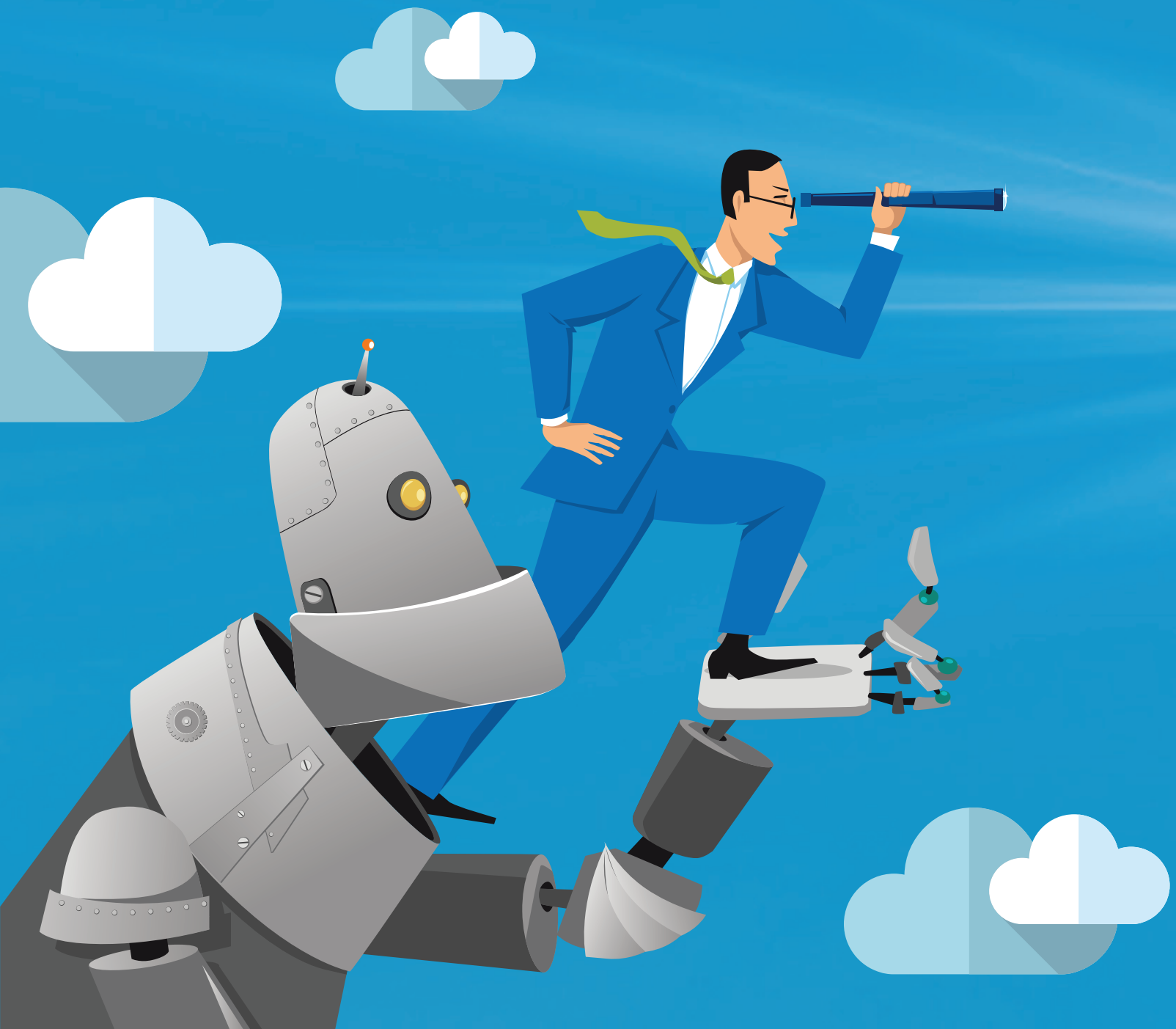


# 2019

## ANNUAL REPORT





**Ted A. Fernandez**  
Chairman & CEO

“We are very proud of the fact that we continued to generate strong profitability and cash flows from operations. This has allowed us to increase our dividend, buy back stock and have capital available to fund acquisitions, while finishing the year with a strong cash position and no debt.”

## Dear Shareholders,

Although we did not grow our revenues or profits as expected in 2019, I am pleased that we optimized performance. We reported solid operating results and strong cash flow from operations and are very well-positioned going into the new year.

Total U.S. fiscal year revenues were up 3%, in spite of the diminishing impact from the Oracle on-premise revenue decline. More importantly, it now appears that the headwinds from the Oracle on-premise decline will be immaterial by midyear 2020.

Strategy and Business Transformation (S&BT) activity continued to be solid as companies continue to pursue enterprise digital transformation initiatives. In our ERP, EPM and Analytics (EEA) Group, strong growth in Oracle Cloud ERP multitier deals, which are larger and broader, as well as strong SAP S/4HANA activity, continued to build, along with an emerging contribution from our promising OneStream group.

On the international front, Europe continued to be challenging. Throughout 2019, the Brexit dispute and uncertainty affected client decision-making. Accordingly, we took the appropriate actions prior to year-end to adjust our costs to be in line with our current revenue and market demand and protect our overall results into 2020. With that said, the UK election results from late 2019 should provide the clarity needed to allow business demand to return to a more normalized level as the year progresses. However, we know we will have challenging European revenue comparisons impacting our total growth rate through the second quarter of 2020.

On a longer term-basis, the rapid developments in digital transformation – along with emerging enterprise cloud applications, workflow automation, process mining, and artificial intelligence – are dramatically influencing the way businesses compete and deliver their services. Traditional sequential and linear-based

business models are changing to fully digital and dynamic automated workflows and events with enhanced intelligence. Digital transformation is redefining entire industries at an accelerated pace, forcing organizations to fundamentally change and adopt these new capabilities in order to remain competitive.

This 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 deliver and what changes in business models work and justify significant investments.

As we look forward, the investments we have made in Quantum Leap, our digital benchmarking-as-a-service platform, have allowed us to further differentiate The Hackett Group as the global enterprise benchmarking leader. This new platform allows us to deliver more information with significantly less client effort. It also allows clients to leverage our intellectual property (IP) to frame and track transformation initiatives over the life of their respective effort. We believe that there is no comparable platform in the market. We also released our Digital Transformation Platform, or DTP, to further differentiate how we deliver our unique IP and related capabilities. DTP allowed us to fully digitize our best practices IP and align proven software configuration and organizational solutions to help clients drive transformational change. DTP has been instrumental in many of our recent business transformation and cloud implementation wins.

- These investments, along with our Oracle ERP, S/4HANA, Coupa, OneStream and RPA investments, to name a few, have allowed us to position ourselves for the digital transformation era. Our focus remains on the growth opportunities in the year ahead, which we are very well-positioned for. With that as a backdrop, excluding any unknown coronavirus impact, we are excited about our prospects for 2020. Let me share some of the reasons why: The Oracle

on-premise headwinds should be substantially gone by the end of the second quarter, and we have addressed the volatility in Europe. We believe that both the S&BT and EEA businesses in the U.S. should continue to grow throughout the year. Additionally, as the Europe impact fully subsides by midyear, our total company revenues should achieve a 5%-10% long-term growth rate.

- Within S&BT, the Benchmarking and Executive Advisory practices, strengthened by Quantum Leap and our Digital Transformation Platform, are considered our “wedge” offerings and good indicators of the momentum of the business. In 2019, both of these practices in the U.S. had revenue or annual contract value growth in excess of 10%, which we believe bodes well for the rest of the business.
- Within EEA, our Oracle ERP acquisition on the West Coast has been fully integrated and grew strongly in 2019, leading the momentum of larger and broader multi-pillar Oracle deals. Given this success we are aggressively looking for ways to expand our Oracle ERP capabilities on the East Coast. Our SAP business also finished the year strong and has momentum into our first quarter of the new year. Additionally, last year we launched our OneStream EPM practice and within the first 12 months we have already achieved Platinum status consistent with our growing market success.
- Relative to Europe, we believe the election in the UK and phase one trade deal with China should provide the stability for increased business demand, which should begin to be accretive in the back half of the year.

Strategically, our focus is to continue to build our brand with new offerings and capabilities focused on digital transformation around our fully digitized and unmatched benchmarking and best practices intellectual capital. This should allow us to serve our clients strategically and whenever possible, continuously.

Given the success of our existing partner initiatives and improved functionality that we continue to add to our Quantum Leap and DTP platforms, we believe we will attract other strategic partners to similar programs. We continue to launch paid pilot initiatives with new partners that will further demonstrate our unique capabilities and unmatched credibility, which our brand brings to any digital transformation business case assessments.

We are very proud of the fact that we continued to generate strong profitability and cash flows from operations. This has allowed us to increase our dividend, buy back stock and have capital available to fund acquisitions, while finishing the year with a strong cash position and no debt.

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.

As always, let me close by thanking our associates and shareholders for their ongoing support and commitment to our organization. It is truly appreciated!



**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 27, 2019

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 333-48123

**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:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$.001 per share	HCKT	NASDAQ Stock Market

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

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 every Interactive Data File required to be submitted 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 such files). Yes  No

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, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer   
Non-accelerated Filer   
Emerging growth company

Accelerated Filer   
Smaller reporting company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 \$364,748,070 on June 28, 2019 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 2, 2020 was 30,033,782.

**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 2019 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.**  
**TABLE OF CONTENTS**

<b>FORM 10-K</b>		<b>Page</b>
<b>PART I</b>		
<b>ITEM 1.</b>	Business	4
<b>ITEM 1A.</b>	Risk Factors	11
<b>ITEM 1B.</b>	Unresolved Staff Comments	16
<b>ITEM 2.</b>	Properties	16
<b>ITEM 3.</b>	Legal Proceedings	16
<b>ITEM 4.</b>	Mine Safety Disclosures	16
<b>PART II</b>		
<b>ITEM 5.</b>	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	16
<b>ITEM 6.</b>	Selected Financial Data	18
<b>ITEM 7.</b>	Management’s Discussion and Analysis of Financial Condition and Results of Operations	20
<b>ITEM 7A.</b>	Quantitative and Qualitative Disclosures About Market Risk	28
<b>ITEM 8.</b>	Financial Statements and Supplementary Data	29
<b>ITEM 9.</b>	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	59
<b>ITEM 9A.</b>	Controls and Procedures	59
<b>ITEM 9B.</b>	Other Information	62
<b>PART III</b>		
<b>ITEM 10.</b>	Directors, Executive Officers and Corporate Governance	62
<b>ITEM 11.</b>	Executive Compensation	62
<b>ITEM 12.</b>	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	62
<b>ITEM 13.</b>	Certain Relationships and Related Transactions, and Director Independence	62
<b>ITEM 14.</b>	Principal Accounting Fees and Services	62
<b>PART IV</b>		
<b>ITEM 15.</b>	Exhibits and Financial Statement Schedules	63
<b>ITEM 16.</b>	Form 10-K Summary	63
<b>Index to Exhibits</b>		64
<b>Signatures</b>		66

## 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, foreign currency fluctuations, the impact of Brexit on our business and changes in general economic conditions, interest rates and our ability to obtain additional debt financing if needed. 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, “The Hackett Group”, “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 serving global companies. Services include benchmarking, executive advisory, business transformation, enterprise performance management, training and advisory to 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 and SAP practices.

The Hackett Group has completed more than 17,850 benchmarking and performance studies with major organizations, including 93% of the Dow Jones Industrials, 90% of the Fortune 100, 80% of the DAX 30 and 57% of the FTSE 100. These studies drive our Digital Transformation Platform (“DTP” or “Hackett DTP”) which includes the firm's benchmarking metrics, best practices repository, and best practice configuration and process flow accelerators, which enable The Hackett Group’s clients and partners to achieve world-class performance.

The rapid development and move to cloud applications and infrastructure along with improving analytics, mobile functionality and enhanced user experience is dramatically influencing the way businesses compete and deliver their services. This is redefining entire industries at an accelerated pace, forcing organizations to fundamentally change and adopt these new capabilities in order to remain competitive. Traditional sequential and linear-based business models are changing to fully networked and dynamic automated workflows and events with enhanced analytics. This era is very attractive to our sector since we believe clients will increasingly require organizational and technology implementation insight on what technology can deliver and what changes in business models are required to justify significant investments.

We have repositioned all of our offerings to the emerging digital transformation opportunities which started by digitizing all of our benchmarking and best practices intellectual property (“IP”). We wanted to deliver our proprietary insight in new ways and to do so efficiently and whenever possible, virtually. This also required us to change the way we go to market and engage clients, as well as added additional software implementation partners. Specifically,

- Expanded Cloud Capabilities - We expanded our Oracle Cloud applications addressable market from Enterprise Performance Management (“EPM”) to include Enterprise Resource Planning (“ERP”) and the entire Oracle Cloud applications suite through the acquisition of Jibe Consulting. This move quadrupled our Oracle Cloud addressable market and positioned us as a strategic Oracle Cloud applications consultancy. We have also expanded our alliance partners to include Coupa and Ariba in Procurement, as well as OneStream in EPM and Corporate Performance Management (“CPM”). In regard to SAP, we were an early provider of S4 HANA which has allowed us to quickly transition our implementation skills and benefit from the SAP migration to the Cloud.
- Launched Quantum Leap (“QL”) – We launched our next generation benchmarking and continuous improvement software as a service solution. This market leading benchmark solution allows us to improve the client experience by delivering twice the insight and reducing the client effort by half, thus redefining our benchmarking leadership.
- Launched the Hackett Digital Transformation Platform - This required us to further digitize our IP and the way we shared and delivered our IP with our clients across our benchmarking, advisory, transformation and Cloud ERP and EPM application solutions. The Hackett DTP improves efficiency by accelerating the speed to value by helping an organization achieve their performance targets through a combination of benchmark metrics, best practices and configuration and process flow accelerators in a fully automated platform.
- Expanded our IP as a Service Revenue - We believe our DTP platform should allow us to attract new alliance partners that can leverage our unique benchmarking and best practices IP to help them differentiate and sell their software or services solutions.
- Expanded Smart Automation Capabilities – We expanded our ability to help clients assess and implement the rapidly emerging Workflow and Robotics Process Automation (“RPA”) and related smart automation technologies.
- Launched the Hackett Institute and acquired the joint venture interest of our CGBS Program - We moved our training content to a state-of-the-art learning management system, which we believe is better aligned with our client demands. Given the unique nature of our best practice content and the favorable market reaction to our Certified Global Business Services (“CGBS”) offerings, we believe that continuing education creates another way to leverage our IP and grow our organization. In addition, we have added an RPA course to our curriculum.



We continue to expect one of the key drivers for our growth to come from the growing leverage of our so called “wedge” or IP as a Service offerings, which include our Benchmarking and Best Practices Advisory, as well as our IP as a Service platform offerings. This has been driven by our new software platforms which include our benchmark solution, Quantum Leap, as well as the launch of the Hackett DTP.

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

Hackett uses its proprietary Benchmarking enterprise performance metrics and best practices repository 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, as well as, best practice software configuration and organizational strategies which are only available from the unique vantage point provided from our Benchmarking/Quantum Leap solutions. 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.

During 2017, we launched the first version of the Hackett DTP which resulted in our new way to share and leverage our IP in a single platform. This required us to further digitize much of our intellectual capital and the way we shared it with our clients across our benchmarking, advisory, transformation and Cloud ERP and EPM application solutions. Our ability to fully digitize our IP and align proven technology and organizational solutions to help clients drive transformational change allows us to highly differentiate our offerings. It also allows us to engage and support clients more efficiently, remotely, and where appropriate continuously.

Our Hackett DTP leverages our inventory of Hackett-Certified™ best practices, observed through benchmark and other business transformation engagements, which correlate best practices with superior performance levels. We utilize Capability Maturity Models to better understand our clients’ 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 now reside in the new releases of our DTP. This allows us to utilize our IP on client engagements 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’s solutions deliver enhanced efficiency, improved effectiveness and reduced implementation risk.

The Hackett DTP, often begins with an assessment of a client’s performance, which is normally gained through benchmarking key processes and comparing the results to world-class levels and industry standards captured in the Hackett performance metrics 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 with their investments. We have designed detailed best practice process flows based on Hackett’s deep knowledge of world-class business performance. This enables clients to streamline and automate key processes and generate performance improvements quickly and efficiently at both the functional and enterprise levels.

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, SAP and other Enterprise applications 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. Hackett DTP enables the foundation for improved performance.

We believe the combination of optimized processes, best practice-based business applications and enhanced business analytics 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 acquisitions 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 Quantum Leap delivers and the insight within the Hackett DTP that supports our Transformational Benchmark, Best Practices Advisory and Business Transformation and Technology 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 our QL and DTP platforms, we believe we can empirically and digitally assist our clients. Our ability to apply best practices and benchmarking metrics 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 has conducted more than 17,850 benchmark and performance studies over 26 years at over 6,420 clients, generating proprietary data sets spanning multiple 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 and other accelerators within DTP, delivers a powerful and distinct value proposition to 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

We remain focused on executing the following strategies:

- ***Expanding our brand or market permission to our other offerings.*** We believe that our long-term growth prospects depend on 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 more opportunities 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 clients' access to our 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.

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.

The launch of Quantum Leap and the Hackett DTP should expand and hopefully attract new alliance partners that can leverage our unique benchmarking and best practices, software configuration and process flow IP to help them differentiate and sell their software or services solutions. At the end of the fourth quarter of 2019 our Executive and Best Practice Advisory, including our clients served through strategic partners was approaching 1,000 clients. This includes the hundreds of additional clients that we now serve through our IP as a Service alliances and training solutions.

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 Best Practices Advisory Programs or our new IP-as-a-Service offerings. 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 our existing 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 recent years we have launched a series of such alliances as described below:

In 2015, we launched a program with ADP that added a dedicated Hackett Best Practices advisory program to ADP's Vantage HCM solution which has now expanded to cover their Workforce Now offering. Given our success with ADP and our investment in DTP, we are now in a stronger position to attract new alliance partners and to support and accelerate their sales initiatives as well as and their clients' continuous improvement efforts. We believe this capability is unique to Hackett given our strong brand permissioning and benchmarking and best practice capability and technology.

In late 2015, we also launched the Association of Certified GBS Professionals Program with the Chartered Institute of Management Accountants ("CIMA"). This relationship allowed us to build an entirely new professional development business that provided globally recognized certifications for shared services and global business service professionals. As a result of the favorable market reaction to the way our IP was used as the core training content for this program, in 2017, we launched The Hackett Institute and acquired CIMA's interest in this program. This allowed us to develop our own certification brand and standard. Additionally, we moved our CGBS program to a new state of the art learning management system that will allow us to better meet our large global clients' requirements. We believe that training and certification is a great way to leverage our IP in a high gross margin revenue growth area for our business.

Given the unique nature of our Best Practice content and the recognized value we have experienced with our CGBS offerings we now believe that continuing education provides an additional way to grow our organization.

- ***Continue to expand our QL/DTP Content and Technology.*** DTP incorporates intellectual capital from Hackett into our implementation tools and techniques. For our 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 to our IP and accelerators. Our objective is to help clients make smarter business process and software configuration decisions as a result of our methods and knowledge. We are continuously updating our content and tools through benchmarking, enterprise transformation and research activities. Additional updates are also driven by new software releases that drive innovation in business process automation. We have invested in the automation and further integration of our various metrics, best practices and best practice acceleration tools into DTP. This effort will continue in 2020.
- ***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 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 QL/DTP 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 synergies 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.

## STRATEGY & BUSINESS TRANSFORMATION GROUP

- **Executive and Best Practices Advisory Programs**

Our Advisory programs provide on-demand access to 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), end-to-end process coverage (Process Advisory) and dedicated partner platforms. 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.
- **Introduction of New IP-centric Offerings:** We are continuing to seek new opportunities through strategic alliances and channels to use our IP to help others sell and deliver their products, such as those offered through dedicated partner and Hackett Institute 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 6,420 organizations globally. This includes 93% of the Dow Jones Industrials, 90% of the Fortune 100, 80% of the DAX 30 and 57% 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 and shared services. 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.

- **Business Transformation Practice**

Our Business Transformation practices 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. We also maintain our procurement (Coupa) functionally led groups, as well as Workforce Management groups within this practice.

## ERP, EPM AND ANALYTICS (EEA) SOLUTIONS

Our EEA practice focuses on helping clients maximize the value of their investments in Enterprise Software and business analytics.

- **Oracle Solutions**

Our Oracle EEA practice helps clients choose and deploy Oracle applications that best meet their needs and objectives. In 2017, we acquired Oracle ERP and Cloud implementation capabilities. This allowed us to greatly increase the size of our Oracle addressable market and strongly positioned us to be a strategic provider of Oracle's rapidly growing cloud software and services market. The software market is rapidly moving to cloud-based software, which led us to aggressively transition our Oracle EEA group from being primarily focused on the implementation of Oracle EPM on-premise software to the entire Oracle Cloud Enterprise Suite. We believe the actions we took to expand our Oracle Cloud capabilities from EPM on-premise to the entire Oracle Cloud ERP Suite have strongly positioned us to take advantage of this secular cloud migration growth opportunity. Another significant investment we made was to digitize all of our IP and to build our proprietary Hackett DTP. By specifically building one of our first versions around the Oracle Cloud application functionality, we believe we can quickly demonstrate how to optimize the configuration of Oracle Cloud applications to drive to its fully intended transformative outcome. We believe these moves align our EEA practices with the Oracle go-to-market strategy and will also allow us to use our unique best-practice implementation IP to demonstrate the value of Oracle Cloud apps for the Oracle sales channel. 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 three 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.

- **SAP Solutions**

Our SAP Solutions professionals help clients choose and deploy S4 HANA 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 SAP Solutions teams. Our 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 SAP Solutions group also includes a division responsible for the sale of the SAP suite of 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 2019, 2018 and 2017, our ten most significant clients accounted for 22%, 22% and 21% of revenue, respectively. In addition, during 2019, 2018 and 2017, our largest client generated 4%, 5% and 4% of total revenue, respectively. We have achieved a high level of satisfaction across our client base. 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. Our primary goal is to continue to increase awareness of our brand which we have created around Hackett's empirical knowledge capital 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. In our technology practice groups, we have continued to utilize Hackett intellectual capital as a way to differentiate the relationships we have with the software providers and with our clients. The categories below define our business development resources.

## 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 opportunity 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, past 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, India and South America who support our practices by, among other things, administering our benefit programs, facilitating the hiring process and coordinating training activities. 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 27, 2019, we had 1,143 associates, excluding subcontractors, 81% 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. We also engage consultants as independent contractors pursuant to written agreements that contain non-disclosure and non-solicitation provisions.

## 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 own registrations for certain of our other trademarks in the United States and abroad. We believe that the protection 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 or at [www.sec.gov](http://www.sec.gov).

Also available on our website, free of charge, are copies of our Code of Conduct and Ethics, Corporate Governance Guidelines, 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 and Corporate Governance Guidelines 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. For example, the recent coronavirus outbreak has created uncertainty in the global economy and could result in a reduction in spending on our services. 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;
- foreign currency changes;
- foreign laws and regulatory requirements;
- natural disasters, pandemics and other catastrophic events;
- 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 2019, our ten largest clients accounted for 22% 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 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 for 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. 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 achieve expected 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 balance, 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, and the Euro. Doing business in these foreign currencies exposes us to foreign currency risks in numerous areas, including revenue, purchases, payroll and investments. Certain foreign currency exposures are naturally offset within an international business unit, because revenue and costs are denominated in the same foreign currency, and certain cash balances are held in U.S. Dollar denominated accounts. However, due to the increasing size and importance of our international operations, fluctuations in foreign currency exchange rates could materially impact our results.

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.

***The U.K.'s departure from the EU could adversely affect us.***

We are subject to risks and uncertainties associated with the U.K.'s withdrawal from the E.U. (referred to as "Brexit"), including implications for the free flow of labor and goods in the U.K. and the E.U. and other financial, legal, tax and trade implications. Brexit could cause disruptions to and create uncertainty surrounding our business in the U.K., including affecting our relationships with our existing and future customers, suppliers and employees, which could have an adverse effect on our business, financial results and operations. In addition, developments regarding Brexit may also create global economic uncertainty, which may cause our customers, particularly those who do business in the U.K., to closely monitor their costs and reduce their spending on our solutions and services.

***We rely on information management systems and any damage, interruption or compromise of our information management systems or data could disrupt and harm our business.***

We rely upon information technology systems and networks, some of which are managed by third parties, to process, transmit, and store electronic information in connection with the operation of our business. Additionally, we collect and store data that is sensitive to our company. Operating these information technology systems and networks and processing and maintaining this data, in a secure manner, are critical to our business operations and strategy. Our information management systems and the data contained therein may be vulnerable to damage, including interruption due to power loss, system and network failures, operator negligence and similar causes.

In addition, our systems and data may be subject to security breaches, viruses, malware, and other cybersecurity attacks. Cybersecurity attacks are increasing in frequency and sophistication. Cybersecurity attacks may range from random attempts to coordinated and targeted attacks, including sophisticated computer crime and advanced threats. These threats pose a risk to the security of our information technology systems and networks and the confidentiality, availability and integrity of our data. However, given the unpredictability of the timing, nature and scope of such disruptions, we could potentially be subject to production downtimes, operational delays, other detrimental impacts on our operations or ability to provide products and services to our customers, the compromising, misappropriation, destruction or corruption of data, security breaches, other manipulation or improper use of our systems or networks, financial losses from remedial actions, loss of business or potential liability, and/or damage to our reputation, any of which could have a material adverse effect on our competitive position, results of operations, cash flows or financial condition. Any significant compromise of our information management systems or data could impede or interrupt our business operations and may result in negative consequences including loss of revenue, fines, penalties, litigation, reputational damage, inability to accurately and/or timely complete required filings with government entities including the SEC and the Internal Revenue Service, unavailability or disclosure of confidential information (including personal information) and negative impact on our stock price.

***Data privacy and information security may require significant resources and presents certain risks.***

We collect, store, have access to and otherwise process certain confidential or sensitive data, including proprietary business information, personal data or other information that is subject to privacy and security laws, regulations and/or customer-imposed controls. We operate in an environment in which data privacy regulatory and legal framework is evolving quickly and varies by jurisdiction. We cannot predict the cost of compliance with future data privacy laws, regulations and standards, or future interpretations of current laws, regulations and standards, related to privacy and cybersecurity or the potential effects on our business.

As a company doing business in Europe, we are also subject to European data protection laws and regulations. The European Union General Data Protection Regulation, which took effect in May 2018, superseded prior European Union data protection legislation and imposes more stringent requirements in how we collect and process personal data and provides for significantly greater penalties for noncompliance; and several other countries have passed laws that require personal data relating to their citizens to be maintained on

local servers and impose additional data transfer restrictions. In addition, we are also subject to and affected by new state privacy and data security laws such as the recently implemented California Consumer Privacy Act (“CCPA”). The CCPA became effective January 1, 2020 and imposes additional data privacy requirements on many businesses operating in the state, including, potentially, with respect to employee data. In addition, already in 2020 several states have introduced varying comprehensive privacy laws modeled to some degree on the CCPA and/or the GDPR. Compliance with multiple country and state laws containing varying requirements could be complicated and costly. Government enforcement actions can be costly and interrupt the regular operation of our business, and violations of data privacy laws can result in fines, reputational damage and civil lawsuits, any of which may adversely affect our business, reputation and financial statements.

#### **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 City, Philadelphia, Portland, Frankfurt, London, Montevideo and Hyderabad. As of December 27, 2019, we had operating leases that expire on various dates through March 2028. 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 closing sale price for the common stock on March 2, 2020, was \$15.99.

As of March 2, 2020, there were 234 holders of record of our common stock and 30,033,782 shares of common stock outstanding.

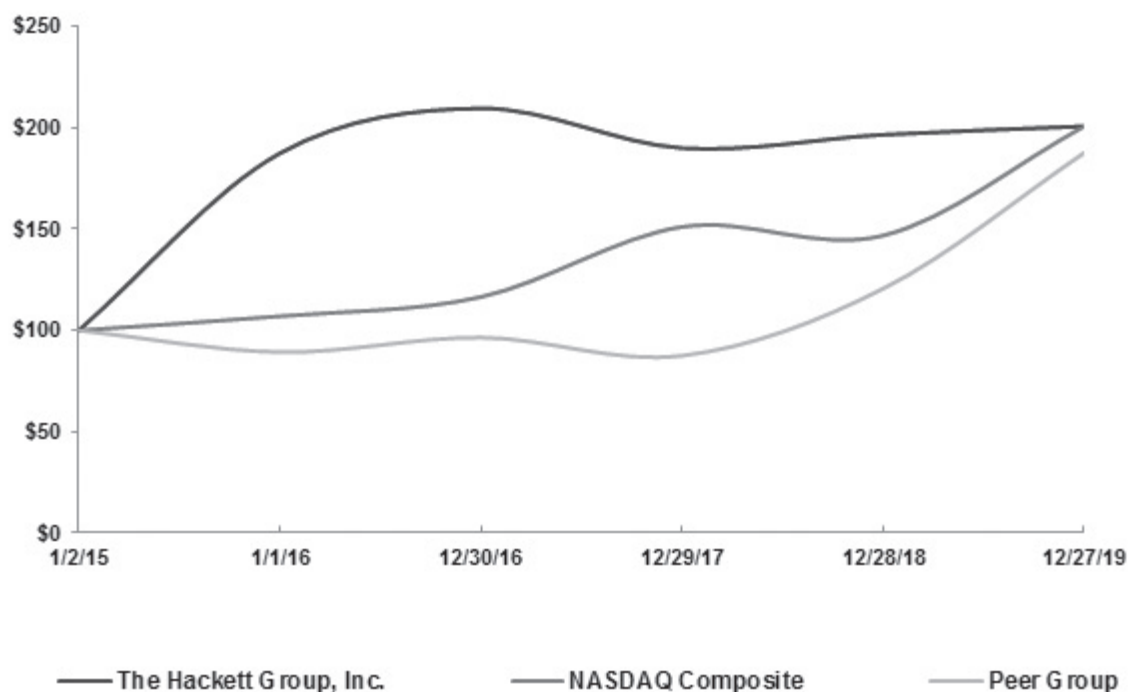
#### **Securities Authorized for Issuance under Equity Compensation Plans**

The information required by this section is set forth under Item 12 of this Annual Report on Form 10-K and is herein incorporated by reference.

## Performance Graph

The following graph compares our cumulative total shareholder return since January 2, 2015 with the NASDAQ Composite Index and a peer group index composed of other companies with similar business models identified below. The graph assumes that the value of the investment in our common stock and each index (including reinvestment of dividends) was \$100 on January 2, 2015.

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



\*\$100 invested on 1/2/15 in stock or 12/31/14 in index, including reinvestment of dividends.  
Index calculated on month-end basis.

	1/2/15	1/1/16	12/30/16	12/29/17	12/28/18	12/27/19
<b>The Hackett Group, Inc.</b>	\$ 100.00	\$ 187.22	\$ 209.28	\$ 189.78	\$ 196.34	\$ 200.49
<b>NASDAQ Composite Index</b>	\$ 100.00	\$ 106.96	\$ 116.45	\$ 150.96	\$ 146.67	\$ 200.49
<b>Peer Group</b>	\$ 100.00	\$ 89.25	\$ 96.42	\$ 87.44	\$ 120.47	\$ 187.44

The Peer Group includes Alithya Group Inc. (formerly known as Edgewater Technology, Inc.), FTI Consulting, Inc., Huron Consulting Group, Inc. and Information Services Group, Inc.

## Company Dividend Policy

In December 2012, we announced an annual dividend of \$0.10 per share, and we have been gradually increasing the dividend for our shareholders on an annual basis since the announcement. In 2017, we increased the annual dividend to \$0.30 per share to be paid on a semi-annual basis or \$4.6 million and \$4.7 million to shareholders of record on June 30, 2017 and December 22, 2017, respectively. In 2018, we increased the annual dividend to \$0.34 per share to be paid on a semi-annual basis or \$5.4 million to shareholders of record on both June 29, 2018 and December 21, 2018. In 2019, we increased the annual dividend to \$0.36 per share to be paid on a semi-annual basis or \$5.8 million to shareholders of record on both June 28, 2019 and December 20, 2019. Subsequent to year end, we increased the semi-annual dividend to \$0.38 per share. 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 27, 2019, 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 December 28, 2018				\$ 6,933,691
December 29, 2018 to March 29, 2019	101,064	\$ 15.99	101,064	\$ 5,317,932
March 30, 2019 to June 28, 2019	92,354	\$ 15.59	92,354	\$ 3,877,922
June 29, 2019 to September 27, 2019	—	\$ —	—	\$ 3,877,922
September 28, 2019 to December 27, 2019	145,276	\$ 15.33	145,276	\$ 1,651,222
	<u>338,694</u>	<u>\$ 15.60</u>	<u>338,694</u>	

As of December 27, 2019, the Company's Board of Directors had approved a cumulative authorization of \$142.2 million with cumulative purchases under the plan of \$140.5 million, leaving \$1.7 million available for future purchases. During the year ended December 27, 2019, we repurchased 28 thousand shares of the Company's common stock from members of our Board of Directors for a total of \$0.5 million, or \$16.25 per share. Subsequent to year end the Company's Board of Directors approved an additional share repurchase authorization of \$5.0 million for a cumulative authorization of \$147.2 million. In addition, subsequent to year end, we repurchased 37 thousand shares of the Company's common stock from members of our Board of Directors for a total of \$0.7 million, or \$17.43 per share. Including these subsequent purchases, we have approximately \$6.0 million available for future purchases under the plan.

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 2019, 132 thousand shares were withheld and not issued for a cost of \$2.5 million. In 2018, 205 thousand shares were withheld and not issued for a cost of \$3.6 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 27, 2019, 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 27, 2019	December 28, 2018	December 29, 2017	December 30, 2016	January 1, 2016
<b>Consolidated Statement of Operations Data:</b>					
<i>(in thousands, except per share data)</i>					
<b>Revenue:</b>					
Revenue before reimbursements	\$ 260,837	\$ 264,523	\$ 255,131	\$ 252,096	\$ 222,893
Reimbursements	21,635	21,364	21,468	27,691	25,042
Total revenue <sup>(1)</sup>	282,472	285,887	276,599	279,787	247,935
<b>Costs and expenses:</b>					
<b>Cost of service:</b>					
Personnel costs before reimbursable expenses <sup>(2)</sup>	164,044	164,921	161,863	158,500	140,817
Reimbursable expenses	21,635	21,364	21,468	27,691	25,042
Total cost of service	185,679	186,285	183,331	186,191	165,859
Selling, general and administrative costs	62,074	64,123	63,271	60,079	62,667
Contingent consideration liability <sup>(4)</sup>	(1,133)	(4,364)	—	—	—
Impairment of assets <sup>(5)</sup>	1,180	6,269	—	—	—
Restructuring costs	3,334	—	1,293	—	—
Total costs and operating expenses	251,134	252,313	247,895	246,270	228,526
Operating income	31,338	33,574	28,704	33,517	19,409
<b>Other expense:</b>					
Interest expense, net	(311)	(638)	(584)	(387)	(409)
Income from continuing operations before income taxes	31,027	32,936	28,120	33,130	19,000
Income tax expense <sup>(6)</sup>	7,744	5,577	2,564	12,455	7,349
Income from continuing operations	23,283	27,359	25,556	20,675	11,651
Earnings (loss) from discontinued operations <sup>(7)</sup> (net of taxes)	(6)	(3,450)	1,798	866	2,158
Net income	<u>\$ 23,277</u>	<u>\$ 23,909</u>	<u>\$ 27,354</u>	<u>\$ 21,541</u>	<u>\$ 13,809</u>
<b>Basic net income per common share:</b>					
Income per common share from continuing operations	\$ 0.78	\$ 0.93	\$ 0.89	\$ 0.71	\$ 0.39
Income (loss) per common share from discontinued operations	(0.00)	(0.12)	0.06	0.03	0.07
Net income per common share	<u>\$ 0.78</u>	<u>\$ 0.81</u>	<u>\$ 0.95</u>	<u>\$ 0.74</u>	<u>\$ 0.47</u>
<b>Diluted net income per common share:</b>					
Income per common share from continuing operations	\$ 0.72	\$ 0.85	\$ 0.79	\$ 0.63	\$ 0.36
Income (loss) per common share from discontinued operations	(0.00)	(0.11)	0.06	0.03	0.07
Net income per common share	<u>\$ 0.72</u>	<u>\$ 0.74</u>	<u>\$ 0.85</u>	<u>\$ 0.66</u>	<u>\$ 0.44</u>
<b>Weighted average common shares outstanding:</b>					
Basic	29,805	29,379	28,852	29,082	29,620
Diluted	32,453	32,330	32,196	32,815	31,968

### Consolidated Balance Sheet Data:

Cash	\$ 25,954	\$ 13,808	\$ 17,512	\$ 19,710	\$ 23,503
Working capital	\$ 34,944	\$ 28,864	\$ 23,837	\$ 12,999	\$ 17,375
Total assets	\$ 193,735	\$ 180,752	\$ 185,231	\$ 159,299	\$ 160,379
Long-term debt	\$ —	\$ 6,500	\$ 19,000	\$ 7,000	\$ —
Shareholders' equity	\$ 137,614	\$ 123,590	\$ 107,275	\$ 86,269	\$ 102,144
Dividends paid/declared per share	\$ 0.36	\$ 0.34	\$ 0.30	\$ 0.26	\$ 0.20

- (1) In April 2017 and May 2017, we acquired Aecus Limited, a U.K.-based European Outsourcing Advisory and Robotics Process Automation (“RPA”) consulting firm company and Jibe Consulting, a U.S.-based Oracle E-Business Suite (“EBS”) and Oracle Cloud Business Application implementation firm, respectively. Our 2017 results of operations included \$16.2 million in total revenue from these acquisitions.
- (2) Fiscal year 2018 includes an acquisition-related compensation benefit of \$0.5 million. Fiscal years 2014 through 2017 include an acquisition-related compensation expense of \$4.1 million in 2017, \$1.2 million in 2016, \$927 thousand in 2015 and \$4.3 million in 2014 from the acquisitions of Jibe Consulting and Aecus Limited in 2017 and Technolab in 2014.
- (3) Fiscal year 2018 includes a benefit related to the adjustment for the contingent consideration liability from the acquisition of Jibe Consulting in 2017.
- (4) Fiscal year 2019 includes the asset impairment of the investment in the Hackett Institute’s Enterprise Analytics Program. Fiscal year 2018 includes the asset impairment of the investment in the Hackett Performance Exchange and Working Capital Course.
- (5) Fiscal year 2017 includes the tax benefit for the revaluation of the deferred tax liabilities as a result of tax legislation enacted at the end of 2017 and accounting on the vesting of share-based awards.
- (6) Discontinued operations relate to the discontinuance of the European based REL Working Capital group.

## 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 and business transformation 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 17,850 benchmark and performance studies over 26 years at over 6,420 of the world's leading companies.

Hackett's combined capabilities include executive advisory programs, benchmarking, business transformation 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, Strategy and Business Transformation Group includes the results of our North America IP as-a-service offerings, which include our Executive Advisory Programs and Benchmarking Services, and our Business Transformation Practices (S&BT). ERP, EPM and Analytics Solutions includes the results of our North America Oracle EEA and SAP Solutions Practices (EEA). International includes results of our S&BT and EEA Practices primarily in Europe.

### 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*

We generate substantially all of our revenue from providing professional services to our clients. We also generate revenue from software licenses, software support, maintenance and subscriptions to our executive and best practices advisory programs. A single contract could include one or multiple performance obligations. For those contracts that have multiple performance obligations, we allocate the total transaction price to each performance obligation based on its relative standalone selling price. We determine the standalone selling price based on the respective selling price of the individual elements when they are sold separately.

Revenue is recognized when control of the goods and services provided are transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods and services using the following steps: 1) identify the contract, 2) identify the performance obligations, 3) determine the transaction price, 4) allocate the transaction price to the performance obligations in the contract, and 5) recognize revenue as or when we satisfy the performance obligations.

We typically satisfy our performance obligations for professional services over time as the related services are provided. The performance obligations related to software support, maintenance and subscriptions to our executive and best practice advisory programs are typically satisfied evenly over the course of the service period. Other performance obligations, such as software licenses, are satisfied at a point in time.

We generate our revenue under four types of billing arrangements: fixed-fee (including software license revenue); time-and-materials; executive and best practice advisory services; and software sales, maintenance and support.

In fixed-fee billing arrangements, which would also include contracts with capped fees, we agree to a pre-established fee or fee cap in exchange for a predetermined set of professional services. We set the fees based on our estimates of the costs and timing for completing the engagements. We generally recognize revenue under fixed-fee or capped fee arrangements using a proportionate performance approach, which is based on work completed to-date as compared to estimates of the total services to be provided under the engagement. Estimates of total engagement revenue and cost of services are monitored regularly during the term of the engagement. If our estimates indicate a potential loss, such loss is recognized in the period in which the loss first becomes probable and reasonably estimable. The customer is invoiced based on the contractual agreement between the parties, typically bi-weekly, monthly or milestone driven, with net thirty-day terms.

Time-and-material billing arrangements require the client to pay based on the number of hours worked by our consultants at agreed upon hourly rates. We recognize revenue under time-and-material arrangements as the related services or goods are provided, using the right to invoice practical expedient which allows us to recognize revenue in the amount based on the number of hours



worked and the agreed upon hourly rates. The customer is invoiced based on the contractual agreement between the parties, typically bi-weekly, monthly or milestone driven, with net thirty-day terms.

Advisory services contracts are typically in the form of a subscription agreement which allows the customer access to the Company's executive and best practice advisory programs. There is typically a single performance obligation and the transaction price is the contractual amount of the subscription agreement. Revenue from advisory service contracts is recognized ratably over the life of the agreements. Customers are typically invoiced at the inception of the contract, with net thirty-day terms.

The resale of software and maintenance contracts are in the form of SAP America software license or maintenance agreements provided by SAP America. SAP is the principal and the Company is the agent in these transactions as the Company does not obtain title to the software and the maintenance is sold simultaneously. The transaction price is the Company's agreed-upon percentage of the software license or maintenance amount in the contract with the vendor. Revenue for the resale of software licenses is recognized upon contract execution and customer's receipt of the software. Revenue from maintenance contracts is recognized ratably over the life of the agreements. The customer is typically invoiced at contract inception, with net thirty-day terms.

Expense reimbursements that are billable to clients are included in total revenue and are substantially all billed as time-and-material billing arrangements. Therefore, the Company recognizes all reimbursable expenses as revenue as the related services are provided, using the right to invoice practical expedient. Reimbursable expenses are recognized as expenses in the period in which the expense is incurred. Any expense reimbursements that are billable to clients under fixed-fee billing arrangements are recognized in line with the proportionate performance approach.

The payment terms and conditions in our customer contracts vary. 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 typically 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 ability 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 three to six months and usually apply only to specific employees or the specific project team.

Differences between the timing of billings and the recognition of revenue are recognized as either unbilled services or contract liabilities in the accompanying consolidated balance sheets. Revenue recognized for services performed but not yet billed to clients are recorded as unbilled services. Revenue recognized, but for which the Company is not yet entitled to bill because certain events, such as the completion of the measurement period, are recorded as contract assets and included within unbilled services. Client prepayments are classified as contract liabilities and recognized over future periods as earned in accordance with the applicable engagement agreement. See Note 3, "Accounts Receivable and Unbilled Revenue, Net" and Note 5 "Accrued Expenses and Other Liabilities" to our consolidated financial statements included in this Annual Report on Form 10-K. During the 12 months ended December 27, 2019, the Company recognized \$17.7 million of revenue as a result of changes in deferred revenue liability balance, as compared to \$19.1 million for the twelve months ended December 28, 2018, respectively.

The following table reflects the Company's disaggregation of total revenue from continuing operations including reimbursable expenses for the twelve months ended December 27, 2019, December 28, 2018 and December 29, 2017:

	<b>Year Ended</b>		
	<b>December 27, 2019</b>	<b>December 28, 2018</b>	<b>December 29, 2017</b>
Consulting	\$ 279,043	\$ 282,213	\$ 272,821
Software license sales	3,429	3,674	3,778
Total revenue from continuing operations	<u>\$ 282,472</u>	<u>\$ 285,887</u>	<u>\$ 276,599</u>

#### *Capitalized Sales Commissions*

Sales commissions earned by our sales force are considered incremental and recoverable costs of obtaining a contract with a customer. These costs are deferred and then amortized as project revenue is recognized. We determined the period of amortization by taking into consideration the customer contract period, which are generally less than 12 months. Commission expense is included in Selling, General and Administrative Costs in the accompanying condensed consolidated statements of operations. As of December 27, 2019 and December 28, 2018, the Company had \$1.6 million, and \$1.2 million, respectively, of deferred commissions, of which \$1.4 million was amortized during both the twelve months ended December 27, 2019 and December 28, 2018. No impairment loss was recognized relating to the capitalization of deferred commission.

#### *Practical Expedients*

The Company does not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less. The Company does not assess whether a contract has a significant financing component if the expectation at contract inception is such that the period between payment by the customer and the transfer of the promised goods or services to the customer will be less than one year.

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

Expense reimbursements that are billable to clients are included in total revenue and are substantially all billed as time-and-material billing arrangements. Therefore, we recognize all reimbursable expenses as revenue as the related services are provided, using the right to invoice practical expedient. Reimbursable expenses are recognized as expenses in the period in which the expense is incurred. Any expense reimbursements that are billable to clients under fixed-fee billing arrangements are recognized in line with the proportionate performance approach.

#### *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 the 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, Executive Advisory Programs and Robotics Process Automation) 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 2018 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 the 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 2019, 2018 and 2017, ended on December 27, 2019, December 28, 2018 and December 29, 2017, respectively. References to a year included in this document refer to a fiscal year rather than a calendar year.

The following table sets forth, for the periods indicated, our results of operations and the percentage relationship to revenue before reimbursements of such results (in thousands, except per share amounts).

	Twelve Months Ended					
	December 27, 2019		December 28, 2018		December 29, 2017	
<b>Revenue:</b>						
Revenue before reimbursements	\$ 260,837	100%	\$ 264,523	100%	\$ 255,131	100%
Reimbursements	21,635	8%	21,364	8%	21,468	8%
Total revenue	282,472		285,887		276,599	
<b>Costs and expenses:</b>						
<b>Cost of service:</b>						
Personnel costs	159,390	61%	159,614	60%	153,357	60%
Non-cash stock compensation expense	3,831		3,815		4,409	
Acquisition-related compensation expense (benefit)	(131)		(535)		1,582	
Acquisition-related non-cash stock compensation expense	954		2,027		2,515	
Reimbursable expenses	21,635		21,364		21,468	
Total cost of service	185,679		186,285		183,331	
Selling, general and administrative costs	58,075	22%	58,516	22%	57,473	23%
Non-cash stock compensation expense	2,931		3,238		3,330	
Acquisition-related costs	32		-		378	
Amortization of intangible assets	1,036		2,369		2,090	
Total selling, general, and administrative expenses	62,074	24%	64,123	24%	63,271	25%
Acquisition-related contingent consideration liability	(1,133)		(4,364)		-	
Impairment of assets	1,180		6,269		-	
Restructuring costs	3,334		-		1,293	
Total costs and operating expenses	251,134		252,313		247,895	
Income from operations	31,338	12%	33,574	13%	28,704	11%
<b>Other expense:</b>						
Interest expense	(311)		(638)		(584)	
Income from continuing operations before income taxes	31,027	12%	32,936	12%	28,120	11%
Income tax expense	7,744	3%	5,577	2%	2,564	1%
Income from continuing operations (net of taxes)	23,283		27,359		25,556	
Earnings (loss) from discontinued operations	(6)		(3,450)		1,798	
Net income	\$ 23,277	9%	\$ 23,909	9%	\$ 27,354	11%
Diluted net income per common share	\$ 0.72		\$ 0.74		\$ 0.85	

## Comparison of 2019 to 2018

*Overview.* For fiscal year 2019, revenue from continuing operations and before reimbursements decreased 1% to \$260.8 million, as compared to fiscal year 2018. Fiscal year 2019 results included restructuring charges and the impairment of an asset related to the Hackett Institute's Enterprise Analytic Program. Together, these items negatively impacted dilutive earnings per share by \$0.12. Fiscal year 2018 results included discontinued operations related to the discontinuance of our European REL Working Capital group and the

impairment of assets primarily related to our investments in the Hackett Performance Exchange. Together these items negatively impacted dilutive earnings per share by \$0.23. Fiscal 2018 had a more favorable tax rate as a result of the 2017 Tax Cuts and Jobs Act, which reduced corporate tax rates from 35% to 21%.

*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 2019 and 2018. Revenue is analyzed based on geographic location of engagement team personnel.

The following table sets forth revenue by group for the periods indicated (in thousands):

	Year Ended	
	December 27, 2019	December 28, 2018
S&BT	\$ 104,507	\$ 101,622
EEA	119,503	116,494
International	36,827	46,407
Revenue from continuing operations before reimbursement	<u>\$ 260,837</u>	<u>\$ 264,523</u>

Our total Company revenue from continuing operations and before reimbursements decreased 1%, to \$260.8 million in 2019, as compared to \$264.5 million in 2018. Our North American revenue from continuing operations and before reimbursements increased 3% and our international revenue from continuing operations and before reimbursements decreased 21% in 2019, as compared to 2018. Reimbursable expenses are project and travel-related expenses passed through to a client with no margin associated with them. Reimbursable expenses as a percentage of net revenue were 8% during both 2019 and 2018.

In 2019 and 2018, no customer accounted for more than 5% of our total revenue.

S&BT net revenue from continuing operations increased 3% in 2019, to \$104.5 million as compared to 2018, primarily driven by improved results across most practices.

EEA net revenue from continuing operations increased 3% in 2019, to \$119.5 million, as compared to 2018, primarily driven by strong results in our SAP and OneStream practices, as well as strong cloud revenue growth from our EPM practices, partially offset by the Oracle EPM On-Premise declines.

Hackett international net revenue from continuing operations decreased 21% in 2019, as compared to 2018. This decrease in revenue, which is primarily derived in Europe, was largely due to the uncertainties surrounding Brexit which appears to have impacted client decision making. Total Company international net revenue from continuing operations accounted for 14% of our total revenue in 2019, as compared to 18% in 2018.

*Cost of Service.* Cost of service primarily consists of salaries, benefits and incentive compensation for consultants and subcontractor fees; acquisition-related cash and stock compensation costs; non-cash stock compensation expense; and reimbursable expenses associated with projects.

Personnel costs from continuing operations were \$159.4 million in 2019 from \$159.6 million in 2018. Personnel costs before reimbursable expenses, as a percentage of revenue before reimbursements 61% in 2019, as compared to 60% in 2018.

Non-cash stock compensation expense from continuing operations was \$3.8 million in both 2019 and 2018.

The acquisition related compensation benefit of \$0.1 million and \$0.5 million in 2019 and 2018, respectively, related to the liability for the cash portion of the Aecus contingent consideration that was to be paid to the selling shareholders and key personnel, and the cash portion of the Jibe contingent consideration that is to be paid to key personnel, all of which are subject to service vesting and as a result is recorded as compensation expense. See Note 15, "Acquisitions" to our consolidated financial statements included in this Annual Report on Form 10-K. These liabilities were both settled in 2019.

Acquisition related non-cash stock compensation expense in 2019 and 2018 primarily related to our EPM AMS acquisition of Technolab in fiscal 2014 and the Jibe and Aecus acquisitions in 2017. See Note 15, "Acquisitions" to our consolidated financial statements included in this Annual Report on Form 10-K.

*Selling, General and Administrative ("SG&A").* SG&A costs from continuing operations, excluding non-cash compensation expense, acquisition related costs and the amortization of intangible assets decreased 1% to \$58.1 million in 2019, from \$58.5 million in 2018. SG&A costs as a percentage of revenue before reimbursements were 22% in both 2019 and 2018.

Non-cash compensation expense included in total SG&A decreased to \$2.9 million in 2019, as compared to \$3.2 million in 2018. See Note 10, “Stock Based Compensation” to our consolidated financial statements included in this Annual Report on Form 10-K for further information.

Amortization expense was \$1.0 million in 2019, as compared to \$2.4 million in 2018. The amortization expense in 2019 and 2018 related to the amortization of the intangible assets acquired in our acquisitions of Jibe and Aecus in the second quarter of 2017 and the buyout of our partner’s joint venture interest in the CGBS Training and Certification Programs during the fourth quarter of 2017. The 2018 amortization expense also includes the amortization of the intangible assets acquired in our 2014 EPM AMS acquisition of Technolab. The intangible assets relate to the customer relationship, trademarks, customer backlog and non-compete agreements. The Jibe and Aecus intangible assets will continue to amortize until 2022. The CGBS Training and Certification intangible asset will amortize until 2021.

*Acquisition-contingent Consideration Liability.* During 2019 and 2018, the liabilities related to the cash portion of the Jibe acquisition contingent consideration due to selling shareholders, which is not subject to service vesting, was reduced based on the estimated achievement of the contingent earnout targets, resulting in a benefit. The liability was settled during 2019.

*Impairment of Assets.* In 2019, we recorded a \$1.2 million asset impairment on our investment in the Hackett Institute’s Enterprise Analytics Program. In 2018, we recorded a \$6.3 million asset impairment on our investments in the Hackett Performance Exchange and our Working Capital Course.

*Restructuring Costs.* In 2019, we recorded restructuring costs primarily related to the continued weakness in our international operations. These costs primarily related to severance costs as we reduced staff to be commensurate with current demand primarily in both Europe and Australia.

*Interest Expense.* In 2019, we recorded interest expense of \$311 thousand, as compared to \$638 thousand in 2018, primarily due to the lower average outstanding debt balance. The debt was fully paid off during the fourth quarter of 2019.

*Income Taxes.* During 2019, we recorded \$7.7 million of income tax expense related to certain federal, foreign and state taxes which reflected an effective tax rate of 25.0% from continuing operations. During 2018, we recorded \$5.6 million of income tax expense related to certain federal, foreign and state taxes which reflected an effective tax rate of 16.9% from continuing operations. In 2018 the effective tax rate reflected a lower federal tax rate of 21% as a result of the 2017 Tax Cuts and Jobs Act.

*Discontinued Operations.* The discontinued operations related to the discontinuance of our European REL Working Capital group in 2018. Prior year comparisons have been restated.

## Comparison of 2018 to 2017

*Overview.* For fiscal year 2018, revenue from continuing operations and before reimbursements increased 4% to \$264.5 million, as compared to fiscal year 2017, and earnings from continuing operations increased 7%. Fiscal 2018 results included discontinued operations related to the discontinuance of our European REL Working Capital group and the impairment of assets primarily related to our investments in the Hackett Performance Exchange. Together these items negatively impacted dilutive earnings per share by \$0.23. Fiscal year 2017 earnings per share was favorably impacted by \$0.23 per share related to the tax benefit for the revaluation of the deferred tax liabilities as a result of the tax legislation enacted in late 2017 and the change in tax accounting for the vesting of share-based awards.

*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 2018 and 2017. Revenue is analyzed based on geographic location of engagement team personnel.

The following table sets forth revenue by group for the periods indicated (in thousands):

	Year Ended	
	December 28, 2018	December 29, 2017
S&BT	\$ 101,622	\$ 87,036
EEA	116,494	126,289
International	46,407	41,806
Revenue from continuing operations before reimbursement	<u>\$ 264,523</u>	<u>\$ 255,131</u>

Our total Company revenue from continuing operations and before reimbursements increased 4%, to \$264.5 million in 2018, as compared to \$255.1 million in 2017. Our domestic revenue from continuing operations and before reimbursements increased 2% and our international revenue from continuing operations and before reimbursements increased 11% in 2018, as compared to 2017.

Reimbursable expenses are project and travel-related expenses passed through to a client with no margin associated with them. Reimbursable expenses as a percentage of net revenue were 8% during both 2018 and 2017.

In 2018 and 2017, no customer accounted for more than 5% of our total revenue.

SBT net revenue from continuing operations and before reimbursements increased 17% in 2018, as compared to 2017, primarily due to strong results across most practices.

EEA net revenue from continuing operations and before reimbursements decreased 8% in 2018, as compared to 2017. The decrease was primarily due to our Oracle EEA group which was adversely impacted as a result of the transition from on-premise to cloud application migration and our SAP EEA group which was negatively impacted by the SAP channel transition resulting from SAP's decision to emphasize S4 HANA Single Tenant solutions more aggressively over its non-SAP hosted S4 HANA options.

Hackett international revenue from operations and before reimbursements increased 11% in 2018, as compared to 2017. This increase in revenue, which is primarily derived in Europe, was due to growth in our international Strategy and Business Transformation groups and from having a full year of revenue from our Robotics Process Automation group acquired in 2017. Our international revenue from operations before reimbursements accounted for 18% of our total revenue in 2018, as compared to 16% in 2017.

*Cost of Service.* Cost of service primarily consists of salaries, benefits and incentive compensation for consultants and subcontractor fees; acquisition-related cash and stock compensation costs; non-cash stock compensation expense; and reimbursable expenses associated with projects.

Personnel costs from continuing operations increased 4% to \$159.6 million in 2018 from \$153.4 million in 2017, primarily due to a full year of costs associated with the acquisitions in 2017 and due to higher incentive compensation accruals for our U.S. Strategy and Business Transformation group. Personnel costs before reimbursable expenses, as a percentage of revenue before reimbursements also remained consistent at 60% in both 2018 and 2017.

Non-cash stock compensation expense from continuing operations was \$3.8 million in 2018, as compared to \$4.4 million in 2017.

The acquisition related compensation benefit of \$0.5 million in 2018 and cost of \$1.6 million in 2017 related to the liability for the cash portion of the Aecus contingent consideration to be paid to the selling shareholders and key personnel, and the cash portion of the Jibe contingent consideration that is to be paid to key personnel, all of which are subject to service vesting and as a result is recorded as compensation expense. See Note 15, "Acquisitions" to our consolidated financial statements included in this Annual Report on Form 10-K.

Acquisition related non-cash stock compensation expense in 2018 and 2017 primarily related to our EPM AMS acquisition of Technolab in fiscal 2014 and the Jibe and Aecus acquisitions in 2017. See Note 15, "Acquisitions" to our consolidated financial statements included in this Annual Report on Form 10-K.

*Selling, General and Administrative ("SG&A").* SG&A costs from continuing operations, excluding non-cash compensation expense, acquisition related costs and the amortization of intangible assets increased 2% to \$58.5 million in 2018, from \$57.5 million in 2017. SG&A costs as a percentage of revenue before reimbursements were 22% in 2018 and 23% in 2017.

Non-cash compensation expense included in total SG&A decreased slightly to \$3.2 million in 2018, as compared to \$3.3 million in 2017. See Note 10, "Stock Based Compensation" to our consolidated financial statements included in this Annual Report on Form 10-K for further information.

Amortization expense was \$2.4 million in 2018, as compared to \$2.1 million in 2017. The amortization expense in 2018 and 2017 related to the amortization of the intangible assets acquired in our 2014 EPM AMS acquisition of Technolab, our acquisitions of Jibe and Aecus in the second quarter of 2017 and the buyout of our partner's joint venture interest in the CGBS Training and Certification Programs during the fourth quarter of 2017. The intangible assets relate to the customer relationship, trademarks, customer backlog and non-compete agreements. The Technolab intangible assets were fully amortized in 2018. The Jibe and Aecus intangible assets will continue to amortize until 2022. The CGBS Training and Certification intangible asset will amortize until 2021.

*Acquisition-contingent Consideration Liability.* During 2018, the liabilities related to the cash portion of the Jibe acquisition contingent consideration due to selling shareholders, which is not subject to service vesting, was reduced based on the estimated achievement of the contingent earnout targets, resulting in a benefit.

*Impairment of Assets.* In 2018, we recorded a \$6.3 million asset impairment on our investments in the Hackett Performance Exchange and our Working Capital Course.

*Restructuring Costs.* In 2017, we recorded restructuring costs primarily related to the transition of resources driven by our migration from on premise software to cloud-based implementations as well as the Jibe acquisition, and the rationalization of global resources as a result of the emergence of RPA related engagements from our Aecus acquisition.

*Interest Expense.* In 2018, we recorded interest expense of \$638 thousand, as compared to \$584 thousand in 2017.

*Income Taxes.* During 2018, we recorded \$5.6 million of income tax expense related to certain federal, foreign and state taxes which reflected an effective tax rate of 16.9% from continuing operations. In 2018 the effective tax rate also reflected a lower federal tax rate of 21% as a result of the 2017 Tax Cuts and Jobs Act. During 2017, we recorded \$2.6 million of income tax expense related to certain federal, foreign and state taxes which reflected an effective tax rate of 9.1% from continuing operations. During the first quarter of 2017, the Company recorded a tax benefit as result of the adoption of a new pronouncement relating to the accounting on the vesting of share-based awards. During the fourth quarter of fiscal 2017 we recorded a tax benefit related to the revaluation of our deferred tax liabilities as a result of the adoption of the 2017 Tax Act on December 22, 2017. Excluding the effect of the tax reform legislation, the 2017 effective tax rate would have been 35.7% for certain federal, foreign and state taxes.

*Discontinued Operations.* The discontinued operations related to the discontinuance of our European REL Working Capital group in 2018. Prior year comparisons have been restated.

## Liquidity and Capital Resources

As of December 27, 2019 and December 28, 2018, we had \$26.0 million and \$13.8 million, respectively, of cash and cash equivalents, respectively. As of December 27, 2019, we had no outstanding debt under our revolving credit facility. 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 enough to fund our working capital and capital expenditure requirements for at least the next twelve months. We may decide to raise additional funds to support 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 27, 2019	December 28, 2018
Cash flows provided by operating activities	\$ 42,361	\$ 32,411
Cash flows used in investing activities	\$ (5,578)	\$ (9,637)
Cash flows used in financing activities	\$ (24,697)	\$ (26,556)

### Cash Flows from Operating Activities

Net cash provided by operating activities was \$42.4 million in 2019, as compared to \$32.4 million in 2018. In 2019, the net cash provided by operating activities was primarily due to net income adjusted for non-cash items, and decreased account receivables and unbilled revenue, partially offset by lower accrued expenses and other liabilities due to the payout of 2018 incentive compensation and state and federal income taxes. In 2018, the net cash provided by operating activities was primarily due to net income from continuing operations adjusted for non-cash items, partially offset by lower accrued expenses and other liabilities due to the payout of 2017 incentive compensation and state and federal income taxes and an increase in accounts receivable and unbilled revenue.

### Cash Flows from Investing Activities

Net cash used in investing activities was \$5.6 million in 2019, as compared to \$9.6 million in 2018. During 2019 and 2018, cash flows used in investing activities included investments relating to investments in internal corporate systems, the global rollout of new laptops which occurs every three to four years, and our investments relating to the development of our Quantum Leap benchmark technology. In addition, in 2019 the Jibe earnout consideration with the selling shareholders was finalized and settled.

### Cash Flows from Financing Activities

Net cash used in financing activities was \$24.7 million in 2019, as compared to \$26.6 million in 2018. The usage of cash in 2019 was primarily related to the dividend payments of \$11.2 million, the net paydown of the revolving line of credit of \$6.5 million, employee net vesting related tax withholding requirements of \$2.5 million and for the repurchase of Company common stock under the Company's share repurchase program of \$5.3 million. The usage of cash in 2018 was primarily related to the dividend payments of \$10.0 million, the net paydown of the revolving line of credit of \$12.5 million, employee net vesting related to tax withholding requirements of \$3.6 million and for the repurchase of Company common stock under the Company's share repurchase program of \$1.2 million.

## Contractual Obligations

There were no material capital commitments as of December 27, 2019. The following table summarizes our future principal payments under our credit facility (See Note 8 to our consolidated financial statements included in this Annual Report on Form 10-K) and future lease commitments under our non-cancelable operating leases as of December 27, 2019 (in thousands):

Contractual Obligations	Total	Less Than 1 Year	1-3 Years	4-5 Years	More Than 5 Years
Short-term debt obligations <sup>(1)</sup>	\$ —	\$ —	\$ —	\$ —	\$ —
Long-term debt obligations <sup>(1)</sup>	—	—	—	—	—
Operating lease obligations	8,845	2,445	3,727	1,428	1,245
Total	<u>\$ 8,845</u>	<u>\$ 2,445</u>	<u>\$ 3,727</u>	<u>\$ 1,428</u>	<u>\$ 1,245</u>

- (1) Excludes the fee on the amount of any unused commitment that we may be obligated to pay under our credit facility, as such amounts vary and cannot be estimated. See Note 8 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 27, 2019.

## 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 27, 2019, 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 2019 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, the Canadian Dollar and the Australian Dollar. The Company recognized income related to foreign currency exchange of \$0.1 million and \$0.6 million in 2019 and 2018, respectively and losses of \$0.7 million in 2017. 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**

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	30
Consolidated Balance Sheets as of December 27, 2019 and December 28, 2018	31
Consolidated Statements of Operations for the Years Ended December 27, 2019, December 28, 2018 and December 29, 2017	32
Consolidated Statements of Comprehensive Income for the Years Ended December 27, 2019, December 28, 2018, and December 29, 2017	33
Consolidated Statements of Shareholder s' Equity for the Years Ended December 27, 2019, December 28, 2018, and December 29, 2017	34
Consolidated Statements of Cash Flows for the Years Ended December 27, 2019, December 28, 2018 and December 29, 2017	35
Notes to Consolidated Financial Statements	36
Schedule II – Valuation and Qualifying Accounts and Reserves	58

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

### Opinion on The Financial Statements

We have audited the accompanying consolidated balance sheets of The Hackett Group, Inc. and its subsidiaries (the Company) as of December 27, 2019 and December 28, 2018, the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 27, 2019, and the related notes to the consolidated financial statements and schedules (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 27, 2019 and December 28, 2018, and the results of their operations and their cash flows for each of the three years in the period ended December 27, 2019, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 27, 2019, 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 5, 2020 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ RSM US LLP

We have served as the Company's auditor since 2015.

Fort Lauderdale, Florida  
March 5, 2020

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

	December 27, 2019	December 28, 2018
<b>ASSETS</b>		
Current assets:		
Cash	\$ 25,954	\$ 13,808
Accounts receivable and unbilled revenue, net of allowance of \$743 and \$1,441 at December 27, 2019 and December 28, 2018, respectively	49,778	54,807
Prepaid expenses and other current assets	2,895	4,339
Assets related to discontinued operations	—	137
Total current assets	78,627	73,091
Property and equipment, net	19,916	19,750
Other assets	2,652	3,704
Goodwill	84,578	84,207
Operating lease right-of-use assets	7,962	—
Total assets	<u>\$ 193,735</u>	<u>\$ 180,752</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 8,494	\$ 7,429
Accrued expenses and other liabilities	32,482	34,498
Operating lease liabilities	2,707	—
Liabilities related to discontinued operations	—	2,300
Total current liabilities	43,683	44,227
Non-current deferred tax liability, net	7,183	6,435
Long-term debt	—	6,500
Operating lease liabilities	5,255	—
Total liabilities	<u>56,121</u>	<u>57,162</u>
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, \$.001 par value, 1,250,000 shares authorized, none issued and outstanding	—	—
Common stock, \$.001 par value, 125,000,000 shares authorized; 57,180,616 and 56,607,622 shares issued at December 27, 2019 and December 28, 2018, respectively	58	57
Additional paid-in capital	303,707	296,955
Treasury stock, at cost, 27,425,476 and 27,086,782 shares at December 27, 2019 and December 28, 2018, respectively	(141,887)	(136,604)
Accumulated deficit	(13,714)	(25,424)
Accumulated other comprehensive loss	(10,550)	(11,394)
Total shareholders' equity	<u>137,614</u>	<u>123,590</u>
Total liabilities and shareholders' equity	<u>\$ 193,735</u>	<u>\$ 180,752</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 27, 2019	December 28, 2018	December 29, 2017
<b>Revenue:</b>			
Revenue before reimbursements	\$ 260,837	\$ 264,523	\$ 255,131
Reimbursements	21,635	21,364	21,468
Total revenue	282,472	285,887	276,599
<b>Costs and expenses:</b>			
<b>Cost of service:</b>			
Personnel costs before reimbursable expenses (includes \$4,785, \$5,842, and \$6,924 of stock compensation expense in 2019, 2018, and 2017, respectively)	164,044	164,921	161,863
Reimbursable expenses	21,635	21,364	21,468
Total cost of service	185,679	186,285	183,331
Selling, general and administrative costs (includes \$2,931, \$3,238 and \$3,330 of stock compensation expense in 2019, 2018, and 2017, respectively)	62,074	64,123	63,271
Impairment of assets	1,180	6,269	—
Acquisition-related contingent consideration	(1,133)	(4,364)	—
Restructuring cost	3,334	—	1,293
Total costs and operating expenses	251,134	252,313	247,895
Operating income	31,338	33,574	28,704
<b>Other expense:</b>			
Interest expense	(311)	(638)	(584)
Income from continuing operations before income taxes	31,027	32,936	28,120
Income tax expense	7,744	5,577	2,564
Income from continuing operations	23,283	27,359	25,556
Gain (loss) from discontinued operations (net of taxes)	(6)	(3,450)	1,798
Net income	<u>\$ 23,277</u>	<u>\$ 23,909</u>	<u>\$ 27,354</u>
<b>Basic net income per common share:</b>			
Income per common share from continuing operations	\$ 0.78	\$ 0.93	\$ 0.89
Income (loss) per common share from discontinued operations	(0.00)	\$ (0.12)	\$ 0.06
Net income per common share	<u>\$ 0.78</u>	<u>\$ 0.81</u>	<u>\$ 0.95</u>
<b>Diluted net income per common share:</b>			
Income per common share from continuing operations	\$ 0.72	\$ 0.85	\$ 0.79
Income (loss) per common share from discontinued operations	0.00	\$ (0.11)	\$ 0.06
Net income per common share	<u>\$ 0.72</u>	<u>\$ 0.74</u>	<u>\$ 0.85</u>
Weighted average common shares outstanding	29,805	29,379	28,852
Weighted average common and common equivalent shares outstanding	32,453	32,330	32,196

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 27, 2019	December 28, 2018	December 29, 2017
Net income	\$ 23,277	\$ 23,909	\$ 27,354
Foreign currency translation adjustment	844	(2,885)	3,040
Total comprehensive income	<u>\$ 24,121</u>	<u>\$ 21,024</u>	<u>\$ 30,394</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	Treasury Stock		Accumulated	Accumulated	Total
	Shares	Amount	Paid in Capital	Shares	Amount	Deficit	Other Comprehensive Loss	Shareholders' Equity
Balance at December 30, 2016	54,785	\$ 55	\$ 277,100	(26,197)	\$ (122,756)	\$ (56,581)	\$ (11,549)	\$ 86,269
Issuance of common stock	960	1	(3,211)	—	—	—	—	(3,210)
Treasury stock purchased	—	—	—	(748)	(11,298)	—	—	(11,298)
Amortization of restricted stock units and common stock subject to vesting requirements	—	—	14,408	—	—	—	—	14,408
Dividends declared	—	—	—	—	—	(9,288)	—	(9,288)
Net income	—	—	—	—	—	27,354	—	27,354
Foreign currency translation	—	—	—	—	—	—	3,040	3,040
Balance at December 29, 2017	<u>55,745</u>	<u>\$ 56</u>	<u>\$ 288,297</u>	<u>(26,945)</u>	<u>\$ (134,054)</u>	<u>\$ (38,515)</u>	<u>\$ (8,509)</u>	<u>\$ 107,275</u>
Issuance of common stock	863	1	(2,798)	—	—	—	—	(2,797)
Treasury stock purchased	—	—	1,346	(141)	(2,550)	—	—	(1,204)
Amortization of restricted stock units and common stock subject to vesting requirements	—	—	10,110	—	—	—	—	10,110
Dividends declared	—	—	—	—	—	(10,818)	—	(10,818)
Net income	—	—	—	—	—	23,909	—	23,909
Foreign currency translation	—	—	—	—	—	—	(2,885)	(2,885)
Balance at December 28, 2018	<u>56,608</u>	<u>\$ 57</u>	<u>\$ 296,955</u>	<u>(27,086)</u>	<u>\$ (136,604)</u>	<u>\$ (25,424)</u>	<u>\$ (11,394)</u>	<u>\$ 123,590</u>
Issuance of common stock	573	1	(1,717)	—	—	—	—	(1,716)
Treasury stock purchased	—	—	—	(339)	(5,283)	—	—	(5,283)
Amortization of restricted stock units and common stock subject to vesting requirements	—	—	8,469	—	—	—	—	8,469
Dividends declared	—	—	—	—	—	(11,567)	—	(11,567)
Net income	—	—	—	—	—	23,277	—	23,277
Foreign currency translation	—	—	—	—	—	—	844	844
Balance at December 27, 2019	<u>57,181</u>	<u>\$ 58</u>	<u>\$ 303,707</u>	<u>(27,425)</u>	<u>\$ (141,887)</u>	<u>\$ (13,714)</u>	<u>\$ (10,550)</u>	<u>\$ 137,614</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 27, 2019	December 28, 2018	December 29, 2017
Cash flows from operating activities:			
Net income	\$ 23,277	\$ 23,909	\$ 27,354
Less income (loss) from discontinued operations, net of taxes	(6)	(3,450)	1,798
Net income from continuing operations	23,283	27,359	25,556
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense	3,206	2,465	2,442
Amortization expense	1,036	2,369	2,090
Impairment of assets	1,180	6,269	—
Amortization of debt issuance costs	91	91	90
Provision for doubtful accounts	1,111	668	117
(Gain) loss on foreign currency transactions	(90)	(592)	695
Non-cash stock compensation expense	7,716	9,310	10,316
Deferred income tax expense (benefit)	999	223	(1,781)
Changes in assets and liabilities, net of acquisition:			
Decrease (increase) in accounts receivable and unbilled revenue	4,262	(2,556)	(3,060)
Decrease (increase) in prepaid expenses and other assets	1,450	(1,870)	(887)
Increase (decrease) in accounts payable	1,065	(1,005)	(1,064)
Decrease in accrued expenses and other liabilities	(2,944)	(11,699)	(7,859)
Net cash provided by operating activities of continuing operations	42,365	31,032	26,655
Net cash provided by (used in) operating activities of discontinued operations	(4)	1,379	(146)
Net cash provided by operating activities	42,361	32,411	26,509
Cash flows from investing activities:			
Purchases of property and equipment	(4,568)	(9,637)	(6,517)
Cash consideration paid for acquisitions	(1,010)	—	(11,268)
Cash acquired in acquisition	—	—	261
Net cash used in investing activities	(5,578)	(9,637)	(17,524)
Cash flows from financing activities:			
Proceeds from borrowings	1,000	5,000	26,000
Payment of debt borrowings	(7,500)	(17,500)	(14,000)
Dividends paid	(11,196)	(10,048)	(8,670)
Proceeds from issuance of common stock	806	778	1,208
Repurchases of common stock	(7,807)	(4,786)	(15,716)
Net cash used in financing activities	(24,697)	(26,556)	(11,178)
Effect of exchange rate on cash	60	78	(5)
Net increase (decrease) in cash	12,146	(3,704)	(2,198)
Cash at beginning of year	13,808	17,512	19,710
Cash at end of year	<u>\$ 25,954</u>	<u>\$ 13,808</u>	<u>\$ 17,512</u>
Supplemental disclosure of cash flow information:			
Cash paid for income taxes	\$ 5,805	\$ 7,962	\$ 3,698
Cash paid for interest	\$ 231	\$ 541	\$ 510
Supplemental disclosure of non-cash investing and financing activities:			
Shares issued to sellers and key personnel of Jibe Consulting and Aecus Limited	\$ 973	\$ -	\$ 3,613

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, 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. Intercompany transactions and balances are eliminated upon consolidation.

*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 2019, 2018 and 2017 ended on December 27, 2019, December 28, 2018 and December 29, 2017, respectively. References to a year included in the consolidated financial statements refer to a fiscal year rather than a calendar year.

*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.

*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 in the amount of \$0.10 per share. The Company's Board of Directors has been gradually increasing the dividend over the years. In 2017, 2018, and 2019, the Company's Board of Directors approved an increase in the annual dividend to \$0.30 per share, \$0.34 per share, and \$0.36 per share, respectively. Subsequent to 2019, the Company's Board of Directors approved the increase in the annual dividend from \$0.36 to \$0.38 per share to be paid on a semi-annual basis. The 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 estimated 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 Indefinite Lived 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 the 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 purchased assets and assumed liabilities 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 during the measurement period of up to one year after the closing date of an acquisition as information relative to closing date fair values become available.

*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 global Benchmarking, Business Transformation, Strategy and Operations, Executive Advisory Programs and Robotics Process Automation) and Hackett Technology Solutions (including SAP ERP and SAP 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 market participant 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 2019 and 2018 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 December 29, 2017	44,402	40,672	85,074
Foreign currency translation adjustment	(867)	—	(867)
Balance at December 28, 2018	43,535	40,672	84,207
Foreign currency translation adjustment	371	—	371
Balance at December 27, 2019	<u>\$ 43,906</u>	<u>\$ 40,672</u>	<u>\$ 84,578</u>

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

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

Finite lived 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 the 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.

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

	December 27, 2019	December 28, 2018
Gross carrying amount	\$ 27,269	\$ 27,269
Accumulated amortization	(25,274)	(24,238)
Foreign currency translation adjustment	121	59
	<u>\$ 2,116</u>	<u>\$ 3,090</u>

All of the Company's intangible assets are expected to be fully amortized by the end of 2022. For the years ended December 27, 2019, December 28, 2018, and December 27, 2017, the Company recorded \$1.0 million, \$2.4 million and \$2.1 million of amortization expense, respectively. The estimated future amortization expense of intangible assets as of December 27, 2019 is as follows: \$1.0 million in 2020, \$0.9 million in 2021, \$0.2 million in 2022. See Note 15 for further discussion.

*Revenue Recognition*

The Company generates substantially all of its revenue from providing professional services to its clients. The Company also generates revenue from software licenses, software support, maintenance and subscriptions to its executive and best practices advisory programs. A single contract could include one or multiple performance obligations. For those contracts that have multiple performance obligations, the Company allocates the total transaction price to each performance obligation based on its relative standalone selling price. The Company determines the standalone selling price based on the respective selling price of the individual elements when sold separately.

Revenue is recognized when control of the goods and services provided are transferred to the Company's customers, in an amount that reflects the consideration it expects to be entitled to in exchange for those goods and services using the following steps: 1) identify the contract, 2) identify the performance obligations, 3) determine the transaction price, 4) allocate the transaction price to the performance obligations in the contract, and 5) recognize revenue as or when the Company satisfies the performance obligations.

The Company typically satisfies its performance obligations for professional services over time as the related services are provided. The performance obligations related to software support, maintenance and subscriptions to its executive and best practice advisory programs are typically satisfied evenly over the course of the service period. Other performance obligations, such as software licenses, are satisfied at a point in time.

The Company generates revenue under four types of billing arrangements: fixed-fee (including software license revenue); time-and-materials; executive and best practice advisory services; and software sales and software maintenance and support.

In fixed-fee billing arrangements, which would also include contracts with capped fees, the Company agrees to a pre-established fee or fee cap in exchange for a predetermined set of professional services. The Company sets the fees based on its estimates of the costs and timing for completing the engagements. The Company generally recognizes revenue under fixed-fee or capped fee arrangements using a proportionate performance approach, which is based on work completed to-date as compared to estimates of the total services to be provided under the engagement. Estimates of total engagement revenue and cost of services are monitored regularly during the term of the engagement. If the Company's estimates indicate a potential loss, such loss is recognized in the period in which the loss first becomes probable and reasonably estimable. The customer is invoiced based on the contractual agreement between the parties, typically bi-weekly, monthly or milestone driven, with net thirty-day terms, however client terms are subject to change.

Time-and-material billing arrangements require the client to pay based on the number of hours worked by the Company's consultants at agreed upon hourly rates. The Company recognizes revenue under time-and-material arrangements as the related services or goods are provided, using the right to invoice practical expedient which allows it to recognize revenue in the amount based on the number of hours worked and the agreed upon hourly rates. The customer is invoiced based on the contractual agreement between the parties, typically bi-weekly, monthly or milestone driven, with net thirty-day terms, however client terms are subject to change.

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

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

Advisory services contracts are typically in the form of a subscription agreement which allows the customer access to the Company's executive and best practice advisory programs. There is typically a single performance obligation and the transaction price is the contractual amount of the subscription agreement. Revenue from advisory services contracts is recognized ratably over the life of the agreements. Customers are typically invoiced at the inception of the contract, with net thirty-day terms, however client terms are subject to change.

The resale of software and maintenance contracts are in the form of SAP America software license or maintenance agreements provided by SAP America. SAP is the principal and the Company is the agent in these transactions as the Company does not obtain title to the software and the maintenance is sold simultaneously. The transaction price is the Company's agreed-upon percentage of the software license or maintenance amount in the contract with the vendor. Revenue for the resale of software licenses is recognized upon contract execution and customer's receipt of the software. Revenue from maintenance contracts is recognized ratably over the life of the agreements. The customer is typically invoiced at contract inception, with net thirty-day terms, however client terms are subject to change.

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 payment terms and conditions in our customer contracts vary. 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.

Differences between the timing of billings and the recognition of revenue are recognized as either unbilled services or deferred revenue in the accompanying consolidated balance sheets. Revenue recognized for services performed but not yet billed to clients are recorded as unbilled services. Revenue recognized, but for which are not yet entitled to bill because certain events, such as the completion of the measurement period, are recorded as contract assets and included within unbilled services. Client prepayments are classified as deferred revenue and recognized over future periods as earned in accordance with the applicable engagement agreement. See Note 3 for the accounts receivable and unbilled revenue balances and see Note 5 for the deferred revenue balances. During the 12 months ended December 27, 2019, the Company recognized \$17.8 million of revenue as a result of changes in deferred revenue liability balance, as compared to \$19.1 million for the twelve months ended December 28, 2018, respectively.

The following table reflects the Company's disaggregation of total revenue from continuing operations including reimbursable expenses for the quarters and twelve months ended December 27, 2019 and December 28, 2018:

	Year Ended		
	December 27, 2019	December 28, 2018	December 29, 2017
Consulting	\$ 279,043	\$ 282,213	\$ 272,821
Software license sales	3,429	3,674	3,778
Total revenue from continuing operations	<u>\$ 282,472</u>	<u>\$ 285,887</u>	<u>\$ 276,599</u>

*Capitalized Sales Commissions*

Sales commissions earned by our sales force are considered incremental and recoverable costs of obtaining a contract with a customer. These costs are deferred and then amortized as project revenue is recognized. We determined the period of amortization by taking into consideration the customer contract period, which are generally less than 12 months. Commission expense is included in Selling, General and Administrative Costs in the accompanying consolidated statements of operations. As of December 27, 2019 and December 28, 2018, the Company had \$1.6 million, and \$1.2 million, respectively, of deferred commissions, of which \$1.4 million was amortized during both the 12 months ended December 27, 2019 and December 28, 2018. No impairment loss was recognized relating to the capitalization of deferred commission.

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

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

*Practical Expedients*

The Company does not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less. The Company does not assess whether a contract has a significant financing component if the expectation at contract inception is such that the period between payment by the customer and the transfer of the promised goods or services to the customer will be less than one year.

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

Expense reimbursements that are billable to clients are included in total revenue and are substantially all billed as time-and-material billing arrangements. Therefore, the Company recognizes all reimbursable expenses as revenue as the related services are provided, using the right to invoice practical expedient. Reimbursable expenses are recognized as expenses in the period in which the expense is incurred. Any expense reimbursements that are billable to clients under fixed-fee billing arrangements are recognized in line with the proportionate performance approach.

*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.

*Discontinued Operations*

The Company's European REL Working Capital group's sales had been declining over the past several years as European countries have experienced continued economic recoveries and improved cash balances. Companies are holding high cash reserves which drove working capital project sales of this group down across all of Europe. The REL practice had a limited pipeline of potential client engagements; therefore, the Company made the strategic decision to exit the business at the end of fiscal year 2018.

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

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

The following table includes the carrying amounts of the major classes of assets and liabilities presented in discontinued operations in our consolidated balance sheet:

	December 27, 2019	December 28, 2018
<b>ASSETS</b>		
Accounts receivable and unbilled revenue, net of allowance of \$0 and \$0 at December 27, 2019 and December 28, 2018, respectively	\$ -	\$ 137
Assets related to discontinued operations	<u>\$ -</u>	<u>\$ 137</u>
<b>LIABILITIES</b>		
Accrued expenses and other liabilities (1)	\$ -	\$ 2,300
Liabilities related to discontinued operations	<u>\$ -</u>	<u>\$ 2,300</u>

(1) The balance at December 28, 2018, primarily represents the accrued severance related to terminated employees.

The following table presents the gain and loss results for our discontinued operations:

	Year Ended		
	December 27, 2019	December 28, 2018	December 29, 2017
<b>Revenue:</b>			
Revenue before reimbursements	\$ 75	\$ 2,519	\$ 8,121
Reimbursements	17	496	1,142
Total revenue	92	3,015	9,263
<b>Costs and expenses:</b>			
<b>Cost of service:</b>			
Personnel costs before reimbursable expenses	28	5,340	4,449
Reimbursable expenses	17	496	1,142
Total cost of service	45	5,836	5,591
Selling, general and administrative costs	52	1,210	1,554
Total costs and operating expenses	97	7,046	7,145
Income from discontinued operations before income taxes	(5)	(4,031)	2,118
Income tax expense (benefit)	1	(581)	320
Gain (loss) from discontinued operations	<u>\$ (6)</u>	<u>\$ (3,450)</u>	<u>\$ 1,798</u>

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

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

The following table reconciles basic and diluted weighted average shares:

	Year Ended		
	December 27, 2019	December 28, 2018	December 29, 2017
Basic weighted average common shares outstanding	29,804,721	29,378,643	28,852,251
<b>Effect of dilutive securities:</b>			
Unvested restricted stock units and common stock subject to vesting requirements issued to employees	307,422	565,950	1,002,380
Common stock issuable upon the exercise of stock options and SARs	2,340,450	2,385,813	2,341,501
Dilutive weighted average common shares outstanding	<u>32,452,593</u>	<u>32,330,406</u>	<u>32,196,132</u>

There were 12 thousand, 1 thousand and 19 thousand shares of underlying awards granted excluded from the above reconciliation for the years ended 2019, 2018 and 2017, 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 27, 2019 and December 28, 2018, the carrying amount of each financial instrument, with the exception of debt, approximated the instrument's fair value due to the short-term nature and maturity of these instruments.

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

*Concentration of Credit Risk*

The Company provides services primarily to Global 2000 companies and other sophisticated buyers of business consulting and information technology services. The Company performs ongoing credit evaluations of its major customers and maintains reserves for potential credit losses. In 2019, 2018 and 2017, 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 currency translation adjustments.

*Segment Reporting*

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

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

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

*Recent Accounting Pronouncements*

In February 2016, the FASB issued new guidance on leases. The new standard establishes a right-of-use model (ROU) that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement.

The Company adopted the new standard on December 29, 2018 using the effective date as the date of initial application. Consequently, financial information will not be restated and the disclosures required under the new standard will not be provided for dates and periods before December 29, 2018.

On adoption, the Company recognized additional operating liabilities of approximately \$9.0 million, with corresponding ROU assets of approximately the same amount based on the present value of the remaining minimum rental payments under current leasing standards for existing operating leases.

In July 2018, the FASB issued ASU 2018-09, which affects a wide variety of Topics in the Codification and applies to all reporting entities within the scope of the affected accounting guidance. The amendments in the ASU represent changes that clarify, correct errors in, or make minor improvements to the Codification. Ultimately, the amendments make the Codification easier to understand and apply by eliminating inconsistencies and providing clarifications. Some of the amendments in this ASU do not require transition guidance and are effective upon issuance of the ASU, while many of the amendments have transition guidance with effective dates for annual periods beginning after December 15, 2018. The adoption of the amendments in this ASU are not expected to have a material impact on the Company's consolidated financial statements and related disclosures.

*Accounting Pronouncements Not Yet Adopted*

In January 2017, the FASB issued ASU 2017-04, which eliminates Step 2 from the goodwill impairment test. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted for interim and annual goodwill impairment test with a measurement date after January 1, 2017. The Company does not expect the guidance to have a material impact on the Company's consolidated financial statements.

*Reclassifications*

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

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

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

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

	December 27, 2019	December 28, 2018
Accounts receivable	\$ 35,884	\$ 35,794
Unbilled revenue	14,637	20,454
Allowance for doubtful accounts	(743)	(1,441)
	<u>\$ 49,778</u>	<u>\$ 54,807</u>

Accounts receivable as of December 27, 2019 and December 28, 2018, is net of uncollected advanced billings. Unbilled revenue as of December 27, 2019 and December 28, 2018, includes recognized recoverable costs and accrued profits on contracts for which billings had not been presented to clients.

**4. Property and Equipment, net**

	December 27, 2019	December 28, 2018
Equipment	\$ 9,211	\$ 9,048
Software	31,631	28,791
Leasehold improvements	980	962
Furniture and fixtures	555	540
	<u>42,377</u>	<u>39,341</u>
Less accumulated depreciation	(22,461)	(19,591)
	<u>\$ 19,916</u>	<u>\$ 19,750</u>

Depreciation expense for the years ended December 27, 2019, December 28, 2018 and December 29, 2017, was \$3.2 million, \$2.5 million, and \$2.4 million, respectively, and is included in selling, general and administrative costs in the accompanying consolidated statements of operations.

As a result of the current decline in the Europe market and management's efforts to focus on resources within the markets that provide the Company with the strongest growth opportunity, in 2019 the Company made the determination that the remaining investment in its Hackett Institute Enterprise Analytics Program was impaired. The remaining investment as of December 27, 2019 was \$1.2 million.

As a result of the emergence of strict cyber-security requirements, the release of the General Data Protection Regulation ("GDPR") in Europe, and well publicized data breaches that have occurred with U.S. companies throughout 2018, clients have made significant procedural and process changes that have made the implementation of the Company's Hackett Performance Exchange data extraction offering extremely difficult. Clients prefer to input or upload spreadsheets to our data collection systems rather than allow for direct data extraction. Therefore in 2018, the Company determined that the remaining investment of \$5.9 million was impaired. In addition, as part of the discontinuance of our REL Working Capital practice, the Company decided to eliminate the Working Capital Course that was developed.



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

**5. Accrued Expenses and Other Liabilities**

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

	December 27, 2019	December 28, 2018
Accrued compensation and benefits	\$ 3,987	\$ 5,012
Accrued bonuses	3,932	5,064
Accrued dividend payable	5,791	5,407
Restructuring liability	1,584	—
Acquisition earnout accruals	—	2,559
Deferred revenue	9,583	8,259
Accrued sales, use, franchise and VAT tax	2,460	3,077
Non-cash stock compensation accrual	339	872
Income tax payable	2,611	1,769
Other accrued expenses	2,195	2,479
Total accrued expenses and other liabilities	<u>\$ 32,482</u>	<u>\$ 34,498</u>

**6. Restructuring Costs**

During 2019, the Company recorded restructuring costs of \$3.3 million, which was primarily related to the reduction of staff in Europe and Australia. As of December 29, 2019, the Company had \$1.6 million of remaining commitments related to the restructuring charge. During 2017, the Company recorded restructuring costs of \$1.3 million, which was primarily related to the transition of resources driven by our migration from on-premise software to cloud-based implementations, as well as the Jibe acquisition, and the rationalization of global resources as a result of the emergence of RPA (“Robotic Process Automation”) related engagements from the Aecus acquisition. As of December 29, 2017, the Company did not have any remaining commitments related to restructuring.

The following table sets forth the activity in the restructuring expense accruals in fiscal 2017, 2018 and 2019 (in thousands):

	Severance and Other Employee Costs	Exit, Closure and Consolidation of Facilities	Total
Accrual balance at December 29, 2017	\$ —	\$ —	\$ —
Additions	—	—	—
Expenditures	—	—	—
Accrual balance at December 28, 2018	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Additions	2,912	422	3,334
Expenditures	(1,665)	(85)	(1,750)
Accrual balance at December 27, 2019	<u>\$ 1,247</u>	<u>\$ 337</u>	<u>\$ 1,584</u>

**7. Lease Commitments**

As described in Note 1 “Recent Accounting Pronouncements”, effective December 29, 2018, the Company adopted the new lease accounting standard. The Company has operating leases for office space and, to a much lesser extent, operating leases for equipment. The Company’s office leases are between terms of 1 and 10 years. Rents usually increase annually in accordance with defined rent steps or are based on current year consumer price index adjustments. Some of the lease agreements contain one or more of the following provisions or clauses: tenant allowances, rent holidays, lease premiums, and rent escalation clauses. There are typically no purchase options, residual value guarantees or restrictive covenants. When renewal options exist, the Company generally does not deem them to be reasonably certain to be exercised, and therefore the amounts are not recognized as part of our lease liability nor our right of use asset.

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

**7. Lease Commitments (continued)**

The weighted average remaining lease term is 5.0 years. Assuming the Company exercises the opt-out option in year 5 for its London office lease, the weighted average remaining lease term would be 3.2 years. The weighted average discount rate utilized is 4%. The discount rates applied to each lease, reflects the Company's estimated incremental borrowing rate. This includes an assessment of the Company's credit rating to determine the rate that the Company would have to pay to borrow, on a collateralized basis for a similar term, an amount equal to our lease payments in a similar economic environment. For the twelve months ended December 27, 2019, the Company paid \$2.5 million from operating cash flows for operating leases.

The Company has operating lease agreements for its premises that expire on various dates through March 2028. Lease expense for the years ended December 27, 2019, December 28, 2018 and December 29, 2017, was \$2.8 million, \$2.8 million and \$2.4 million, respectively. The components of lease expense during the fiscal years ended December 27, 2019, December 28, 2018 and December 29, 2017 all related to operating lease costs.

Future minimum lease commitments under non-cancelable operating leases as of December 27, 2019, are as follows (in thousands):

	<u>Rental Payments</u>
2020	\$ 2,446
2021	2,011
2022	1,716
2023	772
2024	656
Thereafter	1,244
Total	<u>\$ 8,845</u>

As of December 27, 2019, the Company does not have any additional operating leases that have not yet commenced that create significant rights and obligations for the Company.

**8. 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"). As of the end of January 1, 2016, the Company had fully utilized and paid off its Term Loan. As of the end of 2019, the Company had paid off the Revolver in total. As of the end of 2018, the Company had a \$6.5 million 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.

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 27, 2019, the applicable margin percentage was 1.25% 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 27, 2019 was 4.00%.

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 27, 2019, the Company was in compliance with all covenants.

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

**8. Credit Facility (continued)**

The Company did not incur any incremental debt issuance costs in 2019 and 2018. These costs are amortized over the remaining life of the Credit Facility and are included in Other Assets in the accompanying consolidated balance sheet.

As of December 27, 2019, the Company did not have any outstanding debt balance on the Revolver, excluding debt issuance costs of \$0.1 million. During fiscal 2019, the Company borrowed \$1.0 million and paid down \$7.5 million, leaving no outstanding balance. During fiscal 2018, the Company borrowed \$5.0 million and paid down \$17.5 million, leaving \$6.5 million outstanding under the Revolver, excluding the debt issuance costs of \$0.2 million as of December 28, 2018.

**9. Income Taxes**

The Company files federal income tax returns, as well as multiple state, local and foreign jurisdiction tax returns. A number of years may elapse before an uncertain tax position is audited and finally resolved. While it is often difficult to predict the final outcome or the timing of resolution on any particular uncertain tax position, the Company believes that its reserves for income taxes reflect the most probable outcome. The Company adjusts these reserves, as well as the related interest, in light of changing facts and circumstances. The resolution of a matter would be recognized as an adjustment to the provision for income taxes and the effective tax rate in the period of resolution. The Company is no longer subject to examinations of its federal income tax returns by the Internal Revenue Service for years through 2014 and all significant state, local and foreign matters have been concluded for years through 2014. 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 examination was finalized in 2019 with no changes to the Company's reported tax.

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

	Year Ended		
	December 27, 2019	December 28, 2018	December 29, 2017
Domestic	\$ 33,072	\$ 26,040	\$ 22,038
Foreign	(2,045)	6,896	6,082
Income from operations before income taxes	<u>\$ 31,027</u>	<u>\$ 32,936</u>	<u>\$ 28,120</u>

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

**9. Income Taxes (continued)**

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

	Year Ended		
	December 27, 2019	December 28, 2018	December 29, 2017
Current tax expense			
Federal	\$ 5,451	\$ 3,068	\$ 3,231
State	1,032	721	445
Foreign	262	1,565	669
	<u>6,745</u>	<u>5,354</u>	<u>4,345</u>
Deferred tax expense (benefit)			
Federal	425	220	(2,915)
State	670	365	209
Foreign	(96)	(362)	925
	<u>999</u>	<u>223</u>	<u>(1,781)</u>
Income tax expense from continuing operations	<u>\$ 7,744</u>	<u>\$ 5,577</u>	<u>\$ 2,564</u>

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

	Year Ended		
	December 27, 2019	December 28, 2018	December 29, 2017
U.S statutory income tax expense rate	21.0 %	21.0 %	35.0 %
State income taxes, net of federal income tax expense	4.3	2.6	1.5
Valuation reduction	1.2	—	0.2
Tax reform impact on deferred taxes	—	—	(14.4)
Meals and entertainment	0.5	1.0	1.0
Foreign rate differential	—	0.2	(3.0)
Share based compensation	(1.3)	(3.6)	(12.2)
Purchase accounting	(0.8)	(3.1)	1.2
Foreign exchange loss	0.2	(0.3)	0.4
Other, net	(0.1)	(0.9)	(0.6)
Effective tax rate	<u>25.0 %</u>	<u>16.9 %</u>	<u>9.1 %</u>

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

	Year Ended	
	December 27, 2019	December 28, 2018
Deferred income tax assets:		
Allowance for doubtful accounts	\$ 185	\$ 237
Net operating loss and tax credits carryforward	2,912	2,662
Accrued expenses and other liabilities	4,987	5,020
	<u>8,084</u>	<u>7,919</u>
Valuation allowance	(1,571)	(1,191)
	<u>6,513</u>	<u>6,728</u>
Deferred income tax liabilities:		
Depreciation	(5,161)	(5,271)
Tax over book amortization on goodwill and intangibles	(8,274)	(7,656)
Other items	(261)	(236)
	<u>(13,696)</u>	<u>(13,163)</u>
Net deferred income tax liability	<u>\$ (7,183)</u>	<u>\$ (6,435)</u>

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

**9. Income Taxes (continued)**

The 2017 Tax Cuts and Jobs Act (the “2017 Tax Act”) was signed into law on December 22, 2017. The 2017 Tax Act made a significant number of changes to existing U.S. Internal Revenue Code, including a permanent reduction of the U.S. corporate income tax rate from 35% to 21% for tax years beginning after December 31, 2017, and it also provides for a one-time transition tax on certain unremitted foreign earnings (the “Transition Tax”). As a result, the Company recorded a provisional income tax benefit of \$4.0 million related to the re-measurement of deferred tax assets and liabilities resulting from the reduction of the federal corporate tax rate. The Company performed a preliminary analysis of its post-1986 earnings and profits of its foreign subsidiaries and estimated an overall accumulated net deficit, therefore no amounts were recorded relative to the Transition Tax. In accordance with Staff Accounting Bulletin (“SAB”) No. 118, the Company finalized the deferred tax and Transition Tax calculations during the allowed measurement period in 2018. As a result, the Company did not make any changes to the provisional tax amounts recorded in 2017.

The SEC staff issued Staff Accounting Bulletin (“SAB”) No. 118 in December 2017. The SAB provides guidance on accounting for the tax effects of the 2017 Tax Act where uncertainty exists, it provides a measurement period that should not extend beyond one year from the 2017 Tax Act enactment date for companies to complete the related accounting under U.S. GAAP. In accordance with this guidance, the Company recorded provisional amounts for those specific income tax effects of the 2017 Tax Act for which a reasonable estimate could be determined.

As of December 27, 2019, the Company had \$1.1 million of U.S. state net operating loss carryforwards. Additionally, at December 27, 2019, the Company had \$8.9 million of foreign net operating loss carryforwards, of which \$2.9 million related to operations in the United Kingdom, \$0.9 million related to operations in France and \$1.7 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 27, 2019 and December 28, 2018, the Company had a valuation allowance of \$1.6 million and \$1.2 million, respectively, to reduce deferred income tax assets, primarily related to foreign net operating loss carryforwards, to the amounts expected to be realized.

The undistributed earnings in foreign subsidiaries at December 31, 2019 was approximately \$3.8 million. The Company has historically reinvested its foreign earnings abroad indefinitely and continues to reinvest future earnings abroad.

The 2017 Tax Cuts and Jobs Act (the “2017 Tax Act”) was signed into law on December 22, 2017. The 2017 Tax Act made a significant number of changes to existing U.S. Internal Revenue Code, including a one-time transition tax on certain unremitted foreign earnings (the “Transition Tax”). The 2017 Tax Act also implements a territorial system, whereby certain foreign subsidiary earnings can be repatriated to the U.S with no federal tax.

The company finalized its Transition Tax calculation during the allowed measurement period in 2018 and computed an overall accumulated net deficit, thus no amounts were recorded relative to the Transition Tax.

Penalties and tax-related interest expense are reported as a component of income tax expense. For the years ended December 27, 2019 and December 28, 2018, the total amount of accrued income tax-related interest and penalties was \$155 thousand and \$ 144 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 27, 2019 and December 28, 2018, (in thousands):

	Year Ended	
	December 27, 2019	December 28, 2018
Beginning balance	\$ 402	\$ 766
Additions based on tax positions	11	10
Reduction for prior year tax deductions	—	(374)
Ending balance	<u>\$ 413</u>	<u>\$ 402</u>

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

**9. Income Taxes (continued)**

As of December 27, 2019 and December 28, 2018, the ASC 740-10, “Accounting for Uncertainty in Income Taxes”, liability of \$0.4 million for both periods was classified as a current liability and included in accrued expenses and other liabilities in the accompanying consolidated balance sheets.

The Company does not believe there will be any material changes in its unrecognized tax positions over the next twelve months. The reversal of ASC 740-10 tax liabilities as of December 27, 2019 and December 28, 2018, would have a favorable impact on the effective tax rate in future period.

**10. Stock Based Compensation**

*Stock Plans*

Total share-based compensation included in net income for the years ended December 27, 2019, December 28, 2018 and December 29, 2017, is as follows:

	Year Ended		
	December 27, 2019	December 28, 2018	December 29, 2017
Restricted stock units	\$ 6,762	\$ 7,283	\$ 7,801
Stock options and stock appreciation rights	—	—	—
Common stock subject to vesting requirements	954	2,027	2,515
	<u>\$ 7,716</u>	<u>\$ 9,310</u>	<u>\$ 10,316</u>

The number of shares available for future issuance under the Company's stock plans as of December 27, 2019 were 1,466,084. 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 fair 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 27, 2019 is summarized as follows:

	Option Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding as of December 28, 2018	180,167	\$ 4.00		
Exercised	—	—		
Forfeited or expired	(167)	3.63		
Outstanding as of December 27, 2019	<u>180,000</u>	<u>\$ 4.00</u>	2.23	<u>\$ 2,142,000</u>
Exercisable at December 27, 2019	<u>180,000</u>	<u>\$ 4.00</u>	<u>2.23</u>	<u>\$ 2,142,000</u>

A summary of the Company’s stock option activity for the years ended December 28, 2018 and December 29, 2017, was as follows:

	December 28, 2018		December 29, 2017	
	Option Shares	Weighted Average Exercise Price	Option Shares	Weighted Average Exercise Price
Outstanding at beginning of year	180,167	\$ 4.00	230,167	4.00
Exercised	—	—	(50,000)	4.00
Forfeited or expired	—	—	—	—
Outstanding at end of year	<u>180,167</u>	<u>\$ 4.00</u>	<u>180,167</u>	<u>\$ 4.00</u>
Exercisable at end of year	<u>180,167</u>	<u>\$ 4.00</u>	<u>180,167</u>	<u>\$ 4.00</u>

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

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

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 27, 2019, December 28, 2018 and December 29, 2017, was as follows (in thousands):

	Year Ended		
	December 27, 2019	December 28, 2018	December 29, 2017
Total intrinsic value of stock options exercised	\$ —	\$ —	\$ 803

SAR activity for the year ended December 27, 2019 was as follows:

	Number of SARs	Weighted Average Exercise Price	Weighted Average Fair Value
Outstanding as of December 28, 2018	2,916,563	\$ 4.00	1.31
Expired	—	—	—
Outstanding as of December 27, 2019	<u>2,916,563</u>	<u>\$ 4.00</u>	<u>\$ 1.31</u>
Exercisable at December 27, 2019	<u>2,916,563</u>	<u>\$ 4.00</u>	<u>\$ 1.31</u>

As of December 27, 2019, no SARs had been exercised and all of the outstanding options and SARs were performance-based.

*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 27, 2019, was as follows:

	Number of Restricted Stock Units	Weighted Average Grant-Date Fair Value
Nonvested balance as of December 28, 2018	1,146,691	15.93
Granted	542,455	18.05
Vested	(436,671)	14.91
Forfeited	(209,932)	15.13
Nonvested balance as of December 27, 2019	<u>1,042,543</u>	<u>\$ 17.34</u>

The Company recorded restricted stock units based compensation expense of \$6.8 million, \$7.3 million and \$7.8 million in 2019, 2018 and 2017, respectively, which is included in stock compensation expense, based on the vesting provisions of the restricted stock units and the fair value of the stock on the grant date. As of December 27, 2019, there was \$10.4 million of total restricted stock unit compensation expense related to the unvested awards not yet recognized, which is expected to be recognized over a weighted average period of 2.4 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.

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

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

*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 four years. Compensation expense was based on the fair 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 27, 2019 was as follows:

	Number of Shares of Common Stock Subject to Vest- ing Requirements	Weighted Average Grant-Date Fair Value
Nonvested balance as of December 28, 2018	289,507	\$ 16.03
Granted	81,423	15.94
Vested	(211,567)	14.31
Forfeited	(30,572)	16.67
Nonvested balance as of December 27, 2019	<u>128,791</u>	<u>\$ 18.64</u>

Common stock subject to vesting requirements of \$1.0 million and \$0.1 million was issued in 2019 and 2018, respectively, in relation to the equity portion of the Jibe, Aecus and Technolab acquisitions. These shares are subject to a four-year vesting period.

The Company recorded compensation expense of \$1.0 million, \$2.0 million and \$2.5 million, during the years ended December 27, 2019, December 28, 2018 and December 29, 2017, respectively, related to common stock subject to vesting requirements.

As of December 27, 2019, there was \$1.6 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 1.7 years.

**11. Shareholders' Equity**

*Employee Stock Purchase Plan*

Effective July 1, 1998, the Company adopted an Employee Stock Purchase Plan to provide substantially all employees who have completed three months of service as of the beginning of an offering period an opportunity to purchase shares of its common stock through payroll deductions. Purchases on any one grant are limited to 10% of eligible compensation. Shares of the Company's common stock may be purchased by employees at six -month intervals at 95% of the fair value on the last trading day of each six-month period. The aggregate fair value, determined as of the first trading date of the offering period, of shares purchased by an employee may not exceed \$25,000 annually. In 2017, subject to shareholder approval, the Company's Board of Directors agreed to extend the Employee Stock Purchase Plan to July 1, 2023 from July 1, 2018 and added an additional 250,000 shares of common stock which increased the total available shares of common stock to 279,606 at that time. As of 2019, a total of 105,252 shares of common stock were available for purchase under the plan. For plan years 2019, 2018 and 2017, 51,548 shares, 55,045 shares and 67,761 shares, respectively, were issued for total proceeds of \$0.8 million, \$0.8 million, and \$1.0 million, respectively.

*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 \$137.2 million of the Company's common stock, thereby increasing the total program size to \$142.2 million as of December 27, 2019. As of December 27, 2019, the Company had affected cumulative purchases under the plan of \$140.5 million, leaving \$1.7 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 tender offers mentioned above. Subsequent to December 27, 2019, the Board of Directors approved an additional \$5.0 million authorization under the Company's repurchase program, thereby increasing the total program size to \$147.2 million.



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

### **11. Shareholders' Equity (continued)**

During 2019 and 2018, the Company repurchased 339 thousand and 68 thousand shares of its common stock, respectively, at an average price per share of \$15.60 and \$17.82, respectively, for a total cost of \$5.3 million and \$1.2 million, respectively. As of December 27, 2019 and December 28, 2018, the Company had repurchased 27.4 million and 27.0 million shares of its common stock, respectively, at an average price of \$5.1 per share. During 2019, the Company repurchased 28 thousand shares of its common stock from members of its Board of Directors for \$0.5 million or \$16.25 per share. The proceeds from the sale of these shares were used in part to cover estimated tax liabilities associated with previously vested restricted stock units. During 2018, the Company purchased 73 thousand shares, or \$1.3 million, from its executives to cover withholding taxes on the gross value of shares that vested. These shares are not included in the repurchase plan.

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

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 2019 and 2018, 132 thousand shares were withheld and not issued for a cost of \$2.5 million and 205 thousand shares were withheld and not issued for a cost of \$3.6 million, respectively, which are included under issuance of common stock in the accompanying consolidated statements of shareholders' equity.

#### *Dividends*

In December 2012, the Company announced an annual dividend of \$0.10 per share to be paid semi-annually. The Company has steadily increased the annual dividend since 2012. Most recently, from 2017 to 2018 the dividend increased from \$0.30 per share to \$0.34 per share. In 2017, the Company increased the annual dividend to \$0.30 per share to be paid on a semi-annual basis which resulted in aggregate dividends of \$4.6 million and \$4.7 million paid to shareholders of record on June 30, 2017 and December 22, 2017, respectively. In 2018, the Company increased the annual dividend to \$0.34 per share to be paid on a semi-annual basis which resulted in aggregate dividends of \$5.4 million each paid to shareholders of record on June 29, 2018 and December 21, 2018, respectively. In 2019, the Company increased the annual dividend to \$0.36 per share to be paid on a semi-annual basis which resulted in aggregate dividends of \$5.8 million each paid to shareholders of record on July 10, 2019 and December 20, 2019, respectively. These dividends were paid from U.S. domestic sources and are accounted for as an increase to accumulated deficit. The dividend declared in December 2019 was paid in January 2020. Subsequent to December 27, 2019, the Company increased its annual dividend to \$0.38 per share to be paid on a semi-annual basis.

### **12. 401(k) 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. Effective April 1, 2018, the Company made matching contributions of 40% of employee eligible contributions up to 6% of their gross salaries. During fiscal year 2017, the Company made matching contributions of 25% of employee contributions up to 6% of their gross salaries. The Company's matching contributions were \$0.8 million, \$1.1 million and \$0.5 million for the fiscal years ended December 27, 2019, December 28, 2018 and December 29, 2017.

### **13. Transactions with Related Parties**

During the year ended December 27, 2019, the Company repurchased 28 thousand shares of the Company's stock from members of its Board of Directors for a total cost of \$0.5 million, or \$16.25 per share. During the year ended 2018, the Company repurchased 53 thousand shares of the Company's stock from members of its Board of Directors and Chief Financial Officer for a total cost of \$1.0 million or \$18.33 per share. In addition, during 2018, the Company utilized 73 thousand tendered shares from the Company's Chief Executive Officer, Chief Operating Officer and Chief Financial Officer to cover withholding taxes of \$1.3 million on the February 2018 vesting of RSUs. Subsequent to the year ended December 27, 2019, the Company repurchased 37 thousand shares of the Company's stock from members of its Board of Directors for a total of \$0.7 million, or \$17.43 per share. The proceeds from the sale of these shares were used primarily to cover estimated tax liabilities associated with previously vested restricted stock units. See Note 11 for further details.

### **14. 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.

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

**15. Acquisitions**

**Jibe Consulting**

Effective May 1, 2017, the Company acquired certain assets and liabilities of Jibe Consulting, Inc. (“Jibe”), a U.S.- based Oracle E-Business Suite (“EBS”) and Oracle Cloud Business Application implementation firm. The acquisition of Jibe enhanced the Company’s Cloud Application capabilities and strongly complemented its market leading EPM transformation and technology implementation group.

The Sellers’ purchase consideration was \$5.4 million in cash, not subject to vesting, and \$3.6 million in shares of the Company’s common stock, subject to vesting. The initial cash consideration was funded from borrowings under the Revolver. The equity that was issued has a four-year vesting term and will be recorded as compensation expense over the respective vesting period. In addition, the Sellers earned contingent consideration of \$0.7 million of cash and \$1.0 million of equity based on the achievement of performance targets over the 18 months following the closing. The cash related to the contingent consideration which was paid to the Sellers is not subject to service vesting and has been accounted for as part of the purchase consideration. The cash related to the contingent consideration, which was paid to the key employees, is subject to service vesting and was accounted for as compensation expense. This contingent liability was recorded in the consolidated balance sheet as current accrued expenses and other liabilities. The equity related to the contingent consideration is subject to service vesting and is being recorded as compensation expense over the respective vesting period. During the year ended December 27, 2019, and December 28, 2018, the Company had recorded \$0.6 million and \$0.9 million, respectively, of acquisition-related non-cash stock compensation related to the equity portion of the closing consideration and the equity portion of the contingent consideration.

The purchase price was allocated to tangible and intangible assets acquired and liabilities assumed based on their fair values. 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	\$ 11,293
Accounts receivable	1,932
Other current assets	59
Total current assets acquired	1,991
Intangible assets	931
Goodwill	9,538
Total assets acquired	12,460
Accrued expenses and other liabilities	1,167
Total liabilities acquired	1,167
Purchase consideration on acquisition	<u>\$ 11,293</u>

The recognized goodwill is primarily attributable to the benefits the Company expects to derive from enhanced market opportunities. 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 Jibe:

<b>Category</b>	<b>Amount (in thousands)</b>	<b>Useful Life (in years)</b>
Customer Base	\$ 140	5
Customer Backlog	325	2
Non-Compete	466	5
	<u>\$ 931</u>	

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

**15. Acquisitions (continued)**

The acquisition was not material to the Company's results of operations, financial position, or cash flows and therefore, the pro forma impact of these acquisitions is not presented. Since the acquisition date through December 29, 2017, Jibe contributed \$12.3 million of revenue before reimbursable expenses and contribution before depreciation, amortization, interest, corporate overhead allocation and taxes of \$1.2 million. The acquisition related costs incurred in 2017 totaled \$0.2 million and were all classified in selling, general and administrative costs in the Company's consolidated statements of operations. All goodwill is expected to be deductible for tax purposes.

**Aecus Limited**

Effective April 6, 2017, the Company acquired 100% of the equity of the U.K.-based operations of Aecus Limited ("Aecus"), a European Outsourcing Advisory and Robotics Process Automation ("RPA") consulting firm. This acquisition complemented the global strategy and business transformation offerings of the Company.

The sellers' purchase consideration was £3.2 million in cash. There was no contingent consideration earned on this transaction based on achievement performance targets. The closing purchase consideration was funded with the Company's available funds

The purchase price was allocated to tangible and intangible assets acquired and liabilities assumed based on their fair values.

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	£ 3,173
Cash	209
Accounts receivable	898
Other current assets	46
Total current assets acquired	1,153
Intangible assets	1,515
Goodwill	1,306
Total assets acquired	3,974
Accrued expenses and other liabilities	801
Total liabilities acquired	801
Purchase consideration on acquisition	£ 3,173

The recognized goodwill is primarily attributable to the benefits the Company expects to derive from enhanced market opportunities. The acquired intangible assets with definite lives are amortized over periods ranging from 2 to 5 years. The following table presents the preliminary intangible assets acquired from Aecus:

<b>Category</b>	<b>Amount (in thousands)</b>	<b>Useful Life (in years)</b>
Customer Base	£ 455	5
Customer Backlog	52	2
Non-Compete	1,008	5
	£ 1,515	

The acquisition was not material to the Company's results of operations, financial position, or cash flows and therefore, the pro forma impact of these acquisitions is not presented. From acquisition date through the month ended December 29, 2017, Aecus contributed \$3.9 million of revenue before reimbursable expenses and contribution before depreciation, amortization, interest, corporate overhead allocation and taxes of \$0.5 million. The acquisition related costs incurred during 2017 totaled \$0.1 million and were all classified in selling, general and administrative costs in the Company's consolidated statements of operations. The goodwill and intangibles resulting from this transaction are not expected to be deductible under UK tax regulations.

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

**15. Acquisitions (continued)**

**Chartered Institute of Management Accountants**

In October 2017, Hackett-REL, Ltd., a subsidiary of the Company located in the United Kingdom, acquired The Chartered Institute of Management Accountants' share of the Certified GBS Professionals program. This acquisition allows those studying under the program and their employers to benefit further from the Company's sector specific expertise and focus on the growing global business services market. Purchase consideration was \$2.0 million in cash and was funded with the Company's available funds. Also, in connection with this transaction, the Alliance and Program Development Agreement between the Company, Hackett-REL, Ltd and The Chartered Institute of Management Accountants was terminated.

The purchase price was allocated to tangible and intangible assets acquired based on their estimated fair values. The intangible asset will amortize over a four-year period.

**16. Geographic and Service Group Information**

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

	Year Ended		
	December 27, 2019	December 28, 2018	December 29, 2017
Revenue:			
North America	\$ 221,823	\$ 222,054	\$ 211,195
International (primarily European countries)	39,014	42,469	43,936
Revenue from continuing operations before reimbursement	<u>\$ 260,837</u>	<u>\$ 264,523</u>	<u>\$ 255,131</u>

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

	December 27, 2019	December 28, 2018
Long-lived assets:		
North America	\$ 91,309	\$ 88,317
International (primarily European countries)	23,799	19,344
Total long-lived assets	<u>\$ 115,108</u>	<u>\$ 107,661</u>

As of December 27, 2019, December 28, 2018 and December 29, 2017, foreign assets included \$14.6 million, \$14.5 million and \$15.1 million, respectively, of goodwill related to the REL, Archstone and Aecus acquisitions, in fiscal 2005, 2009 and 2017, respectively.

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

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

The following tables present unaudited supplemental quarterly financial information for the years ended December 27, 2019 and December 28, 2018, (in thousands, except per share data):

	Quarter Ended			
	March 29, 2019	June 28, 2019	September 27, 2019	December 27, 2019
Revenue from continuing operations before reimbursements	\$ 62,370	\$ 67,976	\$ 66,755	\$ 63,736
Operating income (1)	\$ 8,590	\$ 9,759	\$ 9,396	\$ 3,593
Income from continuing operations (1)	\$ 7,049	\$ 7,040	\$ 6,907	\$ 2,287
Income (loss) from discontinued operations (2)	\$ 45	\$ (51)	\$ 2	\$ (2)
Net income (1)	\$ 7,094	\$ 6,989	\$ 6,909	\$ 2,285
Basic net income per common share (4):				
Income per common share from continuing operations	\$ 0.24	\$ 0.23	\$ 0.23	\$ 0.08
Income (loss) per common share from discontinued operations (2)	\$ -	\$ -	\$ -	\$ -
Net income (loss) per common share	\$ 0.24	\$ 0.23	\$ 0.23	\$ 0.08
Diluted net income per common share (4):				
Income per common share from continuing operations	\$ 0.22	\$ 0.22	\$ 0.21	\$ 0.07
Income (loss) per common share from discontinued operations (2)	\$ -	\$ -	\$ -	\$ -
Net income (loss) per common share	\$ 0.22	\$ 0.22	\$ 0.21	\$ 0.07

	Quarter Ended			
	March 30, 2018	June 29, 2018	September 28, 2018	December 28, 2018
Revenue from continuing operations before reimbursements	\$ 66,039	\$ 68,706	\$ 68,183	\$ 61,595
Operating income	\$ 8,280	\$ 14,243	\$ 8,254	\$ 2,797
Income (loss) from continuing operations (3)	\$ 7,301	\$ 11,672	\$ 5,671	\$ 2,715
Income (loss) from discontinued operations (2)	\$ 66	\$ (151)	\$ (514)	\$ (2,851)
Net income (3)	\$ 7,367	\$ 11,521	\$ 5,157	\$ (136)
Basic net income per common share (4)				
Income (loss) per common share from continuing operations	\$ 0.25	\$ 0.40	\$ 0.19	\$ 0.09
Income (loss) per common share from discontinued operations (2)	\$ -	\$ (0.01)	\$ (0.02)	\$ (0.09)
Net income (loss) per common share	\$ 0.25	\$ 0.39	\$ 0.17	\$ (0.00)
Diluted net income per common share (4)				
Income (loss) per common share from continuing operations	\$ 0.23	\$ 0.36	\$ 0.18	\$ 0.08
Income (loss) per common share from discontinued operations (2)	\$ -	\$ (0.00)	\$ (0.02)	\$ (0.08)
Net income (loss) per common share	\$ 0.23	\$ 0.36	\$ 0.16	\$ (0.00)

- (1) The fourth quarter of 2019 included a charge for restructuring of \$3.3 million and a charge for an asset impairment of \$1.2 million.
- (2) Discontinued operations relate to the discontinuance of the European based REL Working Capital group in 2018.
- (3) The fourth quarter of 2018 included a charge for asset impairments of \$6.3 million.
- (4) 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 27, 2019, DECEMBER 28, 2018 AND DECEMBER 29, 2017**  
*(in thousands)*

<u>Allowance for Doubtful Accounts</u>	<u>Balance at Beginning of Year</u>	<u>Charge to Revenue/ Expense</u>	<u>Write-offs</u>	<u>Balance at End of Year</u>
Year Ended December 27, 2019	\$ 1,441	1,111	(1,809)	\$ 743
Year Ended December 28, 2018	\$ 2,601	373	(1,533)	\$ 1,441
Year Ended December 29, 2017	\$ 2,574	49	(22)	\$ 2,601

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

None.

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

The Company maintains disclosure controls and procedures 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 disclosure controls and procedures 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 27, 2019 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 Chief Executive Officer and Chief 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 27, 2019.

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 27, 2019, and has expressed an unqualified opinion thereon.



## Report of Independent Registered Public Accounting Firm

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

### Opinion on the Internal Control Over Financial Reporting

We have audited The Hackett Group, Inc.'s (the Company) internal control over financial reporting as of December 27, 2019, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 27, 2019, 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) (PCAOB), the consolidated balance sheets of The Hackett Group, Inc. as of December 27, 2019 and December 28, 2018, the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 27, 2019, and the related notes and schedules, and our report dated March 5, 2020 expressed an unqualified opinion.

### Basis for Opinion

The Company'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 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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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.

### Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ RSM US LLP

Fort Lauderdale, Florida  
March 5, 2020

**ITEM 9B. OTHER INFORMATION**

None.

**PART III**

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

Information responsive to this Item is incorporated herein by reference to the Company's definitive proxy statement for the 2020 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 2020 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 2020 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 2020 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 2020 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 29. 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 64.

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.

## INDEX TO EXHIBITS

Exhibit No.	Exhibit Description
3.1	<u>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).</u>
3.2	<u>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).</u>
3.3	<u>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).</u>
3.4	<u>Amendment to Amended and Restated Bylaws of the Registrant (incorporated herein by reference to the Registrant's Form 8-K dated March 31, 2008).</u>
3.5	<u>Amendment to Amended and Restated Bylaws of the Registrant (incorporated herein by reference to the Registrant's Form 8-K dated January 21, 2015).</u>
4.1*	<u>Description of the Registrant's Securities Registered under Section 12 of the Securities Exchange Act of 1934.</u>
10.1**	<u>Registrant's 1998 Stock Option and Incentive Plan (Amended and Restated as of March 16, 2015) (incorporated herein by reference to the Registrant's Registration Statement on Form S-8 filed on September 6, 2018).</u>
10.2**	<u>Amendment to Registrant's 1998 Stock Option and Incentive Plan (Amended and Restated as of March 13, 2015), dated May 3, 2017 (incorporated herein by reference to the Registrant's Registration Statement on Form S-8 filed on September 6, 2018).</u>
10.3**	<u>Amendment to Registrant's 1998 Stock Option and Incentive Plan (Amended and Restated as of March 13, 2015), dated October 31, 2019 (incorporated herein by reference to the Registrant's Form 10-Q for the quarter ended September 27, 2019).</u>
10.4**	<u>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).</u>
10.5**	<u>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)). (P)</u>
10.6**	<u>Amendment to Employment Agreement between the Registrant and Ted A. Fernandez (incorporated herein by reference to the Registrant's Form 10-Q for the quarter ended October 1, 2004).</u>
10.7**	<u>Amendment to Employment Agreement between the Registrant and David N. Dungan (incorporated herein by reference to the Registrant's Form 10-Q for the quarter ended October 1, 2004).</u>
10.8**	<u>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).</u>
10.9**	<u>Employment Agreement dated August 1, 2007 between the Registrant and Robert A. Ramirez (incorporated herein by reference to the Registrant's Form 10-Q for the quarter ended June 29, 2007).</u>
10.10**	<u>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).</u>
10.11**	<u>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).</u>
10.12**	<u>Fourth Amendment to Employment Agreement between the Registrant and Ted A. Fernandez (incorporated herein by reference to the Registrant's Form 10-K for the year ended December 30, 2016).</u>
10.13**	<u>Fourth Amendment to Employment Agreement between the Registrant and David N. Dungan. (incorporated herein by reference to the Registrant's Form 10-K for the year ended December 30, 2016).</u>
10.14**	<u>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).</u>
10.15**	<u>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).</u>
10.16	<u>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 for the quarter ended April 1, 2016).</u>

**Exhibit No.    Exhibit Description**

21.1*	Subsidiaries of the Registrant.
23.1*	Consent of RSM US 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

\*\* Compensatory plan required to be filed as an exhibit pursuant to Item 15(b) of Form 10-K.

\*\*\* 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.

(P) Paper exhibits.

## 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 5, 2020.

### 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 5, 2020
<u>/s/ Robert A. Ramirez</u> Robert A. Ramirez	Executive Vice President, Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	March 5, 2020
<u>/s/ David N. Dungan</u> David N. Dungan	Chief Operating Officer and Director	March 5, 2020
<u>/s/ Richard Hamlin</u> Richard Hamlin	Director	March 5, 2020
<u>/s/ John R. Harris</u> John R. Harris	Director	March 5, 2020
<u>/s/ Robert A. Rivero</u> Robert A. Rivero	Director	March 5, 2020
<u>/s/ Alan T. G. Wix</u> Alan T. G. Wix	Director	March 5, 2020

## **CORPORATE HEADQUARTERS**

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

## **ANNUAL MEETING**

The Hackett Group shareholders are invited to attend our Annual Meeting on Friday, May 1, 2020 at 11:00 a.m. at The Hackett Group's Corporate Headquarters, 1001 Brickell Bay Drive, Suite 3000, Miami, FL 33131.

## **TRANSFER AGENT**

Computershare Investor Services

## **First Class/Registered/Certified Mail**

Computershare Investor Services  
P.O. Box 505000  
Louisville, KY, 40233-5000

## **Courier Services**

Computershare Investor Services  
462 South 4th Street, Suite 1600  
Louisville, KY, 40202

## **Telephone Inquiries**

+1 877-373-6374 (US, Canada, Puerto Rico)  
+1 (781) 575-2879 (non-US)

## **Website**

[www.computershare.com/investor](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 International Management Services, LLC  
International Business Advisor

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



 **The Hackett Group**  
World Class Defined and Enabled

[www.thehackettgroup.com](http://www.thehackettgroup.com)

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