, 2013	September 27, 2013	December 27, 2013
Total revenue	\$ 54,349	\$ 58,961	\$ 57,916	\$ 52,604
Operating income	\$ 3,529	\$ 5,085	\$ 4,717	\$ 2,396
Income from continuing operations	\$ 2,029	\$ 2,930	\$ 2,699	\$ 1,206
Income (loss) from discontinued operations	\$ (71)	\$ —	\$ (64)	\$ —
Net income ⁽⁵⁾	\$ 1,958	\$ 2,930	\$ 2,635	\$ 1,206
Basic net income per common share:				
Income per common share from continuing operations	\$ 0.06	\$ 0.10	\$ 0.09	\$ 0.04
Income (loss) per common share from discontinued operations	—	—	—	—
Net income per common share	<u>\$ 0.06</u>	<u>\$ 0.10</u>	<u>\$ 0.09</u>	<u>\$ 0.04</u>
Diluted net income per common share:				
Income per common share from continuing operations	\$ 0.07	\$ 0.09	\$ 0.08	\$ 0.04
Income (loss) per common share from discontinued operations	(0.01)	—	—	—
Net income per common share	<u>\$ 0.06</u>	<u>\$ 0.09</u>	<u>\$ 0.08</u>	<u>\$ 0.04</u>

- (1) The fiscal 2014 quarters presented above, are as previously reported. See table below which restates the 2014 Statement of Operations by quarter for the impact of the Technolab EPM AMS acquisition-related purchase consideration reflected as compensation expense, as well as other acquisition-related adjustments recorded in the fourth quarter of 2014, as mentioned in Note 16.
- (2) The fiscal quarter ended March 28, 2014, includes restructuring costs of \$3.6 million.
- (3) The fiscal quarter ended January 2, 2015, includes a bargain purchase gain from the acquisition of the Technolab EPM AMS of \$3.0 million.
- (4) There were no discontinued operations in fiscal year 2014.
- (5) The quarter ended December 28, 2012 included the benefit of the release of \$6.7 million of deferred income tax asset valuation allowance. Quarterly basic and diluted net income per common share were computed independently for each quarter and do not necessarily total to the year to date basic and diluted net income per common share.

THE HACKETT GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. Quarterly Financial Information (unaudited) (Continued)

The following table presents the restated 2014 Statement of Operations by quarter for the impact of the acquisition-related purchase consideration reflected as compensation expense, as well as other acquisition-related adjustments recorded in the fourth quarter of 2014 as discussed in Note 16 (in thousands, except per share amounts):

	Quarter Ended			
	March 28, 2014	June 27, 2014	September 27, 2014	January 2, 2015
	<i>(unaudited)</i>			
Revenue:				
Revenue before reimbursements	\$ 49,418	\$ 55,000	\$ 54,550	\$ 54,551
Reimbursements	5,487	6,052	5,887	5,792
Total revenue	54,905	61,052	60,437	60,343
Costs and expenses:				
Cost of service:				
Personnel costs before reimbursable expenses (1) (includes \$686, \$999, \$842 and \$1,029 of stock compensation expense in Q1, Q2, Q3 and Q4 2014)	34,184	35,427	35,142	34,205
Reimbursable expenses	5,487	6,052	5,887	5,792
Total cost of service	39,671	41,479	41,029	39,997
Selling, general and administrative costs (2) (includes \$653, \$691, \$814 and \$656 of stock compensation expense in Q1, Q2, Q3 and Q4 2014)	14,235	15,607	15,422	16,122
Bargain purchase gain from acquisition (1) (2)	(3,015)	-	-	-
Restructuring costs	3,604	-	-	-
Total costs and operating expenses	54,495	57,086	56,451	56,119
Income from operations	410	3,966	3,986	4,224
Other income (expense):				
Interest income	1	1	2	2
Interest expense	(124)	(166)	(173)	(163)
Income from continuing operations before income taxes	287	3,801	3,815	4,063
Income tax (benefit) expense (3)	(118)	973	879	521
Net income	\$ 405	\$ 2,828	\$ 2,936	\$ 3,542
Basic net income per common share	\$ 0.01	\$ 0.10	\$ 0.10	\$ 0.13
Weighted average common shares outstanding	29,120	28,939	28,558	28,257
Diluted net income per common share	\$ 0.01	\$ 0.10	\$ 0.10	\$ 0.12
Diluted	29,869	29,984	29,800	29,871

- (1) The cost of service adjustments reflect the re-characterization of cash and equity which were previously accounted for as purchase consideration and are now reflected as compensation expense. These adjustments contributed to a bargain purchase gain from the Technolab acquisition.
- (2) The selling, general and administrative costs reflect adjustments related to the acquired intangible assets and amortization expense of those assets. These adjustments contributed to a bargain purchase from the Technolab acquisition.
- (3) The income tax expense (benefit) reflect adjustments related to the Technolab acquisition which were finalized and re-characterized in the fourth quarter of 2014.

THE HACKETT GROUP, INC.
SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
YEARS ENDED JANUARY 2, 2015, DECEMBER 27, 2013, AND DECEMBER 28, 2012
(in thousands)

<u>Allowance for Doubtful Accounts</u>	Balance at Beginning of Year	Charge to Expense	Write-offs	Balance at End of Year
Year Ended January 2, 2015	\$ 1,674	785	(1,129)	\$ 1,330
Year Ended December 27, 2013	\$ 1,251	742	(319)	\$ 1,674
Year Ended December 28, 2012	\$ 799	657	(205)	\$ 1,251

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

Not applicable.

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 January 2, 2015 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 (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as of and for the year ended January 2, 2015.

Based on our evaluation, utilizing the criteria set forth in "Internal Control – Integrated Framework issued by COSO in 2013," our management concluded that our internal control over financial reporting was effective as of the end of the period covered by this Annual Report on Form 10-K.

The Company's independent registered certified public accounting firm has audited our internal control over financial reporting as of January 2, 2015 and has expressed an adverse opinion thereon, specifically as it relates to accounting for business combinations. We would like to elaborate on the weakness identified by our auditors:

During the first quarter of 2014, we acquired and accounted for certain assets and liabilities of Technolab International Corporation ("Technolab"). At closing, the Seller received \$3.0 million in cash, not subject to vesting, and \$1.0 million in stock, subject to service vesting, with the ability to earn up to \$8.0 million in a combination of stock, subject to service vesting, and cash, not subject to service vesting, based on a one year profitability based earn out. Subsequent to year end, the amounts paid to the Seller at closing in stock, subject to service vesting, as well as the amounts earned as part of the earn out due to the Seller in cash, not subject to service vesting, and stock, subject to service vesting, which were originally treated as purchase consideration were adjusted and accounted for as compensation expense. These adjustments were recorded in the fourth quarter of 2014 and resulted in an increase in compensation expense of \$4.3 million, an increase in amortization of intangibles of \$0.5 million and a related tax benefit of \$2.1 million offset by a bargain purchase gain of \$3.0 million. These adjustments did not have a material impact on our year end GAAP results.

After these adjustments, of the total \$12.0 million of Technolab purchase consideration, the Company reflected \$3.0 million as purchase consideration and will reflect \$9.0 million as compensation expense, of which \$4.3 million was recognized in 2014. These adjustments resulted in the bargain purchase gain reflected in our financial statements.

No issues were raised by our external auditors during their initial review of the transaction during their first quarter review of the acquisition. However, that position changed subsequent to year end during the course of their annual audit. Correspondingly, we do not believe that the weakness identified rises to the level of a material weakness as identified by our external auditors and expressed in their opinion. However, consistent with the recommendation of our auditors, we will consider retaining additional third-party support for future acquisitions in order to prevent potential differences in the accounting for business combinations.

Report of Independent Registered 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 January 2, 2015, based on criteria established in *Internal Control – Integrated Framework (2013)* 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, 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.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. We have identified the following material weakness that has not been identified as a material weakness in management's assessment: Management did not design and maintain controls to analyze and record appropriate adjustments related to accounting for Business Combinations. This material weakness resulted in audit adjustments the Company recorded in the fourth quarter as well as additional disclosures in the consolidated financial statements. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2014 consolidated financial statements, and this report does not affect our report dated March 18, 2015 on those consolidated financial statements.

In our opinion, The Hackett Group, Inc. did not maintain, in all material respects, effective internal control over financial reporting as of January 2, 2015, based on the COSO criteria.

We do not express an opinion or any other form of assurance on management's statements referring to any corrective actions taken by the company after the date of management's assessment.

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 January 2, 2015 and December 27, 2013, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended January 2, 2015 and our report dated March 18, 2015 expressed an unqualified opinion thereon.

Miami, Florida
March 18, 2015

/s/ BDO USA, LLP
Certified Public Accountants

ITEM 9B. OTHER INFORMATION

Subsequent to the filing of the Form-8K on February 24, 2015, management recorded an additional adjustment related to the acquisition of Technolab which re-characterized the cash related to the earn-out, without vesting conditions, to compensation expense. The impact of these adjustments resulted in an increase in compensation expense and bargain purchase gain with an offsetting decrease to the tax provision.

	Quarter Ended January 2, 2015			Twelve Months Ended January 2, 2015		
	Per Form 8-K	Purchase Consideration Reflected as Compensation	Revised Per Form 10-K	Per Form 8-K	Purchase Consideration Reflected as Compensation	Revised Per Form 10-K
<i>(unaudited)</i>						
Revenue:						
Revenue before reimbursements	\$ 54,551	\$ -	\$ 54,551	\$ 213,519	\$ -	\$ 213,519
Reimbursements	5,792	-	5,792	23,218	-	23,218
Total revenue	60,343	-	60,343	236,737	-	236,737
Costs and expenses:						
Cost of service:						
Personnel costs before reimbursable expenses (1)						
(includes \$1,528 and \$3,556 of stock compensation expense in the quarter and year end, respectively) (3)	33,844	3,440	37,284	135,518	3,440	138,958
Reimbursable expenses	5,792	-	5,792	23,218	-	23,218
Total cost of service	39,636	3,440	43,076	158,736	3,440	162,176
Selling, general and administrative costs (2)						
(includes \$656 and \$2,814 of stock compensation expense in the quarter and year end, respectively)	16,309	(208)	16,101	61,594	(208)	61,386
Bargain purchase gain from acquisition	(1,847)	(1,168)	(3,015)	(1,847)	(1,168)	(3,015)
Restructuring costs	-	-	-	3,604	-	3,604
Total costs and operating expenses	54,098	2,064	56,162	222,087	2,064	224,151
Income from operations	6,245	(2,064)	4,181	14,650	(2,064)	12,586
Other income (expense):						
Interest income	2	-	2	6	-	6
Interest expense	(163)	-	(163)	(626)	-	(626)
Income from continuing operations before income taxes	6,084	(2,064)	4,020	14,030	(2,064)	11,966
Income tax expense (benefit)	1,391	(2,062)	(671)	4,317	(2,062)	2,255
Net income	\$ 4,693	\$ (2)	\$ 4,691	\$ 9,713	\$ (2)	\$ 9,711
Basic net income per common share						
Basic net income per common share	\$ 0.17	\$ -	\$ 0.17	\$ 0.34	\$ -	\$ 0.34
Weighted average common shares outstanding	28,257	28,257	28,257	28,718	28,718	28,718
Diluted net income per common share						
Diluted	\$ 0.16	\$ -	\$ 0.16	\$ 0.33	\$ -	\$ 0.33
	29,871	29,871	29,871	29,881	29,881	29,881

	Quarter Ended January 2, 2015			Twelve Months Ended January 2, 2015		
	Per Form 8-K	Purchase Consideration Reflected as Compensation	Revised Per Form 10-K	Per Form 8-K	Purchase Consideration Reflected as Compensation	Revised Per Form 10-K
<i>(unaudited)</i>						
Pro forma data:						
Income from continuing operations before income taxes	\$ 6,084	\$ (2,064)	\$ 4,020	\$ 14,030	\$ (2,064)	\$ 11,966
Bargain purchase gain from acquisition	(1,847)	(1,168)	(3,015)	(1,847)	(1,168)	(3,015)
Performance-related stock compensation expense	1,409	-	1,409	5,470	-	5,470
Acquisition-related stock compensation expense	775	-	775	900	-	900
Acquisition purchase consideration reflected as compensation	-	3,440	3,440	-	3,440	3,440
Acquisition-related costs	-	-	-	120	-	120
Restructuring costs	-	-	-	3,604	-	3,604
Amortization of intangible assets	720	(208)	512	2,420	(208)	2,212
Pro forma income before income taxes	7,141	-	7,141	24,697	-	24,697
Pro forma income tax expense	2,142	-	2,142	7,847	-	7,847
Pro forma net income	<u>\$ 4,999</u>	<u>\$ -</u>	<u>\$ 4,999</u>	<u>\$ 16,850</u>	<u>\$ -</u>	<u>\$ 16,850</u>
Pro forma basic net income per common share	\$ 0.18	\$ -	\$ 0.18	\$ 0.59	\$ -	\$ 0.59
Weighted average common shares outstanding	28,257	28,257	28,257	28,718	28,718	28,718
Pro forma diluted net income per common share	\$ 0.17	\$ -	\$ 0.17	\$ 0.56	\$ -	\$ 0.56
Weighted average common and common equivalent shares outstanding	29,871	29,871	29,871	29,881	29,881	29,881

(1) Cost of sales in the Form 8-K included an additional \$713 thousand of non-cash compensation expense in the quarter ended January 2, 2015. This cost was originally accounted for as purchase consideration and relates to the full year 2014.

(2) Selling, general and administrative costs in the Form 8-K included an additional \$745 thousand of amortization expense for the quarter ended January 2, 2015. These costs related to the full year 2014.

(3) Additional cash consideration, reflected as compensation expense subsequent to issuance of the Form 8-K, which impacted the bargain purchase gain on acquisition, amortization expense and income taxes.

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 proxy statement for the 2015 Annual Meeting of Shareholders.

ITEM 11. EXECUTIVE COMPENSATION

Information responsive to this Item is incorporated herein by reference to the Company's definitive proxy statement for the 2015 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 proxy statement for the 2015 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 proxy statement for the 2015 Annual Meeting of Shareholders.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information appearing under the caption "Fees Paid to Independent Accountants" in the proxy statement for the 2015 Annual Meeting of Shareholders 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 is 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 58

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 18, 2015.

THE HACKETT GROUP, INC.

By: /s/ Ted A. Fernandez

Ted A. Fernandez
Chief Executive Officer and Chairman of the Board

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 18, 2015
<u>/s/ Robert A. Ramirez</u> Robert A. Ramirez	Executive Vice President, Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	March 18, 2015
<u>/s/ David N. Dungan</u> David N. Dungan	Chief Operating Officer and Director	March 18, 2015
<u>/s/ Terence M. Graunke</u> Terence M. Graunke	Director	March 18, 2015
<u>/s/ Richard Hamlin</u> Richard Hamlin	Director	March 18, 2015
<u>/s/ John R. Harris</u> John R. Harris	Director	March 18, 2015
<u>/s/ Edwin A. Huston</u> Edwin A. Huston	Director	March 18, 2015
<u>/s/ Alan T. G. Wix</u> Alan T. G. Wix	Director	March 18, 2015

INDEX TO EXHIBITS

Exhibit No.	Exhibit Description
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.
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).
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).
10.9	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).
10.12	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).

Exhibit No.	Exhibit Description
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).
10.19	Stock Appreciation Right Agreement dated March 11, 2013 between the Company and Ted A. Fernandez.
10.20	Stock Appreciation Right Agreement dated March 11, 2013 between the Company and David N. Dungan.
10.21	Credit Agreement dated February 21, 2012, and amended on August 27, 2013 and March 18, 2015, among The Hackett Group, Inc., the material domestic subsidiaries of Hackett named on the signature pages there to and Bank of America, N.A., as lender (incorporated herein by reference to the Registrant's Form 8-K dated February 23, 2012).
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).
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase
101.DEF**	XBRL Taxonomy Extension Definition Linkbase
101.LAB**	XBRL Taxonomy Extension Label Linkbase
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase

** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.

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

Annual Meeting

The Hackett Group shareholders are invited to attend our Annual Meeting on Friday, May 8, 2015 at 11:00 am at:
Corporate Headquarters
1001 Brickell Bay Drive, Suite 3000
Miami, FL 33131

Transfer Agent

First Class/Registered/ Certified Mail:

Computershare Investor
Services
P.O. Box 30170
College Station, TX 77842-3170

Courier Services:

Computershare Investor
Services
211 Quality Circle, Suite 210
College Station, TX 77845

Shareholder Services Number(s):
877-373-6374
Investor Centre™ portal:
www.computershare.com/investor

Independent Auditors

BDO USA, 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.

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

Richard N. Hamlin
Retired Partner
KPMG LLP

John R. Harris
Operating Partner
glendon Todd Capital LLC

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

Alan T.G. Wix
Former Managing Director
of Core IT Services
Lloyds TSB Bank

