

Benchmarking

IP as a Service

Digital  
Transformation

Enterprise  
Analytics



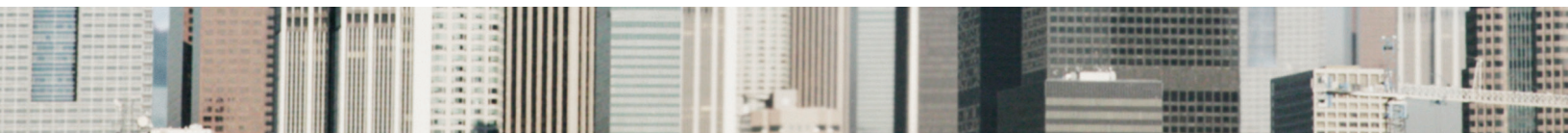
**2016 Annual Report**



**We had an outstanding year. We increased revenue by 11% to \$288 million while pro-forma EPS increased 25% to \$0.94 cents. What makes this year so special is that the results are on top of the two previous years' pro-forma EPS results, which were up 34% and 37%, respectively.**



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



Dear Shareholders,

We had an outstanding year in 2016. We increased revenue by 11% to \$288 million while pro-forma EPS increased 25% to \$0.94 cents. What makes this year so special is that the results are on top of the two previous years' pro-forma EPS results, which were up 34% and 37%, respectively.

We continue to believe that our revenue and EPS growth is a direct result of several key strategies:

- Strongly positioning our brand driven by the highly differentiated leverage of our Benchmarking and Best Practice Advisory offerings that generate and utilize our IP and provide strategic access to leading global companies. Approximately 85% of our 2016 Hackett revenues came from former clients and users of our IP and services. We refer to this group as our user or "install" base. This is a great example of how the unique value of our IP expands our brand and extends to our consulting offerings.
- Increasing revenue per client. The consolidation of our Business Transformation along with increasing capability, improved collaboration and cross selling, is allowing us to serve clients broadly.
- Continuing to add and upgrade talent and building a more efficient resource pyramid has led to improved gross margins while increasing headcount.
- And lastly, identifying new offerings that utilize our benchmarking and best practice IP and leveraging new channels through strategic alliances to introduce new recurring revenue and high-margin offerings that could redefine our organizational model as a performance improvement "IP as a service" business.

On a longer-term basis, we are seeing emerging cloud and digital technology transforming everyday activities that may result in the most significant enterprise transformation period we have ever seen. The transition to cloud applications and infrastructure, along with improving mobile functionality that is being introduced into the marketplace by technology providers, is dramatically influencing the way businesses compete and deliver their services. This will disrupt entire industries at an accelerated pace, forcing organizations to fundamentally change and adapt these new capabilities in order to remain competitive. The speed of change will only

be limited by the ability of technology providers to deliver the functionality, security and performance required. But regardless of their delivery limitations, the mere threat or opportunity promised will accelerate enterprise transformation initiatives. This will redefine traditional sequential and linear-based business models and activities to fully networked and robotic automated workflows and events with enhanced analytics that will finally deliver on the much anticipated predictive analytics and artificial intelligence innovations.

We believe the digital transformation era is very attractive to our organization. We expect clients to increasingly turn to us to provide them with best practice insight on what technology can actually deliver and what changes in business models actually work and will justify significant future investments.

On a near-term basis, we expect continued growth from our US business, although it will be tempered by the transition from on premises to cloud software, as clients assess if the cloud software delivers the functionality, performance and security they require. We also believe that as cloud and artificial intelligence offerings mature, there will be an accelerated migration to these technologies that will create increasing demand for our expertise.

In Europe, we expect our revenues to be up strongly and be favorable to 2017 growth prospects. Two years ago, we made the conscious decision to expand our service offerings to more closely mirror our US makeup. We are now seeing a meaningful impact from this investment and expect EPM in Europe to represent a growing component of our European revenues for the year. Additionally, the growth in our "IP as a service" offerings should continue to ramp and start to contribute to our 2017 results. At the heart of the digital transformation era is business analytics, which now represents nearly 50% of Hackett US revenues and 44% of Hackett global revenues. Our ability to assemble terrific talent and our unique ability to leverage our best practice configuration and organizational excellence IP is responsible for this success.

We plan to continue to emphasize the unique value of our Benchmarking and Best Practice insight and IP. Correspondingly, we will continue to invest heavily in these areas. A good example is our plan to roll out a new benchmarking offering called Quantum Leap that will

incorporate our Hackett Performance Exchange technology and other innovations into our benchmarking platform offerings during the first half of 2017. This will improve and further differentiate the unmatched value delivered through our benchmarking offerings.

In Executive and Best Practice Advisory, our IP alliance relationships are helping us invest in new technology and offerings that will improve our clients' access and leverage of the proprietary insight that we deliver through these programs. These programs allow us to serve clients strategically and continuously. At the end of 2016, our Executive and Best Practice Advisory Members totaled 1,075 across 330 clients. These numbers exclude the new clients we have been adding from our new "IP as a service" alliances with ADP and CIMA.

In the fourth quarter of 2015, we launched a dedicated Hackett best practices advisory program for ADP's Vantage HCM® solution. All indications from the ADP sales force as well as their clients continue to be very favorable. Given our early success we are now developing plans with ADP to expand our offering to additional platforms that they expect to migrate to Vantage as well as a program into a targeted part of their existing install base. These new programs will expand our opportunities with ADP in 2017.

Relative to our Certified GBS Professionals program in alliance with CIMA, this program will allow us to build an entirely new professional development business that provides globally recognized certifications for shared services and global business service professionals. During the fourth quarter of 2016 we launched our last remaining managerial diploma course. This now allows all of our existing clients to experience our fully completed curriculum. We have continued to sign up new companies and continued to build our pipeline with major global organizations with significant


GBS organizations. We now have over 125 companies who are using our entry and executive level courses for their assessment. As companies complete their pilot programs, our goal will be to gain larger and longer-term commitments from these clients. This should enable us to increase our recurring revenue client relationships throughout 2017.

We recently announced our new Enterprise Analytics training and certification program and the introduction of The Hackett Institute. We believe that analytical skills will significantly grow over the next decade as companies realize the value of data and related insight and realize the need to extend these skills in a meaningful way throughout the enterprise. We decided to launch our offering without an alliance partner. However, we are assessing academic institutions that can extend the value of our content and the branding and value of our planned certification. Given the unique nature of our best practice content and the recognized value we have experienced with our Certified GBS Professionals offering, we now believe that continuing education provides a significant revenue growth opportunity for our organization.

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

In summary, 2016 was an outstanding year. More importantly, we are seeing that the improvements and investments we are making in our IP, our expanded EPM capabilities, "IP as a service" offerings and alliances, and digital transformation focus should bode well for our long term growth prospects.

As always, let me close by thanking our associates and shareholders for their 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 December 30, 2016

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> <b>Common Stock, par value \$0.01 per share</b>	<u>(Name of each exchange on which registered)</u> <b>NASDAQ Stock Market</b>
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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 \$322,450,791 on July 1, 2016 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 6, 2017 was 29,187,155.

**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 2017 Annual Meeting of Shareholders to be 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.

The Hackett Group is an intellectual property-based strategic consultancy and leading enterprise benchmarking and best practices implementation firm to global companies. Services include benchmarking, executive advisory, business transformation, enterprise performance management, working capital management, and global business services. The Hackett Group also provides dedicated expertise in business strategy, operations, finance, human capital management, strategic sourcing, procurement, and information technology, including its award-winning Oracle EPM and SAP practices.

The Hackett Group has completed more than 13,000 benchmarking and performance studies with major organizations, including 93% of the Dow Jones Industrials, 87% of the Fortune 100, 87% of the DAX 30 and 58% of the FTSE 100. These studies drive its Best Practice Intelligence Center™ which includes the firm's benchmarking metrics, best practices repository, and best practice configuration and process flows accelerators, which enable The Hackett Group's clients and partners to achieve world-class performance.

Heading into fiscal 2017, the rapid development and move to cloud applications and infrastructure, along with improving mobile functionality and User Experience being introduced into the market place by technology providers, is dramatically influencing the way businesses compete and deliver their services. This will disrupt entire industries at an accelerated pace, forcing organizations to fundamentally change and adapt these new capabilities in order to remain competitive. The speed of change will only be limited by the ability of technology providers to deliver on their functionality and performance. But regardless of their delivery limitations, we believe that the mere threat or opportunity promised will lead to a significant enterprise transformation period. Over time, this will redefine traditional sequential and linear based business models and activities to fully networked and dynamic automated workflows and events with enhanced analytics that will finally deliver on the much anticipated predictive analytics and artificial intelligence expectations.

This so called Digital Transformation era is very attractive to our organization since we believe our clients will increasingly turn to us to provide them with Best Practice insight on what technology can actually deliver and what changes in business models actually work and will justify significant investments.

On a near term basis, we expect our US growth will be tempered by the migration from On Premise to Cloud software offerings as sales channels improve its message to clients and as clients assess and react to the new paradigm. We also believe that as the Cloud offerings mature that there will be an accelerated migration to the new cloud software that will create increasing activity for technology service providers. In Europe we expect our revenues to be favorable to 2017 growth prospects. Two years ago we made the conscious decision to expand our service offerings to more closely mirror our US make up. We are now seeing a meaningful impact from this investment and expect Enterprise Performance Management (“EPM”) in Europe to represent a growing component of our European revenues for the year. Additionally, the growth in our “IP as a Service offering” should continue to grow and be noticeable to our 2017 results.

We continue to expect one of the key drivers for our growth to come from the growing leverage of our so called “wedge” or Benchmarking and Best Practices Advisory services. Our Benchmarking and Best Practice Advisory offerings are highly differentiated and have been providing significant and improved cross-selling leverage for our Business Transformation and Technology consulting services. As we have been previewing, we plan to roll out a new Benchmarking offering we are calling Quantum Leap that will incorporate our Hackett Performance Exchange (“HPE”) technology and other innovations into our Benchmark (“BM”) platform offerings that will improve and further differentiate the value delivered through our BM offerings. We expect this launch to happen in the first half of 2017.

In Best Practices Advisory, our IP alliance relationships are helping us invest in new technology and offerings that will improve our client’s access and leverage of our proprietary insight that we deliver through Best Practice programs.

In the fourth quarter of 2015, we launched a dedicated Hackett best practices advisory program for ADP’s Vantage HCM® solution. Given our early success with this program, we are now developing plans with ADP that will expand our offering additional platforms that they expect to migrate to Vantage as well as a program into a targeted part of their existing install base. These new programs will expand our opportunities with ADP in 2017.

Relative to our new Certified GBS Program (CGBSP) alliance with Chartered Institute of Management Accountants, we believe this relationship will allow us to build a new professional development business that provides globally recognized certifications for shared services and global business service professionals. During the fourth quarter we launched our last remaining managerial diploma course. This now allows all of our existing clients to see our fully completed curriculum.

We recently announced the launch of our Enterprise Analytics training and certification course and the introduction of The Hackett Institute. Analytical skills are expected to grow over the next decade as companies realize the value of data and related insight and realize the need to extend these skills in a meaningful way throughout the enterprise. This new offering was launched without an alliance partner. However, academic institutions that can extend the value of our content and the branding and value of our planned certification, will be considered. Given the unique nature of our Best Practice content and the recognized value we have experienced with the CGBS offering appears to indicate that continuing education provides a revenue growth opportunity for our organization.

Our long term strategy continues to be to build our brand by building new offerings and capabilities around our unmatched Best Practice intellectual capital in order to serve clients strategically and whenever possible, continuously.

## **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. It also provides us visibility into how leading global companies deploy technology or organizational strategies to optimize their performance. This insight results in a proprietary Best Practices Repository and with software configuration and organizational strategies which are only available from the unique vantage point provided from our Benchmarking solution. Utilizing the benchmarking metrics and repository of best practices, combined with the global strategy and implementation insight of our transformation and technology associates, Hackett has also created a series of organizational and technology accelerators that allow clients to effect proven sustainable performance improvement. Our proprietary BPI intellectual capital, which is imbedded within our consulting global delivery methodology, allows us to help clients accelerate their time to benefit from these improvements.

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 all within the framework of our Best Practices

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 including 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. 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 however we believe very few, if any, of our competitors have proprietary intellectual capital similar to the benchmarking based performance metrics and BPI insight that emanates from our Transformational Benchmark and Best Practices 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 13,000 benchmark and performance studies over 23 years at over 5,100 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 leveraging our proprietary Best Practices Repository, 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 terrific talent and with our intellectual capital-centric approach, gives us a distinct 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 and strategic partners 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 Best Practices 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's 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. Our long term strategy is to continue to build our brand by building

new offerings and capabilities around our unmatched Best Practice Implementation intellectual capital in order to serve clients strategically and whenever possible, continuously.

We believe that 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 intellectual capital 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 capabilities. 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 and best practices advisory programs, and through our Hackett Performance Exchange. At the end of the fourth quarter of 2016 our Executive and Best Practice Advisory Members totaled 1,075 across 330 clients. Consistent with prior years, approximately 50% of our Hackett sales were also Advisory clients, which continues to support the leverage of this entry or IP-wedge offering.

If our clients 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 or Best Practices 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. We continue to explore ways to leverage our IP through new external strategic partners and their channels.

- ***Introduce New IP-centric Offerings.*** We are now seeing new opportunities through new strategic alliances and channels to use our IP to help others sell and deliver their offerings. In the fourth quarter of 2015 we launched a series of such alliances as described below:

In the fourth quarter of 2015, we launched a program with ADP that added a dedicated Hackett Best Practices advisory program to ADP's Vantage HCM<sup>®</sup> solution. Our early indications from the ADP sales force as well as their clients are very favorable. We already have several clients that are utilizing the new Hackett Best Practice program in their ADP Vantage implementations, we expect our pipeline as well as closed deals to build throughout the upcoming year.

We also launched the Association of Certified GBS Professionals Program with CIMA, the Chartered Institute of Management Accountants. We believe this relationship will allow us to build an entirely new professional development business that provides globally recognized certifications for shared services and global business service professionals. Our plan is to augment our existing entry level program with an Executive level program next April and the Managerial level program by next July. At that time, we will have our complete curriculum fully rolled out. We have over 20 clients who have already committed to a Pilot program and use our entry level course for the assessment. We believe our ability to ramp throughout the year will accelerate as we rollout the other two programs and clients complete initial pilot programs.

Lastly, we also announced our new joint marketing plan with Oracle that will include the sale of the Hackett Performance Exchange along with the sale of Oracle's new Business Intelligence Cloud Service or BICS. We have started to expose a large number of Oracle's BI sales force to this joint offering which will continue throughout 2016. This program now has a few clients and we believe this activity will increase as Oracle becomes more familiar with both their new cloud solution as well as the integrated value of HPE.

Our Benchmarking and Best Practice IP leverage strategy allows us to increase our client base, profitability and increase revenue per client. It would also represent an increase in recurring revenue at much higher margins due to the way these services are provided and contracted.

We have developed a 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.

We have also announced our new Enterprise Analytics training and certification course and the introduction of The Hackett Institute. We believe that analytical skills will significantly grow over the next decade as companies realize the value of data and related insight and realize the need to extend these skills in a meaningful way throughout the enterprise. Given the unique nature of our Best Practice content and the recognized value we have experienced with our CGBS offering we now believe that continuing education provides a significant revenue growth opportunity for our organization.

- **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 2016, we invested in the automation and further integration of our various metrics, best practices and best practice acceleration tools. This effort will continue in 2017.
- **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 and Best Practices 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) and by Software Program (ADP Vantage) or Strategic Partner (CIMA). Our advisory programs include a mix of the following deliverables:

- **Best Practice Intelligence Center:** Online, searchable repository of best practices, performance metrics, conference presentations and associated research available to Executive and Best Practices Advisory Program Members and their support teams.
- **Best Practice Accelerators:** Dedicated web based access to best practices, customized software configuration tools, best practice process flows used to support the sale, configuration and organizational implementation and post implementation support efforts of Partner software.
- **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.

- **Introduce New IP-centric Offerings:** We are now seeing new opportunities through new strategic alliances and channels to use our IP to help others sell and deliver their products, such as those offered through our CGBS and ADP programs. We continue to look for other potential programs through which to introduce new IP-centric offerings.

- **Benchmarking Services**

Our benchmarking group dates back to 1991, and has measured and evaluated the efficiency and effectiveness of enterprise functions for over 5,100 organizations globally. This includes 93% of the Dow Jones Industrials, 87% of the Fortune 100, 87% of the DAX 30 and 58% 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 115 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.

We plan to continue to invest heavily in these areas as we have been previewing, we planned to rollout a new benchmarking offering that we are calling Quantum Leap that will fully incorporate our HPE technology and other innovations into our benchmarking platform offering that will improve and further differentiate the unmatched value delivered through our benchmarking offerings. We expect this launch to happen in the first half of 2017.

- **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.

- **EPM & Business Intelligence (“BI”) Solutions**

Our EPM/BI practice focuses on helping clients enhance the decision-making capability in their businesses. These improvements cover many aspects of service delivery, including process improvement, technology deployment, organizational alignment, information and data definition and skills and competency alignment. Solutions typically reside in 3 primary areas: Core Financial Close and Consolidation, Integrated Business Planning, and Reporting / Advanced Analytics. Solution innovations have taken the practice into areas such as Big Data, Cloud technology data management and governance, and Industry-specific analytic templates. This practice works closely with Oracle technology offerings and was the #1 Oracle EPM partner for 2013, 2014 and 2015. Oracle no longer recognizes this designation as a result of their emphasis on cloud-based offerings.

## **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.

## **CLIENTS**

We focus on developing long-term client relationships with Global 2000 firms and other sophisticated buyers of business and IT consulting services. During 2016, 2015 and 2014, our ten most significant clients accounted for 24%, 24% and 21% of revenue, respectively. In addition, during 2016 and 2015 our largest client generated 4% of total revenue, and in 2014, our largest client generated 3% of total revenue. We believe that we have achieved a high level of satisfaction across our client base. The responses to our client satisfaction surveys have generally 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. In our technology practice 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.

## 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 December 30, 2016, we had 1,079 associates, excluding subcontractors, 80% 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](http://www.thehackettgroup.com) as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Any material that we file with the SEC may be read and copied at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 or at [www.sec.gov](http://www.sec.gov). Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

Also available on our website, free of charge, are copies of our Code of Conduct and Ethics, and the 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 any given year and should not be used to predict future performance. In future quarters, our operating results may not meet analysts’ and investors’ expectations. If that happens, the price of our common stock may fall. Many factors can cause fluctuations in our financial results, 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 2016, our ten largest clients accounted for 24% 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 that 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 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 in the local jurisdiction 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, Floor 30, 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, Paris, Montevideo, Hyderabad and Sydney. As of December 30, 2016, we had operating leases that expire on various dates through December 2024. 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 Stock Market 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 Stock Market:

<b>2016</b>	<b>High</b>	<b>Low</b>
Fourth Quarter	\$ 18.35	\$ 14.64
Third Quarter	\$ 17.26	\$ 13.06
Second Quarter	\$ 15.74	\$ 13.11
First Quarter	\$ 15.84	\$ 12.44
<b>2015</b>	<b>High</b>	<b>Low</b>
Fourth Quarter	\$ 20.02	\$ 13.12
Third Quarter	\$ 15.23	\$ 12.07
Second Quarter	\$ 14.20	\$ 8.66
First Quarter	\$ 9.58	\$ 7.31

The closing sale price for the common stock on March 6, 2017, was \$19.20.

As of March 6, 2017, there were 268 holders of record of our common stock and 29,187,155 shares of common stock outstanding.

#### Securities Authorized for Issuance under Equity Compensation Plans

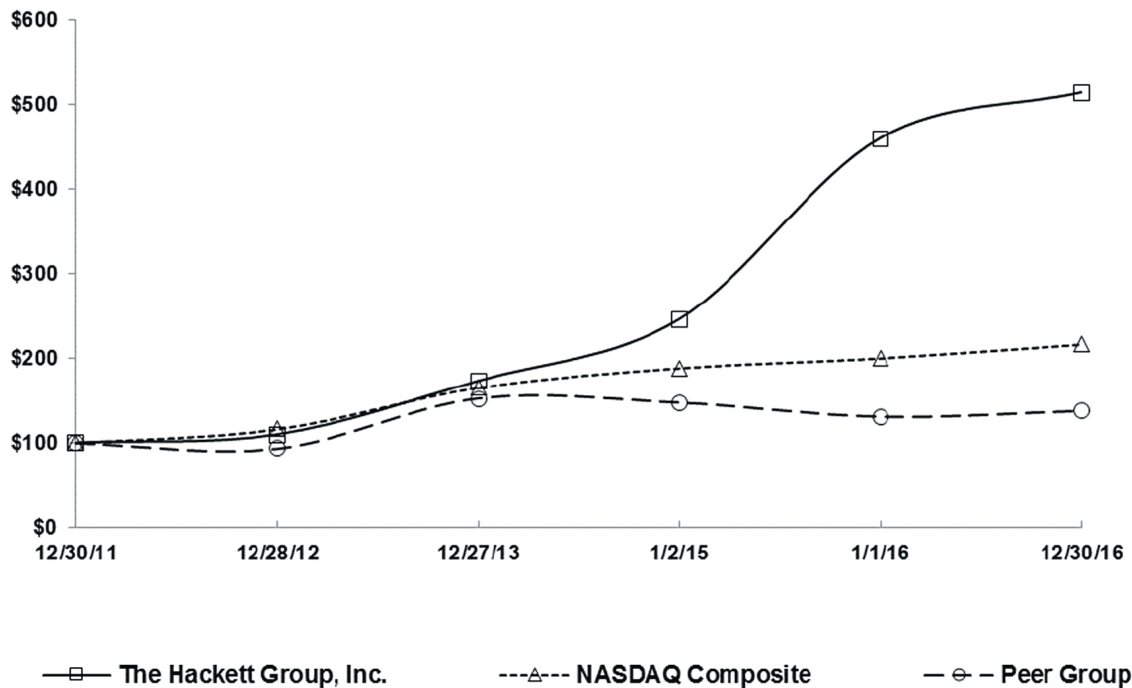
Information appearing under the caption "Equity Compensation Plan Information" in the 2017 Proxy Statement is hereby incorporated by reference.

## Performance Graph

The following graph compares our cumulative total shareholder return since December 30, 2011 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 December 30, 2011.

### COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\*

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



\*\$100 invested on 12/30/11 in stock or 12/31/11 in index, including reinvestment of dividends. Index calculated on month-end basis.

	12/30/11	12/28/12	12/27/13	1/2/15	1/1/16	12/30/16
<b>The Hackett Group, Inc.</b>	\$ 100.00	\$ 109.59	\$ 173.03	\$ 245.75	\$ 460.11	\$ 514.33
<b>NASDAQ Composite Index</b>	\$ 100.00	\$ 116.41	\$ 165.47	\$ 188.69	\$ 200.32	\$ 216.54
<b>Peer Group</b>	\$ 100.00	\$ 93.51	\$ 152.43	\$ 147.57	\$ 131.01	\$ 137.76

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 of \$0.10 per share. In December 2012 and 2013, we paid annual dividends of \$0.10 per share, or \$3.1 million to shareholders of record as of close of business on December 20, 2012 and on December 10, 2013, respectively. In 2014, we increased the dividend to \$0.12 per share, or \$3.5 million, to shareholders of record as of close of business on December 10, 2014. In 2015, we increased the annual dividend to \$0.20 per share to be paid on a semi-annual basis, or \$3.1 million and \$3.2 million to shareholders of record on June 29, 2015 and December 28, 2015, respectively. In 2016, we increased the annual dividend to \$0.26 per share to be paid on a semi-annual basis or \$4.0 million to shareholders of record on both June 30, 2016 and December 22, 2016. Subsequent to year-end 2016, we increased the annual dividend from \$0.26 per share to \$0.30 per share to be paid on a semi-annual basis. 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

We have an ongoing authorization from our Board of Directors to repurchase shares of our common stock. The repurchase plan was first announced on July 30, 2002. All repurchases under this program are discretionary and 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. The following table summarizes our share repurchases during the year ended December 30, 2016 under this authorization:

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 January 1, 2016	—	\$ —	—	\$ 2,309,346
January 2, 2016 to September 30, 2016	2,059,287	\$ 14.60	2,059,287	\$ 4,433,356
October 1, 2016 to October 28, 2016	—	\$ —	—	\$ 4,433,356
October 29, 2016 to November 25, 2016	—	\$ —	—	\$ 4,433,356
November 26, 2016 to December 30, 2016	—	\$ —	—	\$ 4,433,356
	<u>2,059,287</u>	<u>\$ 14.60</u>	<u>2,059,287</u>	

During the year ended December 30, 2016, the Company's Board of Directors approved an additional \$32.2 million authorization, bringing the cumulative authorization as of December 30, 2016, to \$127.2 million with cumulative purchases under the plan of \$122.8 million, leaving \$4.4 million available for future purchases. Subsequent to year end, we repurchased 59 thousand shares of the Company's stock from members of our Board of Directors for a total cost of \$1.2 million, or \$20.13 per share, leaving \$3.2 million available for future purchases.

Shares purchased under the repurchase plan do not include shares withheld to satisfy withholding tax obligations. These withheld shares are never issued and in lieu of issuing the shares, taxes were paid on our employee's behalf. In 2016, 294 thousand shares were withheld and not issued for a cost of \$4.0 million and in 2015, 297 thousand shares were withheld and not issued for a cost of \$2.5 million.

## 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 December 30, 2016, 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				
	December 30, 2016	January 1, 2016	January 2, 2015	December 27, 2013	December 28, 2012
<b>Consolidated Statement of Operations Data:</b>					
<i>(in thousands, except per share data)</i>					
Revenue:					
Revenue before reimbursements	\$ 259,907	\$ 234,581	\$ 213,519	\$ 200,391	\$ 199,749
Reimbursements	28,654	26,359	23,218	23,439	22,987
Total revenue <sup>(1)</sup>	288,561	260,940	236,737	223,830	222,736
Costs and expenses:					
Cost of service:					
Personnel costs before reimbursable expenses <sup>(2)</sup>	163,273	147,024	138,958	130,456	125,912
Reimbursable expenses	28,654	26,359	23,218	23,439	22,987
Total cost of service	191,927	173,383	162,176	153,895	148,899
Selling, general and administrative costs	62,081	65,632	61,386	54,208	56,997
Bargain purchase gain from acquisition <sup>(3)</sup>	—	—	(3,015)	—	—
Restructuring costs (benefit)	—	—	3,604	—	(211)
Total costs and operating expenses	254,008	239,015	224,151	208,103	205,685
Operating income	34,553	21,925	12,586	15,727	17,051
Other expense:					
Interest expense, net	(387)	(409)	(620)	(465)	(610)
Income from continuing operations before income taxes	34,166	21,516	11,966	15,262	16,441
Income tax expense (benefit) <sup>(4)</sup>	12,625	7,707	2,255	6,398	(478)
Income from continuing operations	21,541	13,809	9,711	8,864	16,919
Loss from discontinued operations	—	—	—	(135)	(222)
Net income	\$ 21,541	\$ 13,809	\$ 9,711	\$ 8,729	\$ 16,697
Basic net income per common share:					
Income per common share from continuing operations	\$ 0.74	\$ 0.47	\$ 0.34	\$ 0.29	\$ 0.54
Loss per common share from discontinued operations	—	—	—	—	(0.01)
Net income per common share	\$ 0.74	\$ 0.47	\$ 0.34	\$ 0.29	\$ 0.53
Diluted net income per common share:					
Income per common share from continuing operations	\$ 0.66	\$ 0.43	\$ 0.33	\$ 0.28	\$ 0.51
Loss per common share from discontinued operations	—	—	—	(0.01)	(0.01)
Net income per common share	\$ 0.66	\$ 0.43	\$ 0.33	\$ 0.27	\$ 0.50
Weighted average common shares outstanding:					
Basic	29,082	29,620	28,718	30,283	31,704
Diluted	32,815	31,968	29,881	32,116	33,511
<b>Consolidated Balance Sheet Data:</b>					
Cash	\$ 19,710	\$ 23,503	\$ 14,608	\$ 18,199	\$ 16,906
Restricted cash	\$ —	\$ —	\$ —	\$ 354	\$ 683
Working capital	\$ 12,999	\$ 17,375	\$ 15,418	\$ 20,767	\$ 19,020
Total assets	\$ 159,299	\$ 160,379	\$ 149,598	\$ 145,188	\$ 149,180
Long-term debt	\$ 7,000	\$ —	\$ 18,263	\$ 19,029	\$ 22,105
Shareholders' equity	\$ 86,269	\$ 102,144	\$ 89,788	\$ 93,176	\$ 94,726
Dividends declared per share	\$ 0.26	\$ 0.20	\$ 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 15 to our consolidated financial statements included in this Annual Report.
- (4) Fiscal years 2012 includes the benefit for the release of \$6.7 million 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 13,000 benchmark and performance studies over 23 years at over 5,100 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 addition, we are identifying new opportunities for our benchmarking and best practice intellectual property by leveraging new channels through strategic alliances to introduce new recurring revenue, high margin offerings that could redefine our organizational model that we have started to refer to as "IP as a service" business.

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/SAP Solutions" encompasses our SAP ERP Technology and SAP Maintenance groups.

### **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*

For transactions that are considered business combinations, we utilize 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. We performed our annual step one impairment test of our goodwill in the fourth quarter of fiscal 2016 and determined that goodwill was not impaired.

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, non-compete agreements 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 and liability instruments to employees based on the grant-date fair value of those awards, over the requisite service period, with limited exceptions.

#### *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.

## 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 2016, 2015 and 2014 ended on December 30, 2016, January 1, 2016 and January 2, 2015, 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. We also present earnings before income taxes, interest expense, depreciation and amortization (EBITDA) and adjusted EBITDA, both of which are non-GAAP measures.

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 long-term cash tax rate.

All non-GAAP information presented herein should be considered in addition to, and not as a substitute for or superior to, any measure of performance, cash flows, or liquidity prepared in accordance with GAAP.

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 results.

	Twelve Months Ended								
	December 30, 2016		January 1, 2016		January 2, 2015				
Revenue:									
Revenue before reimbursements	\$	259,907	100%	\$	234,581	100%	\$	213,519	100%
Reimbursements		28,654			26,359			23,218	
Total revenue		288,561			260,940			236,737	
Costs and expenses:									
Cost of service:									
Personnel costs		157,515	61%		141,665	60%		131,962	62%
Non-cash stock compensation expense		4,544			4,432			2,656	
Acquisition-related stock compensation expense		1,214			927			900	
Acquisition consideration reflected as compensation expense		-			-			3,440	
Reimbursable expenses		28,654			26,359			23,218	
Total cost of service		191,927			173,383			162,176	
Selling, general and administrative costs		57,974	22%		58,423	25%		56,240	26%
Non-cash stock compensation expense		3,007			2,344			2,337	
SARs-related non-cash compensation expense		-			2,658			477	
Acquisition-related costs		-			-			120	
Amortization of intangible assets		1,100			2,207			2,212	
Total selling, general, and administrative expenses		62,081	24%		65,632	28%		61,386	29%
Bargain purchase gain from acquisition		-			-			(3,015)	
Restructuring costs		-			-			3,604	
Total costs and operating expenses		254,008			239,015			224,151	
Income from operations		34,553	13%		21,925	9%		12,586	6%
Other income (expense):									
Interest income		-			3			6	
Interest expense		(387)			(412)			(626)	
Income from operations before income taxes		34,166	13%		21,516	9%		11,966	6%
Income tax expense		12,625	5%		7,707	3%		2,255	1%
Net income	\$	21,541	8%	\$	13,809	6%	\$	9,711	5%
Diluted net income per common share	\$	0.66		\$	0.43		\$	0.33	
Adjusted non-GAAP data (unaudited):									
Income from continuing operations before income taxes	\$	34,166		\$	21,516		\$	11,966	
Bargain purchase gain from acquisition		-			-			(3,015)	

Non-cash stock compensation expense	7,551	6,776	4,993
SARs-related non-cash compensation expense	-	2,658	477
Acquisition-related stock compensation expense	1,214	927	900
Acquisition-related compensation expense	-	-	3,440
Acquisition-related costs	-	-	120
Restructuring costs	-	-	3,604
Amortization of intangible assets	1,100	2,207	2,212
Adjusted non-GAAP income before income taxes	44,031	34,084	24,697
Adjusted non-GAAP income tax expense	13,209 30%	10,225 30%	7,847 32%
Adjusted non-GAAP net income	<u>\$ 30,822</u>	<u>\$ 23,859</u>	<u>\$ 16,850</u>
Adjusted non-GAAP diluted net income per share	<u>\$ 0.94</u>	<u>\$ 0.75</u>	<u>\$ 0.56</u>
EBITDA:			
Income from operations before income taxes	\$ 34,166	21,516	11,966
Interest expense	387	412	626
Depreciation expense	2,485	2,582	2,357
Amortization of intangible assets	1,100	2,207	2,212
EBITDA	<u>\$ 38,138</u>	<u>26,717</u>	<u>17,161</u>
Reconciliation to adjusted EBITDA:			
EBITDA	\$ 38,138	\$ 26,717	\$ 17,161
Non-cash stock compensation expense	7,551	6,776	4,993
SARs-related non-cash compensation expense	-	2,658	477
Acquisition-related non-cash stock compensation expense	1,214	927	900
Acquisition-related compensation expense	-	-	3,440
Acquisition-related costs	-	-	120
Restructuring costs	-	-	3,604
Bargain purchase gain from acquisition	-	-	(3,015)
Adjusted EBITDA	<u>\$ 46,903</u>	<u>\$ 37,078</u>	<u>\$ 27,680</u>

## Comparison of 2016 to 2015

*Overview.* References to adjusted non-GAAP results specifically exclude non-cash stock compensation expense, intangible asset amortization expense, acquisition related charges and gains, restructuring charges and assumes a normalized long-term cash tax rate of 30%.

Our continued strong U.S. demand drove our results as our momentum was realized across virtually all of our U.S. practices. For the fiscal year 2016, revenue increased 10.6% to \$288.6 million and earnings per share increased 53%, as compared to the same period in the prior year. Fiscal year 2015 earnings per share was unfavorably impacted by non-recurring, non-cash compensation expense relating to performance-based Stock Appreciation Rights issued in 2012. 2016 adjusted non-GAAP earnings per share increased 25%, as compared to the same period in the prior year, on top of the two previous non-GAAP earnings per share results which were up 34% in 2015 and 37% in 2014, as compared to the same period in the prior year. Earnings before income taxes, interest expense, depreciation and amortization (EBITDA) increased to \$38.1 million in fiscal 2016 from \$26.7 million in 2015. Adjusted EBITDA increased to \$46.9 million in 2016 from \$37.1 million in 2015.

*Revenue.* 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 impact of the currency fluctuation did not have a significant impact on comparisons between 2016 and 2015. Revenue is analyzed based on geographic location of engagement team personnel.

Our total Company revenue increased 10.6%, or 11.1% in constant currency, to \$288.6 million in 2016, as compared to \$260.9 million in 2015. Our strong 2016 results were driven by over 13% revenue growth from our North American service offerings. By consolidating several of our Hackett practices, we have seen improvement in collaboration and cross-selling which has allowed us to serve clients more broadly. As an example, revenue from our top twenty U.S. clients this year grew just over 20% from the prior

year. Our domestic growth was partially offset by weak European revenue which has decreased 2.9% year over year, but was flat on a constant currency basis. Our international revenue accounted for 14% of our total revenue in 2016, as compared to 16% in 2015.

Reimbursements as a percentage of total revenue were 10% during both 2016 and 2015. In 2016 and 2015, 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; non-cash stock compensation expense; and reimbursable expenses associated with projects.

Personnel costs increased 11% to \$157.5 million in 2016 from \$141.7 million in 2015. The increase in the absolute dollar amount was primarily a result of increased employee headcount and higher subcontractor costs to support increasing revenue. Personnel costs before reimbursable expenses, as a percentage of revenue before reimbursements remained relatively flat at 61% in 2016, as compared to 60% in 2015.

Non-cash compensation expense included in total cost of service was comparable at \$4.5 million in 2016, as compared to \$4.4 million in 2015. Acquisition-related stock compensation expense included in total cost of service was \$1.2 million in 2016, as compared to \$0.9 million in 2015. The increase in the acquisition-related stock compensation expense was primarily related to the finalization of the earn-out equity granted related to the acquisition of Technolab International Corporation (“Technolab”).

*Total Selling, General and Administrative (“SG&A”).* SG&A costs, excluding non-cash compensation expense, SARs-related non-cash compensation expense and the amortization of intangible assets decreased 1% to \$58.0 million in 2016, from \$58.4 million in 2015. SG&A costs as a percentage of revenue before reimbursements were 22% in 2016 and 25% in 2015 due to the improved leverage from increased revenue.

Non-cash compensation expense included in total SG&A increased to \$3.0 million in 2016, as compared to \$2.3 million in 2015. The increase primarily related to the performance-based equity compensation which was driven by Company performance. SARs-related non-cash compensation expense included in total SG&A decreased \$2.7 million in 2016, as compared to 2015, due to the non-recurring, non-cash stock compensation expense related to the performance-based SARs awards tied to the achievement of the pro-forma EBITDA performance target. This expense represented 100% of the non-cash compensation expense for these equity awards. See Note 9, “Stock Based Compensation” to our consolidated financial statements included in this Annual Report on Form 10-K for further information.

Amortization expense was \$1.1 million and \$2.2 million in 2016 and 2015, respectively. The amortization expense in 2016 and 2015 was primarily due to the amortization of the intangible assets acquired in our 2014 EPM AMS acquisition of Technolab. The decrease in the amortization expense primarily related to the full amortization at the end of 2015 of the customer backlog and tradename. The intangibles related to the customer relationship and non-compete agreement will continue to amortize through 2018.

*Income Tax Expense.* In 2016, we recorded income tax expense of \$12.6 million, which reflected an effective tax rate of 37.0% for certain federal, foreign and state taxes. In 2015, we recorded income tax expense of \$7.7 million, which reflected an effective tax rate of 35.8% for certain federal, foreign and state taxes.

## **Comparison of 2015 to 2014**

*Overview.* References to adjusted non-GAAP results specifically exclude non-cash stock compensation expense, intangible asset amortization expense, acquisition related charges and gains, restructuring charges and assumes a long-term normalized cash tax rate of 30%.

Our continued strong U.S. demand drove our results as our momentum was realized across virtually all of our U.S. practices. Our strong results were in spite of weak European results and the unfavorable impact of foreign currency which reduced our 2015 earnings per share and adjusted non-GAAP earnings per share by approximately three and four cents, respectively.

*Revenue.* 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 have a significant impact on comparisons between 2015 and 2014. Revenue is analyzed based on geographic location of engagement team personnel.

Our total Company revenue increased 10%, or 13% in constant currency, to \$260.9 million in 2015, as compared to \$236.7 million in 2014. Our strong 2015 results were driven by over 14% revenue growth from our North American service offerings.

Our domestic growth was partially offset by weak European revenue which has decreased 8% year over year, but increased 4% on a constant currency basis. Our international revenue accounted for 16%, or 17% in constant currency, of our total revenue in 2015, as compared to 19% in 2014.

Reimbursements as a percentage of total revenue were 10% during both 2015 and 2014. In 2015 and 2014, 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 acquisition of Technolab, an EPM AMS business that we acquired in the first quarter of 2014; non-cash stock compensation expense; and reimbursable expenses associated with projects.

Personnel costs increased 7% to \$141.7 million in 2015 from \$132.0 million in 2014. The increase in the absolute dollar amount was primarily a result of increased employee headcount and higher subcontractor costs to support increasing revenue, as well as, higher incentive compensation costs commensurate with Company performance. Personnel costs before reimbursable expenses, as a percentage of revenue before reimbursements, were 60% in 2015, as compared to 62% in 2014, due to the improved leverage from increased revenue.

Non-cash compensation expense included in cost of sales increased \$1.8 million in 2015, as compared to 2014, primarily due to the impact of historical equity awards on the current year. Total acquisition-related stock compensation expense was \$0.9 million in both 2015 and 2014, all of which related to the Technolab acquisition.

*Total Selling, General and Administrative (“SG&A”).* SG&A costs excluding non-cash compensation expense, SARs-related non-cash compensation expense and the amortization of intangible assets increased 4% to \$58.4 million in 2015, from \$56.2 million in 2014 primarily due to higher selling-related expenses and incentive compensation accruals commensurate with Company performance. SG&A costs as a percentage of revenue before reimbursements were 25% in 2015 and 26% in 2014 due to the improved leverage from increased revenue.

Non-cash compensation expense, included in total SG&A, was \$2.3 million in both 2015 and 2014. SARs-related non-cash compensation expense, included in total SG&A, increased \$2.2 million in 2015, as compared to 2014, due to the non-recurring, non-cash stock compensation expense related to the performance-based SARs awards tied to the achievement of the pro-forma EBITDA performance target. The expense in 2015 represented 100% of the non-cash compensation expense for these equity awards. See Note 9, “Stock Based Compensation” to our consolidated financial statements included in this Annual Report on Form 10-K for further information.

Amortization expense was \$2.2 million in both 2015 and 2014. The amortization expense in 2015 and 2014 was primarily due to the amortization of the intangible assets acquired in our 2014 EPM AMS acquisition of Technolab.

*Bargain Purchase Gain from Acquisition.* During the first quarter of 2014, we acquired and accounted for certain assets and liabilities of 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. 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, were accounted for as compensation expense. During the quarter ended October 2, 2015, we settled the contingent earn-out with cash and issued equity in accordance with the purchase agreement.

*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 to reduce the impact on our consolidated results from the continued volatility in demand in our European markets.

*Income Taxes.* In 2015, we recorded income tax expense of \$7.7 million, which reflected an effective tax rate of 35.8% for certain federal, foreign and state 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%.

For tax purposes, as of January 1, 2016, we had a total of \$7.6 million of foreign net operating loss carry forwards, primarily in the U.K. and \$2.3 million of U.S. state net operating loss carryforwards. We have fully utilized our U.S. federal net operating loss carryforwards in the fourth quarter of 2015.

## Liquidity and Capital Resources

As of December 30, 2016 and January 1, 2016, we had \$19.7 million and \$23.5 million, respectively, of cash and cash equivalents, respectively. We currently believe that available funds (including the cash on hand and funds available for borrowing under the revolving line), 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.

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

	Year Ended	
	December 30, 2016	January 1, 2016
Cash flows provided by operating activities	\$ 32,889	\$ 36,177
Cash flows used in investing activities	\$ (3,179)	\$ (3,002)
Cash flows used in financing activities	\$ (33,499)	\$ (24,237)

### Cash Flows from Operating Activities

Net cash provided by operating activities was \$32.9 million in 2016, as compared \$36.2 million in 2015. In 2016, the net cash provided by operating activities was primarily due to net income adjusted for non-cash items, partially offset by increased accounts receivable and unbilled revenue. In 2015, the net cash provided by operating activities was primarily due to net income adjusted for non-cash items and increased accrued liabilities primarily related to higher incentive compensation accruals, partially offset by increased accounts receivable and unbilled revenue.

### Cash Flows from Investing Activities

Net cash used in investing activities was \$3.2 million in 2016, as compared to \$3.0 million in 2015. Both periods include approximately \$3.0 million in capital expenditures on the continued development of our benchmark technology and the purchase of computer equipment as a result of the increase in headcount.

### Cash Flows from Financing Activities

Net cash used in financing activities was \$33.5 million in 2016 and \$24.2 million in 2015. The usage of cash in 2016 was primarily related to the cost of the repurchase of \$30.1 million of Company common stock under the Company's share repurchase program, \$4.0 million to satisfy employee net vesting-related tax requirements and \$7.2 million was utilized to payout dividends. These uses of cash were partially offset by the net borrowings of \$7.0 million. The usage of cash in 2015 was primarily related to the net payoff of the debt of \$18.3 million, total stock repurchases of \$3.8 million, including \$1.3 million under the Board open market purchase authorization and \$2.5 million to satisfy employee net vesting obligations, and \$3.1 million of dividend payments.

## Contractual Obligations

There were no material capital commitments as of December 30, 2016. The following table summarizes our future principal payments under our Credit Agreement and future lease commitments under our non-cancelable operating leases as of December 30, 2016 (in thousands):

Contractual Obligations	Total	Less Than	1-3 Years	4-5 Years	More Than
		1 Year			5 Years
Short-term debt obligations <sup>(1)</sup>	\$ —	\$ —	\$ —	\$ —	\$ —
Long-term debt obligations <sup>(1)</sup>	—	—	—	7,000	—
Operating lease obligations	7,337	1,961	2,962	1,620	794
Total	<u>\$ 7,337</u>	<u>\$ 1,961</u>	<u>\$ 2,962</u>	<u>\$ 8,620</u>	<u>\$ 794</u>

- (1) Excludes the fee on the amount of any unused commitment that we may be obligated to pay under our Credit Agreement, as such amounts vary and cannot be estimated. See Note 7 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 December 30, 2016.

### **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 December 30, 2016, 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 2016 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. The Company recognized income related to foreign currency exchange of \$0.6 million in 2016 and losses of \$0.2 million and \$8 thousand in 2015 and 2014, respectively. 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.  
INDEX TO FINANCIAL STATEMENTS AND SCHEDULE**

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders  
The Hackett Group, Inc.

We have audited the accompanying consolidated balance sheets of The Hackett Group, Inc. as of December 30, 2016 and January 1, 2016, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for the years then ended. Our audits also include the financial statement schedule of The Hackett Group, Inc. listed in Item 15(a). These financial statements and financial statement 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. 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. as of December 30, 2016 and January 1, 2016, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related 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 have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), The Hackett Group, Inc.'s internal control over financial reporting as of December 30, 2016, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 10, 2017 expressed an unqualified opinion on the effectiveness of The Hackett Group, Inc.'s internal control over financial reporting.

/s/ **RSM US LLP**

Fort Lauderdale, Florida  
March 10, 2017

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows of The Hackett Group, Inc., for the year ended January 2, 2015. In connection with our audit 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 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 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of its operations and its cash flows for the year 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.

Miami, Florida  
March 18, 2015

/s/ **BDO USA, LLP**  
Certified Public Accountants

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

	<b>December 30,</b>	<b>January 1,</b>
	<b>2016</b>	<b>2016</b>
<b>ASSETS</b>		
Current assets:		
Cash	\$ 19,710	\$ 23,503
Accounts receivable and unbilled revenue, net of allowance of \$2,574 and \$1,881 at December 30, 2016 and January 1, 2016, respectively	47,399	42,046
Prepaid expenses and other current assets	1,704	1,938
Total current assets	68,813	67,487
Property and equipment, net	14,774	14,102
Other assets	3,336	4,206
Goodwill	72,376	74,584
Total assets	<u>\$ 159,299</u>	<u>\$ 160,379</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 9,089	\$ 8,300
Accrued expenses and other liabilities	46,725	41,812
Total current liabilities	55,814	50,112
Non-current deferred tax liability, net	10,216	8,123
Long-term debt	7,000	—
Total liabilities	73,030	58,235
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; 54,785,193 and 53,847,479 shares issued at December 30, 2016 and January 1, 2016, respectively	55	54
Additional paid-in capital	277,100	272,887
Treasury stock, at cost, 26,197,981 and 24,138,694 shares at December 30, 2016 and January 1, 2016, respectively	(122,756)	(92,691)
Accumulated deficit	(56,581)	(70,134)
Accumulated other comprehensive loss	(11,549)	(7,972)
Total shareholders' equity	86,269	102,144
Total liabilities and shareholders' equity	<u>\$ 159,299</u>	<u>\$ 160,379</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		
	December 30, 2016	January 1, 2016	January 2, 2015
<b>Revenue:</b>			
Revenue before reimbursements	\$ 259,907	\$ 234,581	\$ 213,519
Reimbursements	28,654	26,359	23,218
Total revenue	288,561	260,940	236,737
<b>Costs and expenses:</b>			
Cost of service:			
Personnel costs before reimbursable expenses (includes \$5,758, \$5,359 and \$3,556 of stock compensation expense in 2016, 2015 and 2014, respectively)	163,273	147,024	138,958
Reimbursable expenses	28,654	26,359	23,218
Total cost of service	191,927	173,383	162,176
Selling, general and administrative costs (includes \$3,007, \$5,002 and \$2,814 of stock compensation expense in 2016, 2015 and 2014, respectively)	62,081	65,632	61,386
Bargain purchase gain from acquisition	—	—	(3,015)
Restructuring cost	—	—	3,604
Total costs and operating expenses	254,008	239,015	224,151
Operating income	34,553	21,925	12,586
<b>Other income (expense):</b>			
Interest income	—	3	6
Interest expense	(387)	(412)	(626)
Income from operations before income taxes	34,166	21,516	11,966
Income tax expense	12,625	7,707	2,255
Net income	\$ 21,541	\$ 13,809	\$ 9,711
<b>Basic net income per common share:</b>			
Income per common share from operations	\$ 0.74	\$ 0.47	\$ 0.34
Weighted average common shares outstanding	29,082	29,620	28,718
<b>Diluted net income per common share:</b>			
Income per common share from operations	\$ 0.66	\$ 0.43	\$ 0.33
Weighted average common and common equivalent shares outstanding	32,815	31,968	29,881

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		
	December 30, 2016	January 1, 2016	January 2, 2015
Net income	\$ 21,541	\$ 13,809	\$ 9,711
Foreign currency translation adjustment	(3,577)	(1,807)	(1,714)
Total comprehensive income	<u>\$ 17,964</u>	<u>\$ 12,002</u>	<u>\$ 7,997</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 Loss	Total Shareholders' Equity
	Shares	Amount		Shares	Amount			
Balance at December 27, 2013	52,143	\$ 52	\$ 261,861	(22,189)	\$ (80,406)	\$ (83,880)	\$ (4,451)	\$ 93,176
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 declared	—	—	—	—	—	(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>
Issuance of common stock	644	1	(1,543)	—	—	—	—	(1,542)
Treasury stock purchased	—	—	—	(149)	(1,356)	—	—	(1,356)
Amortization of restricted stock units and common stock subject to vesting requirements	—	—	9,518	—	—	—	—	9,518
Dividend declared	—	—	—	—	—	(6,266)	—	(6,266)
Net income	—	—	—	—	—	13,809	—	13,809
Foreign currency translation	—	—	—	—	—	—	(1,807)	(1,807)
Balance at January 1, 2016	<u>53,847</u>	<u>\$ 54</u>	<u>\$ 272,887</u>	<u>(24,138)</u>	<u>\$ (92,691)</u>	<u>\$ (70,134)</u>	<u>\$ (7,972)</u>	<u>\$ 102,144</u>
Issuance of common stock	938	1	(3,032)	—	—	—	—	(3,031)
Treasury stock purchased	—	—	—	(2,059)	(30,065)	—	—	(30,065)
Amortization of restricted stock units and common stock subject to vesting requirements	—	—	7,245	—	—	—	—	7,245
Dividend declared	—	—	—	—	—	(7,988)	—	(7,988)
Net income	—	—	—	—	—	21,541	—	21,541
Foreign currency translation	—	—	—	—	—	—	(3,577)	(3,577)
Balance at December 30, 2016	<u>54,785</u>	<u>\$ 55</u>	<u>\$ 277,100</u>	<u>(26,197)</u>	<u>\$ (122,756)</u>	<u>\$ (56,581)</u>	<u>\$ (11,549)</u>	<u>\$ 86,269</u>

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

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

	Year Ended		
	December 30, 2016	January 1, 2016	January 2, 2015
Cash flows from operating activities:			
Net income	\$ 21,541	\$ 13,809	\$ 9,711
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense	2,485	2,582	2,357
Amortization expense	1,100	2,207	2,212
Amortization of debt issuance costs	106	98	95
Provision for doubtful accounts	38	89	785
(Gain) loss on foreign currency transactions	(594)	170	8
Restructuring costs	—	—	3,604
Non-cash stock compensation expense	8,765	10,361	6,370
Acquisition consideration reflected as compensation expense	—	(3,440)	—
Bargain purchase gain from acquisition	—	—	(3,015)
Deferred income tax expense	2,092	5,026	1,949
Changes in assets and liabilities, net of acquisition:			
Increase in accounts receivable and unbilled revenue	(4,709)	(4,761)	(2,848)
Decrease in prepaid expenses and other assets	135	312	42
Increase (decrease) in accounts payable	790	390	(171)
Increase (decrease) in accrued expenses and other liabilities	1,140	9,334	(2,340)
Net cash provided by operating activities	32,889	36,177	18,759
Cash flows from investing activities:			
Purchases of property and equipment	(3,179)	(3,002)	(3,097)
Cash consideration paid for acquisition	—	—	(2,877)
Cash acquired in acquisition	—	—	522
Decrease in restricted cash	—	—	354
Net cash used in investing activities	(3,179)	(3,002)	(5,098)
Cash flows from financing activities:			
Proceeds from borrowings	30,000	2,500	10,500
Payment of debt borrowings	(23,000)	(20,763)	(11,487)
Debt issuance costs	(237)	(14)	(22)
Dividends paid	(7,163)	(3,067)	(3,508)
Proceeds from issuance of common stock	984	945	937
Repurchases of common stock	(34,083)	(3,838)	(13,702)
Net cash used in financing activities	(33,499)	(24,237)	(17,282)
Effect of exchange rate on cash	(4)	(43)	30
Net increase (decrease) in cash	(3,793)	8,895	(3,591)
Cash at beginning of year	23,503	14,608	18,199
Cash at end of year	\$ 19,710	\$ 23,503	\$ 14,608
Supplemental disclosure of cash flow information:			
Cash paid for income taxes	\$ 8,757	\$ 268	\$ 893
Cash paid for interest	\$ 282	\$ 335	\$ 538

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 is an intellectual property-based strategic consultancy and leading enterprise benchmarking and best practices implementation firm to global companies. Services include business transformation, enterprise performance management, working capital management, and global business services. The Hackett Group also provides dedicated expertise in business strategy, operations, finance, human capital management, strategic sourcing, procurement, and information technology, including its award-winning Oracle EPM and SAP practices.

*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 2016, 2015 and 2014 ended on December 30, 2016, January 1, 2016 and January 2, 2015, respectively. References to a year included in the consolidated financial statements refer to a fiscal year rather than a calendar year.

*Cash and Restricted Cash*

The Company considers all short-term investments with maturities of three months or less to be cash equivalents to the extent that it 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.

As of December 30, 2016 and January 1, 2016, the Company did not have any restricted cash balances or cash equivalents.

*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 and 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 annual dividend payment from \$0.10 per share to \$0.12 per share. In 2015, the Company's Board of Directors approved an increase in the annual dividend payment from \$0.12 to \$0.20 per share, to be paid semi-annually. In fiscal 2016, the Company's Board of Directors approved an increase in the annual dividend to \$0.26 per share, to be paid semi-annually. In 2016, the Company paid dividends of \$0.23 per share. Subsequent to fiscal year end 2016, the Company's Board of Directors approved an additional increase from \$0.26 per share to \$0.30 per share to be paid semi-annually. 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 ten 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 HACKETT GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

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

*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*

For transactions that are considered business combinations, the Company utilizes 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.

The Company performed its annual step one impairment test of goodwill in the fourth quarter of fiscal years 2016 and 2015 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):

	<b>The Hackett Group</b>	<b>Hackett Technology Solutions</b>	<b>Total</b>
Balance at January 2, 2015	\$ 44,295	\$ 31,134	\$ 75,429
Foreign currency translation adjustment	(845)	—	(845)
Balance at January 1, 2016	43,450	31,134	74,584
Foreign currency translation adjustment	(2,208)	—	(2,208)
Balance at December 30, 2016	<u>\$ 41,242</u>	<u>\$ 31,134</u>	<u>\$ 72,376</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):

	December 30, 2016	January 1, 2016
Gross carrying amount	\$ 22,448	\$ 22,448
Accumulated amortization	(19,779)	(18,679)
Foreign currency translation adjustment	33	33
	<u>\$ 2,702</u>	<u>\$ 3,802</u>

All of the Company's intangible assets are expected to be fully amortized by the end of 2018. For the year ended December 30, 2016, the Company recorded \$1.1 million of amortization expense. The estimated future amortization expense of intangible assets as of December 30, 2016 is as follows: \$1.5 million in 2017 and \$1.2 million in 2018. See Note 14 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.

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 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.

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

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

*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*

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.

The Company utilized 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:

	<b>Year Ended</b>		
	<b>December 30, 2016</b>	<b>January 1, 2016</b>	<b>January 2, 2015</b>
Basic weighted average common shares outstanding	29,082,253	29,620,361	28,718,263
Effect of dilutive securities:			
Unvested restricted stock units and common stock subject to vesting requirements issued to employees	1,413,893	1,617,820	1,152,974
Common stock issuable upon the exercise of stock options and SARs	2,319,245	729,447	9,765
Dilutive weighted average common shares outstanding	<u>32,815,391</u>	<u>31,967,628</u>	<u>29,881,002</u>

There were 0.8 million, 0.5 million and 0.3 million shares of underlying awards granted excluded from the above reconciliation for the years ended 2016, 2015 and 2014, respectively, as their inclusion would have had an anti-dilutive effect on diluted net income per share.

*Fair Value of Financial Instruments*

The Company's financial instruments consist of cash and cash equivalents, accounts receivable and unbilled revenue, accounts payable, accrued expenses and other liabilities and debt. As of December 30, 2016 and January 1, 2016, the carrying amount of each

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

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

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 2016, 2015 and 2014, 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 loss. 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 Financial Accounting Standards Board ("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, 2017 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 permitted, however not before December 15, 2016. 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.

In April 2015, the FASB issued amendments to its guidance which are intended to simplify the balance sheet presentation of debt issuance costs. These amendments require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by this update. The amendments are effective for annual and interim periods beginning after December 15, 2015 and requires a retrospective transition method. Early adoption is permitted for financial statements that have not been previously issued. This adoption did not have a material impact on the Company's consolidated financial statements.

On November 20, 2015, the FASB issued guidance which requires an entity to present all deferred tax assets and liabilities as non-current in a classified balance sheet. The update becomes effective January 1, 2017, however early adoption is permitted. The Company chose early adoption for the periods presented.

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

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

In February 2016, the FASB issued guidance on leases which supersedes the current lease guidance. The core principle requires lessees to recognize the assets and liabilities that arise from nearly all leases on the balance sheet. Accounting applied by lessors will remain largely consistent with previous guidance. The amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently assessing the impact of this standard on its consolidated financial statements.

In March 2016, the FASB issued guidance on employee share-based payment accounting, which is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. This update becomes effective for annual and interim periods beginning after December 15, 2016, with early adoption permitted. The Company is currently evaluating the impact of this new guidance.

*Reclassifications*

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

**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

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

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

	December 30, 2016	January 1, 2016
Accounts receivable	\$ 39,335	\$ 33,159
Unbilled revenue	10,638	10,768
Allowance for doubtful accounts	(2,574)	(1,881)
	<u>\$ 47,399</u>	<u>\$ 42,046</u>

Accounts receivable as of December 30, 2016 and January 1, 2016, is net of uncollected advanced billings. Unbilled revenue as of December 30, 2016 and January 1, 2016 includes recognized recoverable costs and accrued profits on contracts for which billings had not been presented to clients.

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

**4. Property and Equipment, net**

	December 30, 2016	January 1, 2016
Equipment	\$ 6,580	\$ 6,460
Software	26,983	24,049
Leasehold improvements	373	431
Furniture and fixtures	493	494
	<u>34,429</u>	<u>31,434</u>
Less accumulated depreciation	(19,655)	(17,332)
	<u>\$ 14,774</u>	<u>\$ 14,102</u>

Depreciation expense for the years ended December 30, 2016, January 1, 2016 and January 2, 2015, was \$2.5 million, \$2.6 million, and \$2.4 million, respectively, and is included in selling, general and administrative costs in the accompanying consolidated statements of operations. The increase in accumulated depreciation in 2016, as compared to 2015, relates to depreciation expense and the impact of foreign currency translation adjustments.

**5. Accrued Expenses and Other Liabilities**

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

	December 30, 2016	January 1, 2016
Accrued compensation and benefits	\$ 4,412	\$ 3,934
Accrued bonuses	13,038	13,279
Accrued dividend payable	4,023	3,199
Deferred revenue	10,975	11,433
Accrued sales, use, franchise and VAT tax	3,791	1,946
Non-cash stock compensation accrual	4,225	2,704
Income tax payable	4,437	3,087
Other accrued expenses	1,824	2,230
Total accrued expenses and other liabilities	<u>\$ 46,725</u>	<u>\$ 41,812</u>

**6. Lease Commitments**

The Company has operating lease agreements for its premises that expire on various dates through July 2024. Rent expense for the years ended December 30, 2016, January 1, 2016 and January 2, 2015 was \$2.3 million, \$2.2 million and \$2.2 million, respectively.

Future minimum lease commitments under non-cancelable operating leases as of December 30, 2016, are as follows (in thousands):

	Rental Payments
2017	\$ 1,961
2018	1,518
2019	1,444
2020	928
2021	692
Thereafter	794
Total	<u>\$ 7,337</u>

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

**7. Credit Facility**

The Company entered into a credit agreement with Bank of America, N.A. ("Bank of America"), pursuant to which Bank of America agreed to lend the Company up to \$20.0 million pursuant to a revolving line of credit (the "Revolver") and up to \$47.0 million pursuant to a term loan ("the Term Loan", and together with the Revolver, the "Credit Facility"). During 2015, the Company paid off the remaining balance on both the Term Loan and Revolver. As of January 1, 2016, the Company had fully utilized and paid off its Term Loan and had no outstanding balance on the Revolver.

On May 9, 2016, the Company amended and restated the credit agreement with Bank of America to:

- Provide for up to an additional \$25.0 million of borrowing under the Revolver for a total borrowing capacity of \$45.0 million; and to
- Extend the maturity date on the Revolver to May 9, 2021, five years from the date of this amendment of the Credit Agreement.

The obligations of Hackett under the Credit Facility are guaranteed by active existing and future material U.S. subsidiaries of Hackett (the "U.S. Subsidiaries"), and are secured by substantially all of the existing and future property and assets of Hackett and the U.S. Subsidiaries, a 100% pledge of the capital stock of the U.S. Subsidiaries, and a 66% pledge of the capital stock of Hackett's direct foreign subsidiaries (subject to certain exceptions).

The interest rates per annum applicable to loans under the 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. The applicable margin percentage is based on the consolidated leverage ratio, as defined in the Credit Agreement. As of December 30, 2016, the applicable margin percentage was 1.50% per annum based on the consolidated leverage ratio, in the case of LIBOR rate advances, and 0.75% per annum, in the case of base rate advances. The interest rate as of December 30, 2016 was 2.18%.

The Company is subject to certain covenants, including total consolidated leverage, fixed cost coverage, adjusted fixed cost coverage and liquidity requirements, each as set forth in the Credit Agreement, subject to certain exceptions. As of December 30, 2016, the Company was in compliance with all covenants.

In connection with the Credit Facility, the Company incurred \$0.2 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 accompanying consolidated balance sheet.

During the quarter ended July 1, 2016, the Company borrowed \$25.0 million on the Revolver and through the year ended December 30, 2016, the Company has paid down \$18.0 million, leaving \$7.0 million outstanding under the Revolver, excluding the debt issuance costs of \$0.4 million as of December 30, 2016. Subsequent to year end, the Company borrowed \$8.0 million from the Revolver.

	<b>Principal Amortization Payments</b>
2017	\$ —
2018	—
2019	—
2020	—
2021	7,000
Thereafter	—
<b>Total</b>	<b>\$ 7,000</b>

**8. 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 2012 and all significant state, local and foreign matters have been concluded for years through 2012. In the first quarter of 2017, the IRS commenced an examination of the Company's U.S. income tax return for fiscal year 2014.

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

**8. Income Taxes (continued)**

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

	Year Ended		
	December 30, 2016	January 1, 2016	January 2, 2015
Domestic	\$ 28,611	\$ 16,249	\$ 6,549
Foreign	5,555	5,267	5,417
Income before income taxes	<u>\$ 34,166</u>	<u>\$ 21,516</u>	<u>\$ 11,966</u>

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

	Year Ended		
	December 30, 2016	January 1, 2016	January 2, 2015
Current tax expense			
Federal	\$ 8,969	\$ 2,042	\$ 155
State	1,065	463	131
Foreign	252	224	132
	<u>10,286</u>	<u>2,729</u>	<u>418</u>
Deferred tax expense (benefit)			
Federal	789	3,566	200
State	667	529	(238)
Foreign	883	883	1,875
	<u>2,339</u>	<u>4,978</u>	<u>1,837</u>
Income tax expense	<u>\$ 12,625</u>	<u>\$ 7,707</u>	<u>\$ 2,255</u>

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

	Year Ended		
	December 30, 2016	January 1, 2016	January 2, 2015
U.S statutory income tax expense rate	35.0 %	35.0 %	35.0 %
State income taxes, net of federal income tax expense	3.3	3.0	(0.6)
Valuation reduction	(0.7)	(0.8)	(1.0)
Meals and entertainment	0.8	1.2	2.0
Foreign rate differential	(1.8)	(3.1)	(10.6)
Bargain purchase gain	—	—	(8.7)
Foreign exchange loss	0.1	(0.2)	0.1
Other, net	0.2	0.7	2.6
Effective tax rate	<u>36.9 %</u>	<u>35.8 %</u>	<u>18.8 %</u>

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



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

**8. Income Taxes (continued)**

	Year Ended	
	December 30, 2016	January 1, 2016
Deferred income tax assets:		
Allowance for doubtful accounts	\$ 978	\$ 436
Net operating loss and tax credits carryforward	2,182	3,229
Accrued expenses and other liabilities	4,089	4,943
	<u>7,249</u>	<u>8,608</u>
Valuation allowance	(1,042)	(1,287)
	<u>6,207</u>	<u>7,321</u>
Deferred income tax liabilities:		
Depreciation	(5,484)	(4,929)
Tax over book amortization on goodwill and intangibles	(10,789)	(10,204)
Other items	(150)	(311)
	<u>(16,423)</u>	<u>(15,444)</u>
Net deferred income tax liability	<u>\$ (10,216)</u>	<u>\$ (8,123)</u>

As of December 30, 2016, the Company had \$1.9 million of U.S. state net operating loss carryforwards. Additionally, at December 30, 2016, the Company had \$4.1 million of foreign net operating loss carryforwards, of which \$0.3 million related to operations in the U.K., \$0.7 million related to operations in France and \$0.9 million related to operations in Australia. 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 December 30, 2016 and January 1, 2016, the Company had a valuation allowance of \$1.0 million and \$1.3 million, respectively, 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 \$2.4 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 December 30, 2016 and January 1, 2016, the total amount of accrued income tax-related interest and penalties was \$228 thousand and \$202 thousand, respectively.

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 years ended December 30, 2016 and January 1, 2016 (in thousands):

	Year Ended	
	December 30, 2016	January 1, 2016
Beginning balance	\$ 712	\$ 792
Additions based on tax positions	26	15
Reduction for prior year tax deductions	—	(95)
Ending balance	<u>\$ 738</u>	<u>\$ 712</u>

As of December 30, 2016 and January 1, 2016, the ASC 740-10, "Accounting for Uncertainty in Income Taxes", liability of \$0.7 million and \$0.7 million, respectively, was classified as a current liability and included in accrued expenses and other liabilities in the accompanying consolidated balance sheets.

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

**8. Income Taxes (continued)**

The Company does not believe there will be any material changes in its unrecognized tax positions over the next twelve months. The reversal of ASC 740-10 tax liabilities as of December 30, 2016 and January 1, 2016 would have a favorable impact on the effective tax rate in future period.

**9. Stock Based Compensation**

*Stock Plans*

Total share based compensation included in net income for the years ended December 30, 2016, January 1, 2016 and January 2, 2015 is as follows:

	Year Ended		
	December 30, 2016	January 1, 2016	January 2, 2015
Restricted stock units	\$ 7,550	\$ 6,776	\$ 4,994
Stock options and stock appreciation rights	—	2,658	477
Common stock subject to vesting requirements	1,215	927	899
	<u>\$ 8,765</u>	<u>\$ 10,361</u>	<u>\$ 6,370</u>

The number of shares available for future issuance under the Company's stock plans as of December 30, 2016 were 1,654,976. The Company issues new shares as they 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. Stock option activity under the Company's stock option plans for the year ended December 30, 2016 is summarized as follows:

	Option Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding as of January 1, 2016	230,167	\$ 4.00		
Exercised	—	—		
Forfeited or expired	—	—		
Outstanding as of December 30, 2016	<u>230,167</u>	<u>\$ 4.00</u>	<u>5.20</u>	<u>\$ 3,144,081</u>
Exercisable at December 30, 2016	<u>230,167</u>	<u>\$ 4.00</u>	<u>5.20</u>	<u>\$ 3,144,081</u>

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

**9. Stock Based Compensation (continued)**

A summary of the Company's stock option activity for the years ended January 1, 2016 and January 2, 2015 was as follows:

	January 1, 2016		January 2, 2015	
	Option Shares	Weighted Average Exercise Price	Option Shares	Weighted Average Exercise Price
Outstanding at beginning of year	297,667	\$ 4.00	366,714	\$ 4.39
Exercised	(67,500)	3.99	(8,750)	4.04
Forfeited or expired	—	—	(60,297)	6.35
Outstanding at end of year	230,167	\$ 4.00	297,667	\$ 4.00
Exercisable at end of year	90,167	\$ 4.00	17,667	\$ 3.96

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.

Other information pertaining to stock option activity during the years ended December 30, 2016, January 1, 2016 and January 2, 2015 was as follows (in thousands):

	Year Ended		
	December 30, 2016	January 1, 2016	January 2, 2015
Total intrinsic value of stock options exercised	\$ —	\$ 660	\$ 36

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. Pro forma EBITDA is defined as pro forma earnings (which specifically excludes non-cash stock compensation expense, intangible asset amortization expense, acquisition-related charges and gains, restructuring charges and assumes a normalized long-term cash rate of 30%) before interest, taxes and depreciation. 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.

The SARs related to the pro forma EPS target were earned and vested in the first quarter of 2015 with the Audit Committee's approval of the Company's 2014 financial statements and the SARs related to the pro forma EBITDA target were earned and vested in the first quarter of 2016 with the Audit Committee's approval of the Company's 2015 financial statements. As of December 30, 2016, no SARs had been exercised.

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 December 30, 2016 was as follows:

	Number of SARs	Weighted Average Exercise Price	Weighted Average Fair Value
	Outstanding as of January 1, 2016	2,916,563	\$ 4.00
Expired	—	—	—
Outstanding as of December 30, 2016	2,916,563	\$ 4.00	\$ 1.31
Exercisable at December 30, 2016	2,916,563	\$ 4.00	\$ 1.31

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

**9. Stock Based Compensation (continued)**

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

Expected volatility	43%
Risk-free rate	0.35% - 1.00%
Expected term (in years)	2-6

As of December 30, 2016, 100% of total outstanding options and SARs were performance-based. The Company did not record any compensation expense in 2016 related to the options and SARs, but did record \$2.7 million of compensation expense in 2015 and \$0.5 million in 2014, related to these options and SARs. As of January 1, 2016, all stock compensation expense related to the outstanding options and SARs had been expensed.

*Restricted Stock Units*

Under the stock plans, participants may be granted restricted stock units, each of which represents a conditional right to receive a common share in the future. The restricted stock units granted under this plan generally vest over one of the following vesting schedules: (1) a four-year period, with 50% vesting on the second anniversary and 25% of the shares vesting on the third and fourth anniversaries of the grant date, (2) a four-year period, with 25% vesting on the first, second, third and fourth anniversary, or (3) a three-year period with 33% vesting on the first, second and third anniversary. Upon vesting, the restricted stock units will convert into an equivalent number of shares of common stock. The amount of expense relating to the restricted stock units is based on the closing market price of the Company's common stock on the date of grant and is amortized on a straight-line basis over the applicable requisite service period. Restricted stock unit activity for the year ended December 30, 2016, was as follows:

	Number of Restricted Stock Units	Weighted Average Grant-Date Fair Value
Nonvested balance as of January 1, 2016	2,135,236	\$ 6.85
Granted	576,045	13.38
Vested	(900,558)	5.89
Forfeited	(31,243)	10.69
Nonvested balance as of December 30, 2016	<u>1,779,480</u>	<u>\$ 9.02</u>

The Company recorded restricted stock units based compensation expense of \$7.6 million, \$6.8 million and \$5.0 million in 2016, 2015 and 2014, respectively, which is included in stock compensation expense, based on the vesting provisions of the restricted stock units and the fair market value of the stock on the grant date. As of December 30, 2016, there was \$7.6 million of total restricted stock unit compensation expense related to the nonvested awards not yet recognized, which is expected to be recognized over a weighted average period of 1.51 years. The Company accounts for certain restricted stock units under liability accounting as a result of the fixed monetary amount and a variable number of shares that will be issued. See Note 5 for further details.

*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 December 30, 2016 was as follows:

	Number of Shares of Common Stock Subject to Vesting Requirements	Weighted Average Grant-Date Fair Value
Nonvested balance as of January 1, 2016	747,525	\$ 8.77
Granted	—	—
Vested	(240,820)	8.29
Forfeited	(1,645)	6.04
Nonvested balance as of December 30, 2016	<u>505,060</u>	<u>\$ 9.00</u>

Common stock subject to vesting requirements of \$4.6 million was issued in 2015 in relation to the equity portion of the Technolab earn-out. These shares are subject to a four year vesting period.

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

**9. Stock Based Compensation (continued)**

The Company recorded compensation expense of \$1.2 million, \$0.9 million and \$0.9 million, during the years ended December 30, 2016, January 1, 2016 and January 2, 2015, respectively, related to common stock subject to vesting requirements. As of December 30, 2016, there was \$2.7 million of total stock based compensation expense related to common stock granted subject to vesting requirements not yet recognized, which is expected to be recognized over a weighted average period of 1.8 years.

**10. Shareholders' Equity**

*Employee Stock Purchase Plan*

Effective July 1, 1998, the Company adopted an Employee Stock Purchase Plan to provide substantially all employees who have completed three months of service as of the beginning of an offering period an opportunity to purchase shares of its common stock through payroll deductions. Purchases on any one grant are limited to 10% of eligible compensation. Shares of the Company's common stock may be purchased by employees at six-month intervals at 95% of the fair market value on the last trading day of each six-month period. The aggregate fair market value, determined as of the first trading date of the offering period, of shares purchased by an employee may not exceed \$25,000 annually. The Employee Stock Purchase Plan expires on July 1, 2018. As of 2016, a total of 29,606 shares of common stock were available for purchase under the plan. For plan years 2016, 2015 and 2014, 67,111 shares, 48,356 shares and 94,333 shares, respectively, were issued for total proceeds of \$1.0 million, \$0.7 million, and \$0.9 million, respectively. Subsequent to December 30, 2016 and subject to shareholder approval, the Company's Board of Directors agreed to extend the Employee Stock Purchase Plan to July 1, 2023 and added 250,000 additional shares of common stock, which would increase the available shares of common stock to 279,606.

*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 \$122.2 million of the Company's common stock, thereby increasing the total program size to \$127.2 million as of December 30, 2016. As of December 30, 2016, the Company had effected cumulative purchases under the plan of \$122.8 million, leaving \$4.4 million available for future purchases. There is no expiration of the authorization. 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 2016 and 2015, the Company repurchased 2.1 million and 0.1 million shares of its common stock, respectively, at an average price per share of \$14.60 and \$9.10, respectively, for a total cost of \$30.1 million and \$1.3 million, respectively. As of December 30, 2016 and January 1, 2016, the Company had repurchased 26.2 million and 24.1 million shares of its common stock, respectively, at an average price of \$4.69 and \$3.84 per share, respectively. Subsequent to year end, the Company repurchased 59 thousand shares of the Company's stock from members of its Board of Directors for a total cost of \$1.2 million, or \$20.13 per share, leaving \$3.2 million available for future purchases.

The Company holds repurchased shares of its common stock as treasury stock and accounts for treasury stock under the cost method.

On May 6, 2016, the Company's Board of Directors approved the repurchase of 697 thousand shares of its common stock from the Company's CEO, 732 thousand shares of its common stock from the Company's COO, and 73 thousand shares of its common stock from the Company's CFO for a total of approximately 1.5 million shares at a purchase price of \$14.77 per share. The transaction was approved by the Audit Committee of the Board of Directors which is comprised solely of independent directors and was effected as part of the Company's share repurchase program. Following the transaction, Mr. Fernandez, Mr. Dungan and Mr. Ramirez remained the beneficial owners of 11.8%, 4.9% and 0.9% shares, respectively, of the outstanding common stock. One of the primary reasons for this transaction was to lower the Company's weighted average shares outstanding which had increased by 11% from the first quarter of 2015 as a result of the vesting of the SARs and appreciation in share price. The repurchase reduces weighted average shares outstanding by approximately 4% and is \$0.03 to \$0.04 accretive on an annualized basis. Based on the most recent SEC filings, including shares of Company common stock beneficially owned and shares that could be acquired upon the exercise of the SARs, Mr. Fernandez continues to be the largest beneficial shareholder of the Company.

Shares purchased under the repurchase plan do not include shares withheld to satisfy withholding tax obligations. These withheld shares are never issued and in lieu of issuing the shares, taxes were paid on the employee's behalf. In 2016 and 2015, 294 thousand shares were withheld and not issued for a cost of \$4.0 million and 297 thousand shares were withheld and not issued for a cost of \$2.5 million, respectively, which are included under issuance of common stock in the accompanying consolidated statements of shareholders' equity. Subsequent to December 30, 2016, 173 thousand shares have been withheld for a total cost of \$2.9 million.

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

**10. Shareholders' Equity (continued)**

*Dividends*

In December 2012, the Company announced an annual dividend program of \$0.10 per share. In December 2012 and 2013, the Company paid annual dividends of \$0.10 per share, or \$3.1 million to shareholders of record as of close of business on December 20, 2012 and on December 10, 2013, respectively. In 2014, the Company increased the dividend to \$0.12 per share, or \$3.5 million, to shareholders of record as of close of business on December 10, 2014. In 2015, the Company increased the annual dividend to \$0.20 per share to be paid on a semi-annual basis which resulted in aggregate dividends of \$3.1 million and \$3.2 million paid to shareholders of record on June 29, 2015 and December 28, 2015, respectively. In 2016, the Company increased the annual dividend to \$0.26 per share to be paid on a semi-annual basis which resulted in aggregate dividends of \$4.0 million and \$4.0 million paid to shareholders of record on June 30, 2016 and December 22, 2016, respectively. These dividends were paid from U.S. domestic sources and are accounted for as an increase to retained deficit. The dividend declared in December 2016 was paid in January 2017. Subsequent to December 30, 2016, the Company increased its annual dividend to \$0.30 per share to be paid on a semi-annual basis.

**11. 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 2016, 2015 and 2014, the Company made matching contributions of 25% of employee contributions up to 4% of their gross salaries. The Company's matching contributions were \$0.6 million for the fiscal year ended December 30, 2016 and \$0.3 million for both of the fiscal years ended January 1, 2016 and January 2, 2015.

**12. Transactions with Related Parties**

On May 6, 2016, the Company's Board of Directors approved the repurchase of 697 thousand shares of its common stock from the Company's CEO, 732 thousand shares of its common stock from the Company's COO, and 73 thousand shares of its common stock from the Company's CFO for a total of approximately 1.5 million shares at a purchase price of \$14.77 per share. The transaction was approved by the Audit Committee of the Board of Directors which is comprised solely of independent directors and was effected as part of the Company's share repurchase program. See Note 10 for further details.

During the year ended December 30, 2016, the Company bought back 25 thousand shares of its common stock from members of its Board of Directors for \$0.4 million or \$15.68 per share. Subsequent to year end, the Company repurchased 59 thousand shares of the Company's stock from members of its Board of Directors for a total cost of \$1.2 million or \$20.13 per share.

There were no related party transactions in 2015 and 2014.

**13. 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.

**14. 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.

At closing, the seller received \$3.0 million in cash, not subject to vesting, and \$1.0 million in shares subject to vesting, which is being recorded as non-cash compensation over the service vesting period. The seller also had the ability to earn an additional \$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 contingent upon actual results achieved. The entire cash portion of the earn-out was recorded as compensation expense in 2014. The stock portion of the earn-out is being recorded as compensation expense over the service vesting period. During the third quarter of 2015, the Company settled the contingent earn-out with cash and stock issuances in accordance with the agreement.

The purchase accounting resulted in a bargain purchase gain of \$3.0 million on the acquisition and intangible assets with definite lives of \$7.7 million which will be amortized over periods ranging from 2 years to 5 years.

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

**14. Acquisition (continued)**

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

	<b>Purchase Price Allocation</b>
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	<u>\$ 6,015</u>
Bargain purchase gain on acquisition	<u>\$ 3,015</u>

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 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:

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

**15. Geographic and Service Group Information**

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

	<u>Year Ended</u>		
	<u>December 30, 2016</u>	<u>January 1, 2016</u>	<u>January 2, 2015</u>
Revenue:			
North America	\$ 246,249	\$ 218,719	\$ 190,050
International (primarily European countries)	42,312	42,221	46,687
Total revenue	<u>\$ 288,561</u>	<u>\$ 260,940</u>	<u>\$ 236,737</u>

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

**15. Geographic and Service Group Information (continued)**

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

	<u>December 30, 2016</u>	<u>January 1, 2016</u>
Long-lived assets:		
North America	\$ 78,200	\$ 78,230
International (primarily European countries)	12,286	14,662
Total long-lived assets	<u>\$ 90,486</u>	<u>\$ 92,892</u>

As of December 30, 2016, January 1, 2016 and January 2, 2015, foreign assets included \$11.9 million, \$14.1 million and \$15.0 million, respectively, of goodwill related to the REL and Archstone acquisitions, in fiscal 2005 and 2009, respectively.

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

	<u>Year Ended</u>		
	<u>December 30, 2016</u>	<u>January 1, 2016</u>	<u>January 2, 2015</u>
The Hackett Group	\$ 246,210	\$ 221,341	\$ 196,145
SAP/ERP Solutions	42,351	39,599	40,592
Total revenue	<u>\$ 288,561</u>	<u>\$ 260,940</u>	<u>\$ 236,737</u>



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

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

The following table presents unaudited supplemental quarterly financial information for the years ended December 30, 2016 and January 1, 2016 (in thousands, except per share data):

	Quarter Ended			
	April 1, 2016	July 1, 2016	September 30, 2016	December 30, 2016
Total revenue	\$ 61,973	\$ 68,178	\$ 66,810	\$ 62,946
Operating income	\$ 7,240	\$ 8,638	\$ 9,007	\$ 9,668
Income from continuing operations	\$ 7,199	\$ 8,528	\$ 8,870	\$ 9,569
Net income	\$ 4,382	\$ 5,446	\$ 5,488	\$ 6,225
Basic net income per common share (2)	<u>\$ 0.15</u>	<u>\$ 0.19</u>	<u>\$ 0.19</u>	<u>\$ 0.22</u>
Diluted net income per common share (2)	<u>\$ 0.13</u>	<u>\$ 0.17</u>	<u>\$ 0.17</u>	<u>\$ 0.19</u>

	Quarter Ended			
	April 3, 2015	July 3, 2015	October 2, 2015	January 1, 2016
Total revenue	\$ 54,905	\$ 59,423	\$ 59,992	\$ 60,261
Operating income (1)	\$ 4,635	\$ 6,049	\$ 4,943	\$ 6,298
Income from continuing operations	\$ 4,497	\$ 5,940	\$ 4,842	\$ 6,237
Net income	\$ 3,005	\$ 3,691	\$ 3,058	\$ 4,055
Basic net income per common share (2)	<u>\$ 0.11</u>	<u>\$ 0.13</u>	<u>\$ 0.11</u>	<u>\$ 0.14</u>
Diluted net income per common share (2)	<u>\$ 0.10</u>	<u>\$ 0.12</u>	<u>\$ 0.10</u>	<u>\$ 0.12</u>

- (1) Fiscal quarters ended October 2, 2015 and January 1, 2016, each include \$1.3 million of non-recurring, non-cash stock compensation expense related to the performance-based SARs awards tied to the achievement of the pro-forma EBITDA performance target.
- (2) 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.**  
**SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS AND RESERVES**  
**YEARS ENDED DECEMBER 30, 2016, JANUARY 1, 2016 AND JANUARY 2, 2015**

*(in thousands)*

<b>Allowance for Doubtful Accounts</b>	<b>Balance at Beginning of Year</b>	<b>Charge to Revenue/ Expense</b>	<b>Write-offs</b>	<b>Balance at End of Year</b>
Year Ended December 30, 2016	\$ 1,881	744	(51)	\$ 2,574
Year Ended January 1, 2016	\$ 1,330	694	(143)	\$ 1,881
Year Ended January 2, 2015	\$ 1,674	785	(1,129)	\$ 1,330

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

On May 20, 2015, the Audit Committee of the Board of Directors of The Hackett Group, Inc. (the “Company” dismissed BDO USA, LLP (“BDO”) as the Company’s independent registered public accounting firm, effective immediately.

The audit reports of BDO on the consolidated financial statements of the Company as of and for the fiscal year ended January 2, 2015 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles.

During the fiscal year ended January 2, 2015, and through May 20, 2015, there were (i) no “disagreements” as that term is defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions, between the Company and BDO on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of BDO, would have caused BDO to make reference to the subject matter of the disagreements in its reports on the financial statements for such years, except for the disagreement described below and (ii) no “reportable events” as that term is defined in Item 304(a)(1)(v) of Regulation S-K, except for the material weakness identified below.

As disclosed in the Company’s Annual Report on Form 10-K for the fiscal year ended January 2, 2015 (the “2014 Form 10-K”), we acquired and accounted for certain assets and liabilities of Technolab International Corporation (“Technolab”) during the first quarter of 2014. No issues were raised regarding the Company’s accounting for this transaction by BDO during BDO’s initial review of the transaction during the first quarter. However, BDO’s position changed subsequent to fiscal year-end during the course of its annual audit. The Company’s management initially disagreed with the subsequent position taken by BDO related to the accounting for this transaction, but the Company ultimately accounted for the transaction in accordance with BDO’s subsequent position. The Company’s management concluded that the Company’s internal control over financial reporting was effective as of the end of the period covered by the 2014 Form 10-K. However, BDO’s report on management’s assessment on the Company’s internal control over financial reporting identified a material weakness specifically related to accounting for Technolab acquisition discussed above. The description of the material weakness identified by BDO and management’s assessment of the Company’s internal control over financial reporting contained in Item 9A of the 2014 Form 10-K are incorporated herein by reference. The Audit Committee discussed with BDO the disagreement over the accounting for the Technolab acquisition as well as the material weakness identified by BDO in its report. The Company has authorized BDO to respond fully to the inquiries of the successor independent registered accounting firm concerning the accounting for the Technolab acquisition and the related material weakness.

On May 22, 2015, following the conclusion of a competitive process managed by the Audit Committee, the Company engaged McGladrey LLP, now known as RSM US LLP (“RSM”), as its independent registered public accounting firm for the fiscal year ending January 1, 2016. During the fiscal years ended January 2, 2015 and December 27, 2013 and through May 22, 2015, neither the Company, nor anyone on its behalf, had consulted RSM with respect to (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company’s consolidated financial statements, and neither a written report was provided to the Company nor oral advice was provided to the Company that RSM concluded was an important factor considered by the Company in reaching a decision as to the accounting, auditing or financial reporting issue; or (ii) any matter that was either the subject of a disagreement (as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions) or a reportable event (as described in Item 304(a)(1)(v) of Regulation S-K).

## **ITEM 9A. CONTROLS AND PROCEDURES**

The Company maintains disclosure controls and procedures (“DCP”) that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934, as amended (“the Exchange Act”), is recorded, processed, summarized, and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to the Company’s management, including its Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), as appropriate, to allow for timely decisions regarding required disclosure.

The Company, under the supervision and with the participation of the Company’s management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company’s DCP as of the end of the period covered by this report. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by the Annual Report on Form 10-K.

### **Changes in internal control over financial reporting**

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during the three months ended December 30, 2016 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 December 30, 2016.

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 December 30, 2016, and has expressed an unqualified opinion thereon.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders  
The Hackett Group, Inc.

We have audited The Hackett Group, Inc.'s internal control over financial reporting as of December 30, 2016, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. 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 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 (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) 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 (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, The Hackett Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 30, 2016, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of The Hackett Group, Inc. as of December 30, 2016 and January 1, 2016, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows of The Hackett Group, Inc. for the years then ended and our report dated March 10, 2017 expressed an unqualified opinion.

/s/ **RSM US LLP**  
Fort Lauderdale, Florida  
March 10, 2017

## ITEM 9B. OTHER INFORMATION

On March 10, 2017, the Compensation Committee of the Board of Directors approved and the Company entered into amendments to the Employment Agreements of our CEO Ted. A. Fernandez and our COO David N. Dungan. The amendments to the Employment Agreements of Mr. Fernandez and Mr. Dungan (each an “Executive”) provide as follows:

*Change from Single-Trigger to Double-Trigger.* The provisions that address payments due upon change of control were amended to reflect that in the event of a change of control, upon termination, the Executive will receive two hundred percent (200%) of his annual salary and bonus paid in lump sum and full vesting of all unvested issued and outstanding equity grants upon termination. Prior to this amendment, termination of employment was not required in order for the Executive to receive a change of control payment.

*Change of Control Payment Calculation to Include Equity.* The calculation of the change of control payment was amended to reflect that it shall be an amount equal to two hundred percent (200%) of the Executive’s average total annual compensation for the three (3) full fiscal years immediately preceding the change of control; provided, however, that if the change of control payment is based in any part on the Executive’s compensation for fiscal years 2014 and/or 2015, the equity-based bonus amount included in the total compensation for such fiscal years shall be multiplied by a factor of two (2) for purposes of determining the amount of the change of control payment. This provision was amended to include both the cash bonus and equity bonus components of the Executive’s compensation in the change of control payment calculation. Previously, equity awards were not included. The inclusion of the equity award component is meaningful as the Company does not provide retirement benefits to its executives or employees. The amendment also reflects that the Executive’s equity award opportunity for years 2014 and 2015 was only fifty percent (50%) of their historical levels.

*Definition of Good Reason.* The definition of “good reason” was amended as follows: (i) a material diminution in the Executive’s base salary or other compensation opportunities; (ii) a material change in the geographic location at which the Executive must perform services (a change in principal office location will be considered material only if it increases the Executive’s current one-way commute by more than fifty (50) miles); (iii) a failure of any successors to the Company after a change of control to perform or cause the Company to perform the obligations of the Company under the employment agreement; (iv) any action or inaction of the Company that constitutes a material breach of the terms of the employment agreement; (v) any material adverse change in the Executive’s status, titles, duties, authorities or responsibilities; or (vi) (A) in the case of Mr. Fernandez, a requirement that that Mr. Fernandez report to a corporate officer or employee of the Company instead of reporting directly to and exclusively the Board of Directors as a standalone entity consistent with his current duties and structure and (B) with respect to Mr. Dungan, a requirement that that Mr. Dungan report to a corporate officer or employee of the Company other than the Chief Executive Officer of the Company. This amendment sets forth the circumstances that would represent “good reason” which would give the Executive the ability to terminate the agreement and receive separation pay which in the event of a change of control would include the change of control payment.

*Termination Without Cause or For Good Reason.* In Mr. Dungan’s employment agreement, the provision addressing the termination by the Company without cause or by Mr. Dungan for “good reason” was amended to reflect that Mr. Dungan will receive one year’s annual salary and bonus paid in lump sum and full vesting of all issued and outstanding equity grants, including restricted stock units, stock options and SARs. The provision was amended to include payment of separation pay and vesting of unvested equity should Mr. Dungan’s employment be terminated without cause by the Company or by Mr. Dungan due to the Company’s breach of its obligations under his employment agreement.

The summary of the material terms of these amendments is qualified in its entirety by reference to the amendments which are filed as Exhibits 10.13 and 10.14, respectively, to this Annual Report on Form 10-K.

## 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 2017 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 2017 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 2017 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 2017 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 2017 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 28. 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 61.

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

## **ITEM 16. FORM 10-K SUMMARY**

None.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Miami, State of Florida, on March 10, 2017.

### 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 10, 2017
<u>/s/ Robert A. Ramirez</u> Robert A. Ramirez	Executive Vice President, Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	March 10, 2017
<u>/s/ David N. Dungan</u> David N. Dungan	Chief Operating Officer and Director	March 10, 2017
<u>/s/ Richard Hamlin</u> Richard Hamlin	Director	March 10, 2017
<u>/s/ John R. Harris</u> John R. Harris	Director	March 10, 2017
<u>/s/ Robert A. Rivero</u> Robert A. Rivero	Director	March 10, 2017
<u>/s/ Alan T. G. Wix</u> Alan T. G. Wix	Director	March 10, 2017



## 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	Articles of Amendment of the Articles of Incorporation of the Registrant (incorporated herein by reference to the Registrant's Form 10-K for the year ended December 28, 2007).
3.3	Amended and Restated Bylaws of the Registrant, as amended (incorporated herein by reference to the Registrant's Form 10-K for the year ended December 29, 2000).
3.4	Amendment to Amended and Restated Bylaws of the Registrant (incorporated herein by reference to the Registrant's Form 8-K dated March 31, 2008).
3.5	Amendment to Amended and Restated Bylaws of the Registrant (incorporated herein by reference to the Registrant's Form 8-K dated January 21, 2015).
10.1	Registrant's 1998 Stock Option and Incentive Plan (incorporated herein by reference to the Registrant's Registration Statement on Form S-8 (File No. 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 (File No. 333-48123)).
10.5	Employee Stock Purchase Plan, as amended (incorporated herein by reference to the Registrant's Registration Statement on Form S-8 (File No. 333-108640)).
10.6	Amendment to Registrant's Employee Stock Purchase Plan (incorporated herein by reference to the Registrant's Form 10-K/A filed on February 15, 2007).
10.7	Amendment to Employment Agreement between the Registrant and Ted A. Fernandez (incorporated herein by reference to the Registrant's Form 10-Q dated November 10, 2004).
10.8	Amendment to Employment Agreement between the Registrant and David N. Dungan (incorporated herein by reference to the Registrant's Form 10-Q dated November 10, 2004).
10.9	Second Amendment to Employment Agreement between the Registrant and Ted A. Fernandez (incorporated herein by reference to the Registrant's Form 8-K dated June 16, 2005).

## INDEX TO EXHIBITS

Exhibit No.	Exhibit Description
10.10	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).
10.11	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).
10.12	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).
10.13*	Fourth Amendment to Employment Agreement between the Registrant and Ted A. Fernandez.
10.14*	Fourth Amendment to Employment Agreement between the Registrant and David N. Dungan.
10.15	Stock Appreciation Right Agreement dated March 11, 2013 between the Company and Ted A. Fernandez (incorporated herein by reference to the Registrant's Form 10-K for the year ended January 1, 2016).
10.16	Stock Appreciation Right Agreement dated March 11, 2013 between the Company and David N. Dungan (incorporated herein by reference to the Registrant's Form 10-K for the year ended January 1, 2016).
10.17	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).
10.18	Second Amended and Restated Credit Agreement, dated May 9, 2016, 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 10-Q dated May 11, 2016).
21.1*	Subsidiaries of the Registrant.
23.1*	Consent of RSM US LLP.
23.2*	Consent of BDO USA, LLP.
31.1*	Certification by CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification by CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32*	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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

\* Filed herewith

\*\* 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 Wednesday, May 3, 2017 at 2 pm in the Hope Meeting Room at the InterContinental Buckhead Atlanta 3315 Peachtree Rd Atlanta, GA 30326

## **Transfer Agent**

Computershare Investor Services

### **First Class/Registered/ Certified Mail: Courier Services:**

Computershare Investor Services P.O. Box 30170 College Station TX 77842-3170	Computershare Investor Services 211 Quality Circle Suite 210 College Station, TX 77845
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Shareholder Services: 877-373-6374  
Investor Centre™ portal  
<http://www.computershare.com/investor>

## **Independent Auditors**

RSM US, LLP  
Fort Lauderdale, FL

## **Board of Directors**

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

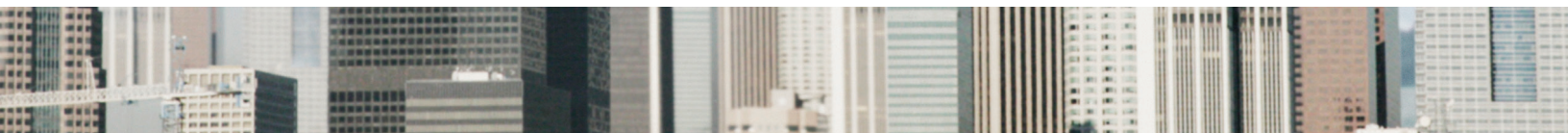
**David N. Dungan**  
Vice Chairman & Chief Operating Officer  
The Hackett Group, Inc.

**Richard N. Hamlin**  
Retired Partner  
KPMG LLP

**John R. Harris**  
Former Chief Executive Officer  
eTelecare Global Services

**Robert A. Rivero**  
Chief Executive Officer  
RAR Management Services, LLC  
International Business Advisor & Mentor

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





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