CIBER INC
Form 10-Q
November 06, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

OR

o 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: 001-13103

Ciber, Inc.

(Exact name of Registrant as specified in its charter)

Delaware	**38-2046833**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6363 South Fiddler s Green Circle, Suite 1400,	
Greenwood Village, Colorado	**80111**
(Address of Principal Executive Offices)	(Zip Code)

(303) 220-0100

(Registrant s telephone number, including area code)

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 x No o

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

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

There were 73,541,219 shares of the registrant s Common Stock outstanding as of October 31, 2012.

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Ciber, Inc. and Subsidiaries

Consolidated Statements of Operations

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
REVENUES				
Consulting services	$ 203,117	$ 212,543	$ 621,613	$ 647,446
Other revenue	12,681	10,068	37,536	32,613
Total revenues	215,798	222,611	659,149	680,059
OPERATING EXPENSES				
Cost of consulting services	153,716	157,962	465,795	492,348
Cost of other revenue	7,529	6,047	23,626	18,138
Selling, general and administrative	49,781	52,439	152,080	164,974
Goodwill impairment				16,300
Amortization of intangible assets	157	131	482	1,445
Total operating expenses	211,183	216,579	641,983	693,205
OPERATING INCOME (LOSS) FROM CONTINUING OPERATIONS	4,615	6,032	17,166	(13,146)
Interest income	149	203	572	407
Interest expense	(1,096)	(2,005)	(5,163)	(5,372)
Other income (expense), net	(449)	469	(335)	(3,005)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	3,219	4,699	12,240	(21,116)
Income tax expense	2,638	2,960	9,279	31,194
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	581	1,739	2,961	(52,310)
Income (loss) from discontinued operations, net of income tax	(9,896)	1,425	(10,948)	1,405
CONSOLIDATED NET INCOME (LOSS)	(9,315)	3,164	(7,987)	(50,905)
Net income attributable to noncontrolling interests	134	24	400	205
NET INCOME (LOSS) ATTRIBUTABLE TO CIBER, INC.	$ (9,449)	$ 3,140	$ (8,387)	$ (51,110)
Basic and diluted earnings (loss) per share attributable to Ciber, Inc.:				
Continuing operations	$ 0.01	$ 0.02	$ 0.04	$ (0.73)
Discontinued operations	(0.14)	0.02	(0.15)	0.02
Basic and diluted earnings (loss) per share attributable to Ciber, Inc.	$ (0.13)	$ 0.04	$ (0.11)	$ (0.71)
Weighted average shares outstanding:				
Basic	73,276	72,209	73,008	71,613
Diluted	73,647	72,609	73,498	71,613

See accompanying notes to unaudited consolidated financial statements.

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Ciber, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)

(In thousands)

(Unaudited)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Consolidated net income (loss)	$ (9,315)	$ 3,164	$ (7,987)	$ (50,905)
Gain on hedging activity, net of tax		62		151
Foreign currency translation adjustments	8,216	(14,892)	4,811	(453)
Comprehensive loss	(1,099)	(11,666)	(3,176)	(51,207)
Comprehensive income attributable to noncontrolling interests	134	24	400	210
Comprehensive loss attributable to Ciber, Inc.	$ (1,233)	$ (11,690)	$ (3,576)	$ (51,417)

See accompanying notes to unaudited consolidated financial statements.

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Ciber, Inc. and Subsidiaries

Consolidated Balance Sheets

(In thousands, except per share amounts)

(Unaudited)

	September 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 33,028	$ 65,567
Accounts receivable, net of allowances of $1,271 and $1,422, respectively	215,762	182,359
Prepaid expenses and other current assets	28,033	25,041
Deferred income taxes	2,577	3,302
Current assets of discontinued operations		21,041
Total current assets	279,400	297,310
Property and equipment, net of accumulated depreciation of $48,795 and $43,617, respectively	14,444	17,827
Goodwill	274,837	275,504
Other intangible assets, net	162	649
Other assets	9,522	5,239
Long-term assets of discontinued operations	3,350	28,541
TOTAL ASSETS	$ 581,715	$ 625,070
LIABILITIES AND EQUITY		
Liabilities:		
Current liabilities:		
Current portion of long-term debt	$ 5,066	$ 25,571
Accounts payable	27,592	35,112
Accrued compensation and related liabilities	58,866	60,124
Deferred revenue	21,146	19,876
Income taxes payable	6,810	8,613
Other accrued expenses and liabilities	43,589	45,454
Current liabilities of discontinued operations		9,742
Total current liabilities	163,069	204,492
Long-term debt	36,825	41,380
Deferred income taxes	21,216	15,462
Other long-term liabilities	906	6,729
Total liabilities	222,016	268,063
Commitments and contingencies		
Equity:		
Ciber, Inc. shareholders equity:		
Preferred stock, $0.01 par value, 1,000 shares authorized, no shares issued		
Common stock, $0.01 par value, 100,000 shares authorized, 74,487 shares issued	745	745
Treasury stock, at cost, 1,063 and 1,919 shares, respectively	(6,090)	(10,998)
Additional paid-in capital	334,799	330,088

Retained earnings		32,199		44,337
Accumulated other comprehensive loss		(2,195)		(7,006)
Total Ciber, Inc. shareholders equity		359,458		357,166
Noncontrolling interests		241		(159)
Total equity		359,699		357,007
TOTAL LIABILITIES AND EQUITY	$	581,715	$	625,070

See accompanying notes to unaudited consolidated financial statements.

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Ciber, Inc. and Subsidiaries

Consolidated Statement of Changes in Equity

(In thousands)

(Unaudited)

	Common Stock Shares	Common Stock Amount	Treasury Stock Shares	Treasury Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity
BALANCES AT JANUARY 1, 2012	74,487	$ 745	(1,919)	$ (10,998)	$ 330,088	$ 44,337	$ (7,006)	$ (159)	$ 357,007
Consolidated net loss						(8,387)		400	(7,987)
Foreign currency translation							4,811		4,811
Treasury shares issued under employee share plans			856	4,908		(3,751)			1,157
Share-based compensation					4,711				4,711
BALANCES AT SEPTEMBER 30, 2012	74,487	$ 745	(1,063)	$ (6,090)	$ 334,799	$ 32,199	$ (2,195)	$ 241	$ 359,699

See accompanying notes to unaudited consolidated financial statements.

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Ciber, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net loss	$ (7,987)	$ (50,905)
Adjustments to reconcile consolidated net loss to net cash used in operating activities:		
Loss (income) from discontinued operations	10,948	(1,405)
Goodwill impairment		16,300
Depreciation	5,816	6,104
Amortization of intangible assets	482	1,445
Deferred income tax expense	3,699	25,549
Provision for (recovery on) doubtful receivables	(139)	345
Share-based compensation expense	4,534	2,975
Change in fair value of acquisition-related contingent consideration		3,222
Amortization of debt costs	2,385	1,191
Other, net	630	(481)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(32,117)	20,138
Other current and long-term assets	(3,389)	(5,618)
Accounts payable	(7,773)	(19,115)
Accrued compensation and related liabilities	(1,602)	(6,078)
Other current and long-term liabilities	(7,216)	(8,640)
Income taxes payable/refundable	(1,631)	1,008
Cash used in operating activities continuing operations	(33,360)	(13,965)
Cash provided by (used in) operating activities discontinued operations	(1,758)	4,853
Cash used in operating activities	(35,118)	(9,112)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions, net of cash acquired		(895)
Purchases of property and equipment, net	(2,588)	(6,417)
Cash used in investing activities continuing operations	(2,588)	(7,312)
Cash provided by (used in) investing activities discontinued operations	30,090	(2,100)
Cash provided by (used in) investing activities	27,502	(9,412)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on long-term debt	269,633	278,138
Payments on long-term debt	(294,698)	(285,274)
Employee stock purchases and options exercised	1,157	7,025
Credit facility fees paid	(3,547)	(808)
Cash used in financing activities continuing operations	(27,455)	(919)
Effect of foreign exchange rate changes on cash and cash equivalents	2,532	2,917
Net decrease in cash and cash equivalents	(32,539)	(16,526)
Cash and cash equivalents, beginning of period	65,567	69,329
Cash and cash equivalents, end of period	$ 33,028	$ 52,803

See accompanying notes to unaudited consolidated financial statements.

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Ciber, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

(1) Basis of Presentation

The accompanying unaudited interim consolidated financial statements of Ciber, Inc. and its subsidiaries (together, Ciber, the Company, we, our or us) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC) for quarterly reports on Form 10-Q and do not include all of the information and note disclosures required by U.S. generally accepted accounting principles (U.S. GAAP) for complete financial statements. These consolidated financial statements should therefore be read in conjunction with the consolidated financial statements and notes thereto for the fiscal year ended December 31, 2011, included in our Annual Report on Form 10-K filed with the SEC. The accompanying unaudited interim consolidated financial statements have been prepared in accordance with U.S. GAAP and include all adjustments of a normal, recurring nature that are, in the opinion of management, necessary to present fairly the financial position and results of operations for the interim periods presented. The results of operations for an interim period are not necessarily indicative of the results of operations for a full fiscal year.

Recently Adopted Accounting Pronouncements In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-05, Presentation of Comprehensive Income (ASU 2011-05), which amends the disclosure requirements for the presentation of comprehensive income. This guidance, effective retrospectively for interim and annual periods beginning on or after December 15, 2011, requires presentation of total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate, but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in equity. ASU 2011-05 does not change the items that must be reported in other comprehensive income, or when an item of other comprehensive income must be reclassified to net income. We have included a Consolidated Statement of Comprehensive Income (Loss) in our financial statements. Other than the change in presentation, the adoption of this accounting guidance had no impact on our consolidated financial statements.

(2) Discontinued Operations

On March 9, 2012, we sold substantially all of the assets and certain liabilities of our Federal division to CRGT Inc. for an aggregate sales price of $40 million, subject to adjustment based on the final determination of the working capital of the Federal division at the time of closing. Based upon our current estimates of related working capital, we estimate the total cash proceeds will be reduced to approximately $38 million, subject to the resolution of CRGT s proposed working capital adjustments. In June 2012, CRGT proposed certain working capital adjustments to reduce the purchase price by approximately $6 million. We disagreed with such adjustments and invoked the dispute resolution mechanism under the sale agreement. As a result of our ongoing negotiations with CRGT and our current expectation of total cash proceeds of $38 million, in the third quarter of 2012 we reduced our receivable due from CRGT by approximately $1 million. At this time, the dispute has not been resolved, but we expect a resolution during the fourth quarter of 2012. We will record the impact of any additional adjustments on the determination of the loss on sale when such amount, if any, is probable and estimable. We have recorded an estimated pre-tax loss on sale for the nine months ended September 30, 2012, of approximately $0.4 million. We received net cash of approximately $35 million from CRGT in March 2012. In connection with the sale we incurred transaction costs of $3.8 million and estimated lease exit costs of $1.6 million related to certain Federal division office space we vacated.

On July 28, 2012, we entered into an agreement to sell certain contracts and the related fixed assets and to transfer the personnel associated with our information technology outsourcing practice to Savvis Communications Corporation (Savvis) and accordingly, our financial position, results of operations and cash flows have been reclassified for all periods to conform to the current period presentation as a discontinued operation. The transaction closed on October 15, 2012, for an initial purchase price of $6 million in cash. In addition, we may receive additional future consideration of up to $14 million, which is mainly dependent upon the post-closing success of the transferred customer contracts to be measured based on December 2013 results, with the final amount, if any, to be determined and paid during the first quarter of 2014. We cannot estimate the amount of the additional future consideration or its potential impact on our results of operations or financial position. Under the agreement, we are required to indemnify Savvis for certain losses, if any, incurred by them following the closing under the customer contracts being transferred. Cash proceeds from the sale, after estimated transaction-related costs, are expected to be approximately $3 million. The carrying value of the tangible assets included in the transaction is approximately $7 million, and relates predominantly to property and equipment in both our North America and International segments. Additionally, we allocated $3 million of goodwill to the assets being disposed and recorded a $7 million pre-tax loss to write-down the net assets to fair value less estimated costs to sell. This loss is included in our loss from discontinued operations for the three months and nine months ended September 30, 2012. The fair value is based on the sales price and is considered a level 2 non-recurring fair value measurement. The annualized revenue related to the contracts sold under the agreement was approximately $60 million.

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The following table summarizes the operating results of the discontinued operations included in the Consolidated Statements of Operations, which include those associated with the information technology outsourcing practice and our former Federal division.

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
	(In thousands)			
Total revenues	$ 16,766	$ 48,115	$ 69,076	$ 140,959
Operating expenses	19,286	46,227	72,794	138,687
Operating income (loss) from discontinued operations	(2,520)	1,888	(3,718)	2,272
Interest and other expense		155	90	396
Income (loss) from discontinued operations before income taxes	(2,520)	1,733	(3,808)	1,876
Income tax expense	65	308	549	471
Income (loss) from discontinued operations, net of taxes	(2,585)	1,425	(4,357)	1,405
Loss on sale	(8,361)		(7,441)	
Income tax benefit	(1,050)		(850)	
Loss on sale, net of income taxes	(7,311)		(6,591)	
Total income (loss) from discontinued operations, net of income taxes	$ (9,896)	$ 1,425	$ (10,948)	$ 1,405

Effective with their respective sales, the operations and cash flows of the Federal division and the information technology outsourcing practice were removed from our company. However, in connection with the sale of the Federal division, we have retained certain historical accounts receivable as well as certain liabilities, and in connection with the sale of our information technology outsourcing practice, we retained all the net working capital assets. Accordingly, adjustments to such items may be recorded through our results of operations in future periods. In addition, we expect to incur post-sale general and administrative costs in connection with our former Federal business and our information technology outsourcing practice.

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(3) Earnings (Loss) Per Share

Our computation of earnings (loss) per share basic and diluted is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In thousands, except per share amounts)			
Numerator:				
Net income (loss) from continuing operations	$ 581	$ 1,739	$ 2,961	$ (52,310)
Net income attributable to noncontrolling interests	134	24	400	205
Net income (loss) attributable to Ciber, Inc. from continuing operations	447	1,715	2,561	(52,515)
Income (loss) from discontinued operations, net of income tax	(9,896)	1,425	(10,948)	1,405
Net income (loss) attributable to Ciber, Inc.	$ (9,449)	$ 3,140	$ (8,387)	$ (51,110)
Denominator:				
Basic weighted average shares outstanding	73,276	72,209	73,008	71,613
Dilutive effect of employee stock plans	371	400	490	
Diluted weighted average shares outstanding	73,647	72,609	73,498	71,613
Basic and diluted earnings (loss) per share attributable to Ciber, Inc.:				
Continuing operations	$ 0.01	$ 0.02	$ 0.04	$ (0.73)
Discontinued operations	(0.14)	0.02	(0.15)	0.02
Basic and diluted earnings (loss) per share attributable to Ciber, Inc.	$ (0.13)	$ 0.04	$ (0.11)	$ (0.71)
Anti-dilutive securities omitted from the calculation	8,103	8,746	8,217	8,035

Dilutive securities, including stock options and restricted stock units, are excluded from the diluted weighted average shares outstanding computation in periods in which they have an anti-dilutive effect, such as when we report a net loss or when stock options have an exercise price that is greater than the average market price of Ciber common stock during the period.

(4) Goodwill

We perform our annual impairment analysis of goodwill as of June 30 each year or more often if there are indicators of impairment present. We test each of our reporting units for goodwill impairment. Our reporting units are the same as our operating divisions and reporting segments. The goodwill impairment test requires a two-step process. The first step consists of comparing the estimated fair value of each reporting unit with its carrying amount, including goodwill. If the estimated fair value of a reporting unit exceeds its carrying value, then it is not considered impaired and no further analysis is required. If step one indicates that the estimated fair value of a reporting unit is less than its carrying value, then impairment potentially exists and the second step is performed to measure the amount of goodwill impairment. Goodwill impairment exists when the estimated implied fair value of a reporting unit s goodwill is less than its carrying value.

We compared the carrying values of our International and North America reporting units to their estimated fair values at June 30, 2012. We estimated the fair value of each reporting unit based on a weighting of both the income approach and the market approach. The discounted cash flows for each reporting unit serve as the primary basis for the income approach, and were based on discrete financial forecasts developed by management. Cash flows beyond the discrete forecast period of five years were estimated using the perpetuity growth method calculation. The annual average revenue growth rates forecasted for our reporting units for the first five years of our projections were approximately 5%. We have projected a minor amount of operating profit margin improvement based on expected margin benefits from certain internal initiatives. The terminal value was calculated assuming projected growth rates of 3% after five years, which reflects our estimate of minimum long-term growth in IT spending. The income approach valuations also included each reporting unit s estimated weighted average cost of capital, which were 11.5% and 13.5% for International and North America, respectively. The market approach applied pricing multiples derived from publicly-traded companies that are comparable to the respective reporting units to determine their values. For our International and North America reporting units, we used enterprise value/revenue multiples of 0.6 and 0.4, respectively, and enterprise value/EBITDA multiples of approximately 7 and 5, respectively, in order to value each of our reporting units under the market approach. In addition, the fair value under the market approach included a control premium of

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33%. The control premium was determined based on a review of comparative market transactions. Publicly-available information regarding our market capitalization was also considered in assessing the reasonableness of the cumulative fair values of our reporting units.

As a result of the first step of our goodwill impairment test as of June 30, 2012, we estimated that the fair values for our International and North America reporting units exceeded their carrying amounts by 70% and 12%, respectively, thus no impairment was indicated. We updated our cash flow forecasts and our other assumptions used to calculate the estimated fair value of our reporting units to account for our beliefs and expectations of the current business environment. While we believe our estimates are appropriate based on our view of current business trends, no assurance can be provided that impairment charges will not be required in the future.

As a result of the changes to our reportable segments effective January 1, 2012, $9.8 million of the goodwill previously attributable to our former IT Outsourcing division was allocated to our remaining divisions as follows: $1.8 million to International and $8.0 million to North America. On July 28, 2012, we entered into an agreement to sell certain contracts and related assets associated with our information technology outsourcing practice. As of that date, an allocation of goodwill was completed based on the relative fair value of the information technology outsourcing practice to each of the International and North America divisions, and we allocated $3.2 million of goodwill to the assets being disposed. For further information on this sale, which closed on October 15, 2012, see note 2.

The changes in the carrying amount of goodwill during the nine months ended September 30, 2012, were as follows:

	International	North America	Total
		(In thousands)	
Balance at January 1, 2012	$ 139,723	$ 135,781	$ 275,504
Amount allocated to discontinued operation	(1,100)	(2,100)	(3,200)
Effect of foreign exchange rate changes	2,533		2,533
Balance at September 30, 2012	$ 141,156	$ 133,681	$ 274,837

(5) Borrowings

On May 7, 2012, we entered into a Credit Agreement (the Credit Agreement) among Ciber, as United States (U.S.) borrower, certain of our United Kingdom and Dutch subsidiaries (the U.K. Dutch Borrowers), certain of our German subsidiaries (the German Borrowers), Wells Fargo Bank, N.A., as administrative agent (Wells Fargo), and the other lenders from time to time party thereto. The Credit Agreement replaced our previous credit agreement and refinanced all amounts outstanding thereunder.

The Credit Agreement provides for (1) an asset-based revolving line of credit of up to $60 million (the ABL Facility), with the amount available for borrowing at any time under such line of credit determined according to a borrowing base valuation of eligible account receivables, and (2) a $7.5 million term loan to Ciber (the Term Loan). The total available borrowing base of the ABL Facility on October 1, 2012, was $58.4 million. The ABL Facility matures on May 7, 2017, and the Term Loan matures on November 7, 2013. The Term Loan amortizes in monthly principal payments of approximately $0.4 million starting on October 31, 2012, with the balance due at maturity of the Term Loan. As of September 30, 2012, we had $34.3 million outstanding under the ABL Facility and $7.5 million outstanding under the Term Loan.

The ABL Facility contains sub-facilities for (i) a revolving line of credit in favor of the U.K. Dutch Borrowers providing for borrowings in Euros or Great Britain Pounds of up to the equivalent of $20 million (the U.K. Dutch Revolver), (ii) a revolving line of credit in favor of the German Borrowers providing for borrowings in Euros of up to the equivalent of $10 million (the German Revolver), (iii) letters of credit of up to $6.7 million, and (iv) shorter term swingline loans of up to $10 million. The ABL Facility may be increased from time to time by us upon the satisfaction of certain conditions, including obtaining additional lender commitments for such increase, by up to an aggregate of $25 million.

The obligations of Ciber under the Credit Agreement are guaranteed by our U.S. subsidiaries and secured by substantially all the assets of Ciber and such subsidiaries. The obligations of the U.K. Dutch Borrowers and the German Borrowers under the Credit Agreement are guaranteed by us and all our material U.S., Dutch and British subsidiaries, and secured by substantially all the assets of Ciber and such subsidiaries.

The Term Loan accrues interest at an annual rate of 12.0%. The ABL Facility accrues interest at a rate of the London interbank offered rate (LIBOR) plus a margin ranging from 225 to 275 basis points, or, at our option, a base rate equal to the

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greatest of (a) the Federal Funds Rate plus 0.50%, (b) LIBOR plus 1%, and (c) the prime rate set by Wells Fargo plus a margin ranging from 125 to 175 basis points. Borrowings under the U.K. Dutch Revolver and the German Revolver accrue interest at a rate of LIBOR plus a margin ranging from 225 to 275 basis points and certain fees related to compliance with European banks and regulators. The interest rates applicable to borrowings under the Credit Agreement are subject to increase during an event of default. We are also required to pay an unused line fee ranging from 0.375% to 0.50% annually on the unused portion of the ABL Facility. In the case of the ABL Facility, the applicable margin and unused line fee is determined according to the amount of unused borrowing capacity under the ABL Facility.

If we terminate the Credit Agreement within one year of the date of the Credit Agreement, we must pay a prepayment fee equal to 1% of the amount of the ABL Facility plus the amount outstanding under the Term Loan. Otherwise, loans under the Credit Agreement may be prepaid, in whole or in part, without premium or penalty. In addition, the Credit Agreement contains certain mandatory prepayment provisions. Subject to certain exceptions and conditions, we may be required to prepay the Term Loan with the net cash proceeds received from certain events, including, receipt of proceeds from a disposition of assets, a judgment or settlement, the issuance of indebtedness or the issuance of common stock or other equity interests. In addition, a mandatory prepayment of the Term Loan is required on an annual basis in an amount equal to 50% of any excess cash flow (as defined in the Credit Agreement) less the amount of any other prepayments made that year. The ABL Facility or any sub-facility must be prepaid to the extent that borrowings under such facility exceed the maximum availability under the ABL Facility or the applicable sub-facility.

The Credit Agreement includes a number of business covenants, including customary limitations on, among other things, indebtedness, liens, investments, guarantees, mergers, dispositions, acquisitions, liquidations, dissolutions, issuances of securities, payments of dividends, loans and advances, and transactions with affiliates.

The Credit Agreement also contains certain financial covenants, including: (i) a minimum trailing 12-month EBITDA, which was $30.9 million for September 2012 and then fluctuates monthly to a low of $27.6 million for November 2012 and then increases over 11 months to $41.4 million for October 2013; (ii) a minimum trailing 12-month fixed charge coverage ratio of 1.1 to 1.0; and (iii) a maximum trailing 12-month leverage ratio, which is 1.6 to 1.0 for September through November of 2012 and will increase over 11 months to 1.0 to 1.0 for October 2013. We are required to be in compliance with the financial covenants at the end of each calendar month until the Term Loan is repaid in full. We are also required to be in compliance with the minimum fixed charge coverage ratio after the Term Loan is repaid in full if (i) an event of default has occurred and is continuing, (ii) less than 25% of the ABL Facility is available for borrowing, or (iii) less than $15 million is available for borrowing under the ABL Facility. We must then continue to comply with the minimum fixed charge coverage ratio until (1) no event of default is continuing and (2) at least 25% of the ABL Facility and a minimum of $15 million have been available for borrowing under the ABL Facility for 30 consecutive days. We were in compliance with the financial covenants under our Credit Agreement at September 30, 2012.

Wells Fargo will take dominion over our U.S. cash and cash receipts and will automatically apply such amounts to the ABL Facility on a daily basis if (i) an event of default has occurred and is continuing, (ii) less than 30% of the ABL Facility or less than $18 million is available for borrowing under the ABL Facility for five consecutive days, or (iii) less than 25% of the ABL Facility or less than $15 million is available for borrowing under the ABL Facility at any time. Wells Fargo will continue to exercise dominion over our U.S. cash and cash receipts until (1) no event of default is continuing and (2) at least 30% of the ABL Facility and a minimum of $18 million have been available for borrowing under the ABL Facility for 30 consecutive days. In addition, at all times during the term of the ABL Facility, Wells Fargo will have dominion over the cash of the U.K. Dutch Borrowers and the German Borrowers and will automatically apply such amounts to the ABL Facility on a daily basis. As a result, any borrowings that will be outstanding subject to the banks dominion, will be classified as a current liability on our balance sheet.

The Credit Agreement generally contains customary events of default for credit facilities of this type, including nonpayment, material inaccuracy of representations and warranties, violation of covenants, default of certain other agreements or indebtedness, bankruptcy, material judgments, invalidity of the Credit Agreement or related agreements, and a change of control. Upon an event of default that is not cured or waived within any applicable cure periods, in addition to other remedies that may be available to the lenders, the obligations under the Credit Agreement may be accelerated, outstanding letters of credit may be required to be cash collateralized and remedies may be exercised against the collateral.

In connection with the Credit Agreement, we capitalized debt issuance costs that we are amortizing to interest expense over the terms of the borrowing arrangements. At September 30, 2012, the balance of unamortized debt fees was $3.1 million.

The carrying value of the outstanding borrowings under our Credit Agreement approximates its fair value due to interest rates approximating current market rates as the underlying interest rates were recently set in May 2012. We estimate the fair

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value of our borrowings using discounted cash flow analysis based on current rates obtained from the lender for similar types of debt. The inputs used to establish the fair value of the Credit Agreement are considered to be Level 2 inputs, which include inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

(6) Other Income (Expense)

Other income (expense), net consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In thousands)			
Foreign exchange gains (losses), net	$ (449)	$ 469	$ (438)	$ 211
Change in fair value of acquisition-related contingent consideration				(3,222)
Other			103	6
Other income (expense), net	$ (449)	$ 469	$ (335)	$ (3,005)

(7) Income Taxes

Current period U.S. and foreign income (loss) before income taxes as well as income tax expense were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In thousands)			
Income (loss) from continuing operations before income taxes:				
U.S.	$ (358)	$ (2,633)	$ (7,715)	$ (42,498)
Foreign	3,577	7,332	19,955	21,382
Total	$ 3,219	$ 4,699	$ 12,240	$ (21,116)
Income tax expense:				
U.S.	$ 1,509	$ 1,539	$ 4,296	$ 26,761
Foreign	1,129	1,421	4,983	4,433
Total	$ 2,638	$ 2,960	$ 9,279	$ 31,194

Beginning in the second quarter of 2011, due to our history of losses in our U.S. operations, we no longer record tax benefits for our U.S. incurred losses. Irrespective of our income or loss levels, we continue to record U.S. deferred tax expense related to goodwill amortization, as well as certain other miscellaneous U.S. current tax expense items. During the nine months ended September 30, 2011, we recorded a non-cash charge of $29.1 million to provide a valuation allowance for all of our domestic deferred tax assets as of April 1, 2011. Additionally, we recorded a domestic deferred tax benefit of $4.4 million related to the non-cash goodwill impairment charge recognized during that period.

(8) Segment Information

Our reportable segments are our operating divisions. At the beginning of 2012, we split what was our IT Outsourcing division (ITO   ) into our existing North America and International divisions and stopped reporting ITO separately both externally and to our chief operating decision maker. On July 28, 2012, we entered into an agreement to sell certain contracts and related assets associated with our information technology outsourcing practice, which closed on October 15, 2012, as discussed above in note 2. The portion of the practice covered in the agreement is reported as a discontinued operation for all periods in our consolidated financial statements and accompanying notes. The remainder will continue to be reported within our International and North America divisions.

Our International division provides a range of IT consulting services, including ERP software implementation, application development, and systems integration and support services, with a significant emphasis on SAP-related solutions and services. Our North America division primarily provides application development, integration and support, as well as software implementation services for ERP software from software vendors such as Oracle, SAP and Lawson. In 2012, we also began sharing the costs of our India global solutions center with both our International and North America divisions, whereas in previous years, our India operations had been reported as part of our North America division. All 2011 segment data has been

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adjusted to conform to the 2012 presentation.

The following presents financial information about our reporting segments:

	Three Months Ended September 30, 2012		Three Months Ended September 30, 2011		Nine Months Ended September 30, 2012		Nine Months Ended September 30, 2011	
	(In thousands)							
Revenues:								
International	$	106,809	$	113,956	$	334,829	$	356,117
North America		109,346		109,003		325,319		323,953
Other		802		976		2,309		2,606
Inter-segment		(1,159)		(1,324)		(3,308)		(2,617)
Total revenues	$	215,798	$	222,611	$	659,149	$	680,059
Operating income (loss) from continuing operations:								
International	$	4,208	$	5,295	$	17,923	$	20,318
North America		7,825		8,242		22,443		6,772
Other		196		139		326		364
Corporate expenses		(7,517)		(7,243)		(22,482)		(21,887)
Unallocated benefits (expenses) of discontinued operations		60		(270)		(562)		(968)
Earnings before interest, taxes and amortization		4,772		6,163		17,648		4,599
Goodwill impairment								(16,300)
Amortization of intangible assets		(157)		(131)		(482)		(1,445)
Total operating income (loss) from continuing operations	$	4,615	$	6,032	$	17,166	$	(13,146)

(9) Contingencies

We are involved in legal proceedings, audits, claims and litigation arising in the ordinary course of business. Although the outcome of such matters is not predictable, we do not expect that the ultimate outcome of any of these matters, individually or in the aggregate, will have a material adverse effect on our financial condition, results of operations or cash flows.

Notwithstanding the foregoing, we are engaged in legal proceedings in Germany in connection with our acquisition of a controlling interest in Novasoft AG (now known as Ciber AG) in 2004. In August 2006, we completed a buy-out of the remaining minority shareholders of Novasoft; however, certain of those former minority shareholders challenged the adequacy of the buy-out consideration in a German court. The court appointed independent experts have evaluated the consideration and claims of the minority shareholders and on April 27, 2012, Ciber filed a brief on its positions with respect to the evaluation. At this time, we are unable to predict the outcome of these proceedings, although, if the court awards additional consideration, such consideration will increase the goodwill associated with the acquisition and we will be liable for that additional consideration, as well as the costs associated with these proceedings.

CamSoft, Inc., a Louisiana corporation, claims that it had a role in an alleged joint venture that developed a wireless network for video camera surveillance systems to be deployed to municipal governments. The lawsuit, CamSoft Data Systems, Inc. v. Southern Electronics, et al., was filed initially in October 2009 in Louisiana state court against numerous defendants, including Ciber. The lawsuit was subsequently removed to federal court in the Middle District of Louisiana and the complaint was amended to include additional defendants and causes of action including antitrust claims, civil RICO claims, unfair trade practices, trade secret, fraud, unjust enrichment and conspiracy claims. The suit has many of the same parties that were involved in related litigation in the state court in New Orleans, which was concluded in 2009 when Ciber settled the New Orleans suit with the plaintiffs, Active Solutions and Southern Electronics, who are now co-defendants in the current lawsuit and CamSoft s former alleged joint venturers. Ciber is vigorously defending the allegations and has filed a comprehensive motion to dismiss all claims, state and federal. In July 2011, the Court granted Ciber s motion to dismiss Plaintiffs unfair trade practices, trade secret, fraud and unjust enrichment claims, but not the state law conspiracy claim. On April 30, 2012, the Court granted Ciber s motion to dismiss the Plaintiffs antitrust and civil RICO claims. Camsoft subsequently filed motions to amend their complaint, or alternatively, to amend the July 2011 ruling dismissing the claims against Ciber and other defendants, and for the Judge to recuse himself. The Court dismissed the motion to recuse but remanded remaining claims to state court.

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Camsoft has filed a notice of appeal with the Federal Court of Appeals while Ciber and the other defendants have filed notices of appeal with the Fifth Circuit Court of Appeals and with the Federal Court of Appeals. Given the complexity of these proceedings, we are unable to predict the outcome of this litigation.

On October 28, 2011, a putative securities class action lawsuit, Weston v. Ciber, Inc. et al., was filed in the United States District Court for the District of Colorado against Ciber, its current Chief Executive Officer David C. Peterschmidt, current Executive Vice President and Chief Financial Officer (CFO) Claude J. Pumilia and former CFO Peter H. Cheesbrough (the Class Action). The Class Action purports to have been filed on behalf of all holders of Ciber common stock between December 15, 2010 and August 3, 2011 by alleged stockholder and plaintiff, Burt Weston. The Class Action generally alleges that defendants Ciber, Mr. Peterschmidt, Mr. Pumilia and Mr. Cheesbrough (the Class Action Defendants) violated Section 10(b) of the Securities Exchange Act of 1934 (Exchange Act) and Securities and Exchange Commission (SEC) Rule 10b-5. Specifically, the complaint alleges that the Class Action Defendants disseminated or approved alleged false statements concerning the Company s outlook and forecast for fiscal year 2011 in: (1) the Company s 8-K filed with the SEC and press conference held with investors on December 15, 2010; (2) the Company s press release and earnings conference call on February 22, 2011; (3) the Company s 10-K for fiscal year 2010 filed with the SEC on February 25, 2011; and (4) the Company s press release, earnings conference call, and Form 10-Q for first quarter 2011 filed with the SEC on May 3, 2011. The complaint also generally alleges that the Class Action Defendants violated Section 20(a) of the Exchange Act. Specifically, the complaint alleges that the Class Action Defendants acted as controlling persons of Ciber within the meaning of Section 20(a) of the Exchange Act by reason of their positions with the Company. The Class Action seeks, among other things: (1) an order from the Court declaring the complaint to be a proper class action pursuant to Rule 23 of the Federal Rules of Civil Procedure and certifying plaintiff as a representative of the purported class; (2) awarding plaintiff and the members of the class damages, including interest; (3) awarding plaintiff reasonable costs and attorneys fees; and (4) awarding such other relief as the Court may deem just and proper. The Court appointed Mr. Weston and City of Roseville Employees Retirement System as lead plaintiffs and the law firms of Robbins, Geller Rudman & Dowd LLP and Robbins Umeda LLP as lead plaintiffs counsel on January 31, 2012. Lead Plaintiffs filed an amended complaint in early April 2012. The Class Action Defendants have filed a motion to dismiss, which is currently pending. The Company believes that the Class Action is without merit and intends to defend against it vigorously. There can, however, be no assurance of the outcome of these actions.

On February 7, 2012, a purported verified shareholder derivative lawsuit, Seni v. Peterschmidt. et al., was filed in the United States District Court for the District of Colorado (the Derivative Action) against Messrs. Peterschmidt, Pumilia, and Cheesbrough, and Ciber s current board of directors: Messrs. Bobby G. Stevenson, Jean-Francois Heitz, Paul A. Jacobs, Stephen S. Kurtz, Kurt J. Lauk, Archibald J. McGill, and James C. Spira (Individual Defendants). Ciber is named as a nominal defendant (collectively, with the Individual Defendants, the Derivative Defendants). The Derivative Action is largely based on the same alleged facts as the Class Action. The complaint in the Derivative Action generally alleges that the Individual Defendants breached their fiduciary duties of good faith, fair dealing, loyalty, due care, reasonable inquiry, oversight, and supervision by approving the issuance of allegedly false statements that misrepresented material information about the finances and operations of the Company. The Derivative Complaint also alleges that the Individual Defendants were unjustly enriched as a result of the compensation they received while breaching their fiduciary duties to the Company. The complaint seeks, among other things: (1) damages for losses sustained by the Company as a result of the Individual Defendants breaches; (2) various corporate therapeutics; (3) restitution for the Company from the Individual Defendants; (4) an award to plaintiff of reasonable costs and attorneys fees; and (5) such other relief as the Court may deem just and proper. On April 30, 2012, the Court granted Ciber s Motion to Stay Discovery and Vacate the Scheduling Conference and Related Deadlines. Ciber filed a motion to dismiss, which is pending. If that motion is denied, the Court will require a scheduling conference shortly after the ruling on the motion to dismiss.

(10) Subsequent Events

On November 5, 2012, we approved a corporate restructuring plan. As a result, we anticipate recording restructuring charges in the fourth quarter of 2012 and in the first quarter of 2013. This plan will commence in the fourth quarter of 2012 and relates primarily to the consolidation of our real estate footprint, as well as organizational changes designed to simplify business processes, move decision-making closer to the marketplace and create operating efficiencies. We currently estimate the total amount of the restructuring charges to be approximately $14 million, of which approximately $4 million will be non-cash charges related to stock compensation, estimated lease exit costs and fixed-asset write-downs related to facility closures. The estimated restructuring expenses include approximately $8 million related to personnel severance and related benefits, and approximately $6 million related to the closure of 15 offices and the consolidation of those locations into other existing Ciber locations, mostly in North America. We expect the above restructuring activities to be completed by the end of 2013.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with our Unaudited Consolidated Financial Statements and related Notes included elsewhere in this Quarterly Report on Form 10-Q and our Audited Consolidated Financial Statements and related Notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2011, and with the information under the heading Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2011. References to we, our, us, the Company or Ciber in this Quarterly Report on Form 10-Q refer to Ciber, Inc. and its subsidiaries.

We use the phrase in local currency to indicate that we are comparing certain financial results after removing the impact of foreign currency exchange rate fluctuations, thereby allowing for the comparison of business performance between periods. Financial results in local currency are calculated by restating current period activity into U.S. dollars using the comparable prior year period s foreign currency exchange rates. This approach is used for all results where the functional currency is not the U.S. dollar.

Disclosure Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 relating to our operations, results of operations and other matters that are based on our current expectations, estimates, forecasts and projections. Words, such as anticipate, believe, could, expect, estimate, intend, may, opportunity, plan, potential, project, similar expressions, are intended to identify these forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Forward-looking statements are based on assumptions as to future events that may not prove to be accurate. Risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by our forward-looking statements include, but are not limited to:

- Our results of operations may be adversely affected if we are unable to execute on the key elements of our strategic plan.

- Our results of operations can be adversely affected by economic conditions and the impacts of economic conditions on our clients operations and technology spending.

- Termination of a contract by a significant client and/or cancellation with short notice could adversely affect our results of operations.

- The IT services industry, in the U.S. and internationally, is highly competitive, with increased focus on offshore capability and we may not be able to compete effectively.

- Our Credit Agreement, an asset-based and term loan facility, limits our operational and financial flexibility; we also face the need to comply with financial covenants in our Credit Agreement.

- Possible post-closing adjustments to the purchase price on the sale of our former Federal division could reduce the purchase price and cause us to recognize an additional loss on that sale.

- Possible future consideration on the sale of certain contracts and assets associated with our information technology outsourcing practice may not be realized.

- We may experience declines in revenue and profitability if we do not accurately estimate the cost of engagements conducted on a fixed-price basis.

- Our business could be adversely affected if our clients are not satisfied with our services, and we could face damage to our professional reputation and/or legal liability.

- If we are not able to anticipate and keep pace with rapid changes in technology, our business will be negatively affected.

- Our international operations are susceptible to different financial and operational risks than our domestic operations.

- Our presence in India may expose us to operational risks.

- Our revenues, operating results and profitability will vary from quarter to quarter, which may impact our ability to comply with our debt covenants, and may also result in increased volatility in the price of our stock.

- A data security or privacy breach could adversely affect our business.

- If we are unable to collect our receivables, our results of operations and cash flows could be adversely affected.

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- Our future success depends on our ability to continue to retain and attract qualified sales, delivery and technical employees.

- We could incur additional losses due to further impairment in the carrying value of our goodwill.

- We depend on contracts with various public sector agencies for a significant portion of our revenue and, if the spending policies or budget priorities of these agencies change, we could lose revenue.

- Unfavorable government audits could require us to adjust previously reported operating results, to forego anticipated revenue and subject us to penalties and sanctions.

- Our services or solutions could infringe upon the intellectual property rights of others, or we might lose our ability to utilize rights we claim in intellectual property or the intellectual property of others.

- We have adopted anti-takeover defenses that could make it difficult for another company to acquire control of Ciber or limit the price investors might be willing to pay for our stock, thus affecting the market price of our securities.

For a more detailed discussion of these factors, see the information under the Risk Factors heading in this Quarterly Report on Form 10-Q, our Quarterly Report on Form 10-Q for the three and six months ended June 30, 2012, our Annual Report on Form 10-K for the year ended December 31, 2011, and other documents filed with or furnished to the Securities and Exchange Commission. We undertake no obligation to publicly update any forward-looking statements in light of new information or future events. Readers are cautioned not to put undue reliance on forward-looking statements.

Business Overview

Ciber is a provider of information technology (IT), business consulting and outsourcing services. We serve a variety of clients, including Global 2000 blue-chip companies, governmental agencies and educational institutions. We solve complex IT and business issues across growing industries like energy and utilities, telecommunications, retail, healthcare, financial services, entertainment and manufacturing. Our offerings are focused around a set of core competencies which include: Application Development and Management (ADM), Enterprise Resource Planning (ERP), Customer Relationship Management (CRM), Business Intelligence and Data Warehousing, Managed Services, Testing and Quality Assurance, Mobility Services and Digital Marketing. We combine local, on-site account management with a global delivery model to serve clients in an intimate manner while still utilizing the power and cost efficiencies of global resources. To a lesser extent, we also resell certain IT hardware and software products.

On March 9, 2012, we sold substantially all of the assets and certain liabilities of our Federal division to CRGT Inc. The Federal division is reported as a discontinued operation for all periods in this Quarterly Report on Form 10-Q. At the beginning of 2012, we split what was our IT Outsourcing division (ITO) into our existing North America and International divisions and stopped reporting ITO separately both externally and to our chief operating decision maker. On July 28, 2012, we entered into an agreement to sell certain contracts and related assets associated with our information technology outsourcing practice as discussed below in Discontinued Operations. This sale transaction was completed on October 15, 2012. The portion of the practice covered in the agreement is reported as a discontinued operation for all periods in this Quarterly Report on Form 10-Q. The remainder will continue to be reported within our International and North America divisions.

Our International division provides a range of IT consulting services, including ERP software implementation, application development, and systems integration and support services, with a significant emphasis on SAP-related solutions and services. Our North America division primarily provides application development, integration and support, as well as software implementation services for ERP software from software vendors such as Oracle, SAP and Lawson. In 2012, we also began sharing the costs of our India global solutions center with both our International and North America divisions, whereas in previous years, our India operations had been reported as part of our North America division. All 2011 segment data has been adjusted to conform to the 2012 presentation.

Representing approximately half of our consolidated revenues, our International division operates primarily in Western Europe, with our largest operations located in Germany, the Netherlands and the U.K. These operations transact business in the local currencies of the countries in which they operate. In recent years, generally 60% to 70% of our International division s revenue has been denominated in Euros, 10% to 15% has been denominated in Great Britain Pounds (GBP) and the balance has come from a number of other European currencies. Changes in the exchange rates between these foreign currencies and the U.S. dollar affect the reported amounts of our assets, liabilities, revenues and expenses. For financial reporting purposes, the assets and liabilities of our foreign operations are translated into U.S. dollars at current exchange rates at period end and revenues and expenses are translated at average exchange rates for the period.

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The market demand for Ciber s services is heavily dependent on IT spending by major corporations, organizations and government entities in the markets and regions that we serve. In the last three to four years, economic recession and volatile economic conditions have negatively impacted many of our existing and prospective clients and caused fluctuations in their IT spending behaviors. In 2011, economic conditions began to have a greater negative impact on clients in a number of our International division s territories. The pace of technological advancement, as well as changes in business requirements and practices of our clients, all have a significant impact on the demand for the services that we provide.

Our results of operations are affected by economic conditions, including macroeconomic conditions, credit market conditions and levels of business confidence. Revenue is driven by our ability to secure new contracts and deliver solutions and services that add value relevant to our clients current needs and challenges. In recent quarters and ongoing for the foreseeable future, we have been affected by significant efforts by our clients (both current and potential) to implement cost-savings initiatives. These initiatives have included going to third-party vendor management systems, taking their business to larger, pure-play offshore vendors and vendor consolidation. In some cases, these initiatives have benefited Ciber, but in others we have lost our revenue stream entirely or seen a decline in our level of revenues with particular clients. The pricing environment continues to be extremely competitive. A number of our competitors are structuring more offshore services into their bids, thereby lowering their pricing to help clients reduce costs, and making it more difficult for us to compete on pricing. We also have global delivery options to offer to our current and potential clients as possible cost savings, and we are expanding our offshore capabilities and increasing the usage of these resources; however, they are on a smaller scale than the offshore offerings of some of our competitors. Another issue that has had and continues to have an impact on our revenues and profitability involves a much longer sales cycle than we have seen historically, which has been driven by a much slower decision-making process in starting new projects in a variety of industries that we currently serve, or in which we are currently bidding for work. The longer sales cycle increases the cost of our sales efforts and pushes potential revenues and profitability further into the future. Some clients remain cautious, seeking flexibility by shifting to a more phased approach to contracting for work. Over the past year, we have tightened our standards governing the quality of engagements that we will accept with the goal of growing revenue, increasing margins, improving collectability of receivables and delivering sustained, predictable performance. However, there can be no assurances that we will be successful with such actions, and in certain cases, these actions may slow our revenue growth. Economic conditions and other factors continue to impact the business operations of some of our clients, their ability to continue to use our services and their financial ability to pay for our services in full. The impact of project cancellations cannot be accurately predicted and bad debt expense may differ significantly from our estimates, and any such events may negatively impact our results of operations.

On November 5, 2012, we approved a corporate restructuring plan. As a result, we anticipate recording restructuring charges in the fourth quarter of 2012 and in the first quarter of 2013. This plan will commence in the fourth quarter of 2012 and relates primarily to the consolidation of our real estate footprint, as well as organizational changes designed to simplify business processes, move decision-making closer to the marketplace and create operating efficiencies. We currently estimate the total amount of the restructuring charges to be approximately $14 million, of which approximately $4 million will be non-cash charges related to stock compensation, estimated lease exit costs and fixed-asset write-downs related to facility closures. The estimated restructuring expenses include approximately $8 million related to personnel severance and related benefits, and approximately $6 million related to the closure of 15 offices and the consolidation of those locations into other existing Ciber locations, mostly in North America. We expect the above restructuring activities to be completed by the end of 2013. Pre-tax savings from the initiatives of approximately $7 million in 2013 and $11 million in 2014 and each year thereafter are expected.

Discontinued Operations

On March 9, 2012, we sold substantially all of the assets and certain liabilities of our Federal division to CRGT Inc. for an aggregate sales price of $40 million, subject to adjustment based on the final determination of the working capital of the Federal division at the time of closing. Based upon our current estimates of related working capital, we estimate the total cash proceeds will be reduced to approximately $38 million, subject to the resolution of CRGT s proposed working capital adjustments. In June 2012, CRGT proposed certain working capital adjustments to reduce the purchase price by approximately $6 million. We disagreed with such adjustments and invoked the dispute resolution mechanism under the sale agreement. As a result of our ongoing negotiations with CRGT and our current expectation of total cash proceeds of $38 million, we reduced our receivable due from CRGT by approximately $1 million. At this time, the dispute has not been resolved, but we expect a resolution during the fourth quarter of 2012. We will record the impact of any additional adjustments on the determination of the loss on sale when such amount, if any, is probable and estimable. We have recorded an estimated pre-tax loss on sale for the nine months ended September 30, 2012, of approximately $0.4 million. We received net cash of approximately $35 million from CRGT in March 2012. In connection with the sale we incurred transaction costs of $3.8 million and estimated lease exit costs of $1.6 million related to certain Federal division office space we vacated.

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On July 28, 2012, we entered into an agreement to sell certain contracts and the related fixed assets and to transfer the personnel associated with our information technology outsourcing practice to Savvis Communications Corporation (Savvis) and accordingly, our financial position, results of operations and cash flows have been reclassified for all periods to conform to the current period presentation as a discontinued operation. The transaction closed on October 15, 2012, for an initial purchase price of $6 million in cash. In addition, we may receive additional future consideration of up to $14 million, which is mainly dependent upon the post-closing success of the transferred customer contracts to be measured based on December 2013 results, with the final amount, if any, to be determined and paid during the first quarter of 2014. We cannot estimate the amount of the additional future consideration or its potential impact on our results of operations or financial position. Under the agreement, we are required to indemnify Savvis for certain losses, if any, incurred by them following the closing under the customer contracts being transferred. Cash proceeds from the sale, after estimated transaction-related costs, are expected to be approximately $3 million. The carrying value of the tangible assets included in the transaction is approximately $7 million, and relates predominantly to property and equipment in both our North America and International segments. Additionally, we allocated $3 million of goodwill to the assets being disposed and recorded a $7 million pre-tax loss to write-down the net assets to fair value less estimated costs to sell. This loss is included in our loss from discontinued operations for the three months and nine months ended September 30, 2012. The fair value is based on the sales price and is considered a level 2 non-recurring fair value measurement. The annualized revenue related to the contracts sold under the agreement was approximately $60 million.

The following table summarizes the operating results of the discontinued operations included in the Consolidated Statements of Operations, which include those associated with the information technology outsourcing practice and our former Federal division.

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
	(In thousands)			
Total revenues	$ 16,766	$ 48,115	$ 69,076	$ 140,959
Operating expenses	19,286	46,227	72,794	138,687
Operating income (loss) from discontinued operations	(2,520)	1,888	(3,718)	2,272
Interest and other expense		155	90	396
Income (loss) from discontinued operations before income taxes	(2,520)	1,733	(3,808)	1,876
Income tax expense	65	308	549	471
Income (loss) from discontinued operations, net of taxes	(2,585)	1,425	(4,357)	1,405
Loss on sale	(8,361)		(7,441)	
Income tax benefit	(1,050)		(850)	
Loss on sale, net of income taxes	(7,311)		(6,591)	
Total income (loss) from discontinued operations, net of income taxes	$ (9,896)	$ 1,425	$ (10,948)	$ 1,405

Effective with their respective sales, the operations and cash flows of the Federal division and the information technology outsourcing practice were removed from our company. However, in connection with the sale of the Federal division, we have retained certain historical accounts receivable as well as certain liabilities, and in connection with the sale of our information technology outsourcing practice, we retained all the net working capital assets. Accordingly, adjustments to such items may be recorded through our results of operations in future periods. In addition, we expect to incur post-sale general and administrative costs in connection with our former Federal business and our information technology outsourcing practice.

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Results of Operations Comparison of the Three Months Ended September 30, 2012 and 2011

The following table and related discussion provide information about our consolidated financial results for the periods presented. At the end of 2011, our Federal division was classified as a discontinued operation. In the current quarter, a portion of our information technology outsourcing practice has also been classified as a discontinued operation and therefore both are excluded in the results from our continuing operations in the tables and related discussion below, unless otherwise noted.

The following table sets forth certain Consolidated Statement of Operations data in dollars and expressed as a percentage of revenue:

	Three Months Ended September 30,					
		2012			2011	
	(Dollars in thousands)					
Consulting services	$	203,117	94.1%	$	212,543	95.5%
Other revenue		12,681	5.9		10,068	4.5
Total revenues	$	215,798	100.0%	$	222,611	100.0%
Gross profit - consulting services	$	49,401	24.3%	$	54,581	25.7%
Gross profit - other revenue		5,152	40.6		4,021	39.9
Gross profit - total		54,553	25.3		58,602	26.3
SG&A costs		49,781	23.1		52,439	23.6
Amortization of intangible assets		157	0.1		131	0.1
Operating income from continuing operations		4,615	2.1		6,032	2.7
Interest income		149	0.1		203	0.1
Interest expense		(1,096)	(0.5)		(2,005)	(0.9)
Other income (expense), net		(449)	(0.2)		469	0.2
Income from continuing operations before income taxes		3,219	1.5		4,699	2.1
Income tax expense		2,638	1.2		2,960	1.3
Net income from continuing operations	$	581	0.3%	$	1,739	0.8%

Revenues. For the three months ended September 30, 2012, total revenues decreased $7 million, or 3% in U.S. dollars due to unfavorable currency rates in our International division. On a local currency basis, revenues increased $4 million, or 2% as compared with the three months ended September 30, 2011, due entirely to revenue growth in our International division as North America revenues were flat.

Revenue by segment from continuing operations was as follows:

	Three Months Ended September 30,		
	2012	2011	% change
	(In thousands)		

International	$	106,809	$	113,956	(6.3)%
North America		109,346		109,003	0.3
Other		802		976	n/m
Inter-segment		(1,159)		(1,324)	n/m
Total revenues	$	215,798	$	222,611	(3.1)%

n/m = not meaningful

- International revenues decreased 6% overall or improved by 3% in local currency. A significant weakening of the Euro during the current three month period as compared with the same period last year, was primarily responsible for the decrease. Three of our fastest growing countries, Germany, Norway and the U.K., which compromised approximately 40% of International revenues, experienced revenue growth between the comparable periods due to continued demand for IT services. Additionally, revenue in several territories benefited from improved current period

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sales of software licenses. A decline in revenue in other countries as well as the reduction in revenue at one of our largest clients, offset some of the above growth. International revenues continue to be impacted by certain larger European clients focusing on cost-cutting measures such as vendor consolidation, offshoring, and increasing pricing pressure on service providers. Our largest European client accounted for 9% of the International division s revenues and 6% of consolidated revenues in 2011. As a result of a bidding process the client conducted, we were notified that our status changed to secondary provider from primary provider and, during the second half of 2011, this client began cost-reduction initiatives. These initiatives included reductions in the level of services that they purchased from us. While we cannot predict future revenues from this client with any certainty, revenues from this client are down 34% in the three months ended September 30, 2012, compared to the comparable prior year period. This decline represents almost half of our overall reported revenue decline in our International segment. During the third quarter of 2012, this client accounted for approximately 6% of the International division s revenues and 4% of consolidated revenues.

- North America revenues were flat between the comparable periods as increases in the level of services provided at several current clients, especially for application development services, and project work for new clients were offset by revenue attrition primarily from several concluded state and local government projects, as well as service-level reductions at other clients.

Gross Profit. Gross profit margin declined to 25.3% for the three months ended September 30, 2012, compared to 26.3% for the same period in 2011. North America gross margin declined due to pricing pressure on some of the additional work at existing clients, and higher margin revenue attrition, both of which were partially offset by improved utilization. Gross profit margin for our International division declined due to reduced consultant utilization.

Selling, general and administrative costs. Our SG&A costs decreased $2.7 million, or 5% to $49.8 million for the three months ended September 30, 2012, from $52.4 million for the three months ended September 30, 2011. Foreign currency accounted for a significant portion of the decline, and North America SG&A savings also contributed.

Operating income. Operating income decreased to $4.6 million for the three months ended September 30, 2012, as compared to $6.0 million for the same period of 2011, due primarily to reduced gross profit margins in both divisions, partially offset by reduced SG&A costs.

Operating income from continuing operations by segment was as follows:

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	% change	2012 % of revenue*	2011 % of revenue*
	(In thousands)				
International	$ 4,208	$ 5,295	(20.5)%	3.9%	4.6