CIBER INC
Form 10-Q
May 10, 2016
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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 March 31, 2016

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.)
6312 South Fiddler's Green Circle, Suite 600E, 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 80,680,752 shares of the registrant's Common Stock outstanding as of May 2, 2016.

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Ciber, Inc. and Subsidiaries
Consolidated Statements of Operations
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended March 31,	
	2016	2015
REVENUES		
Consulting services	$166,238	$191,054
Other revenue	8,813	10,951
Total revenues	175,051	202,005
OPERATING EXPENSES		
Cost of consulting services	129,443	143,795
Cost of other revenue	4,864	6,495
Selling, general and administrative	49,223	45,718
Goodwill Impairment	85,923	—
Amortization of intangible assets	593	—
Restructuring charges	345	61
Total operating expenses	270,391	196,069
OPERATING INCOME (LOSS) FROM CONTINUING OPERATIONS	(95,340)	5,936
Interest expense	(544)	(314)
Other expense, net	(132)	(153)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(96,016)	5,469
Income tax expense	948	1,251
INCOME (LOSS) FROM CONTINUING OPERATIONS	(96,964)	4,218
Loss from discontinued operations, net of income tax	(36)	(42)
CONSOLIDATED NET INCOME (LOSS)	(97,000)	4,176
Net income attributable to noncontrolling interests	20	2
NET EARNINGS (LOSS) ATTRIBUTABLE TO CIBER, INC.	$(97,020)	$4,174
Basic and diluted earnings (loss) per share attributable to Ciber, Inc.:		
Continuing operations	$(1.21)	$0.05
Discontinued operations	—	—
Basic and diluted earnings (loss) per share attributable to Ciber, Inc.	$(1.21)	$0.05
Weighted average shares outstanding:		
Basic	80,210	78,727
Diluted	80,210	79,537

See accompanying notes to unaudited consolidated financial statements.

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Ciber, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Loss
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2016	2015
Consolidated net income (loss)	$(97,000)	$4,176
Foreign currency translation adjustments	4,557	(13,077)
Comprehensive loss	(92,443)	(8,901)
Comprehensive income attributable to noncontrolling interests	20	2
Comprehensive loss attributable to Ciber, Inc.	$(92,463)	$(8,903)

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)

	March 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$18,412	$ 20,404
Accounts receivable, net of allowances of $2,438 and $2,130, respectively	160,616	169,501
Prepaid expenses and other current assets	26,440	26,340
Total current assets	205,468	216,245
Property and equipment, net of accumulated depreciation of $35,597 and $37,849, respectively	21,214	22,447
Goodwill	173,115	256,736
Intangibles, net	2,792	—
Other assets	5,059	6,843
TOTAL ASSETS	$407,648	$ 502,271
LIABILITIES AND EQUITY		
Liabilities:		
Current liabilities:		
Current portion of long-term debt	$38,900	$ —
Accounts payable	27,410	34,980
Accrued compensation and related liabilities	35,831	31,152
Deferred revenue	12,071	14,238
Income taxes payable	957	575
Other accrued expenses and liabilities	24,977	29,384
Total current liabilities	140,146	110,329
Long-term debt	—	32,680
Deferred income taxes	31,263	30,571
Other long-term liabilities	7,058	8,794
Total liabilities	178,467	182,374
Commitments and contingencies (see Note 9)		
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, 80,391 and 80,057 shares issued, respectively	804	801
Treasury stock, at cost, 22 and 32 shares, respectively	(47)	(113)
Additional paid-in capital	371,317	369,228
Accumulated deficit	(115,354)	(17,903)
Accumulated other comprehensive loss	(28,145)	(32,702)
Total Ciber, Inc. shareholders' equity	228,575	319,311

Noncontrolling interests	606	586
Total equity	229,181	319,897
TOTAL LIABILITIES AND EQUITY	$407,648	$ 502,271

See accompanying notes to unaudited consolidated financial statements.

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Ciber, Inc. and Subsidiaries
Consolidated Statement of Shareholders' Equity
(In thousands)
(Unaudited)

	Common Stock Shares	Amount	Treasury Stock Shares	Amount	Additional Paid-in Capital	Accumulated deficit	Accumulated Other Comprehensive Loss	Total Ciber, Inc. Shareholders' Equity	Noncontrolling Interests	Total Equity
BALANCES AT JANUARY 1, 2016	80,057	$ 801	(32)	$ (113)	$ 369,228	$ (17,903)	$ (32,702)	$ 319,311	$ 586	$ 319,897
Consolidated net income	—	—	—	—	—	(97,020)	—	(97,020)	20	(97,000)
Foreign currency translation	—	—	—	—	—	—	4,557	4,557	—	4,557
Shares issued under employee share plans, net	334	3	10	66	138	(431)	—	(224)	—	(224)
Share-based compensation	—	—	—	—	1,951	—	—	1,951	—	1,951
BALANCES AT March 31, 2016	80,391	$ 804	(22)	$ (47)	$ 371,317	$ (115,354)	$ (28,145)	$ 228,575	$ 606	$ 229,181

See accompanying notes to unaudited consolidated financial statements.

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Ciber, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Three Months Ended March 31, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income (loss)	$(97,000)	$4,176
Adjustments to reconcile consolidated net income (loss) to net cash used in operating activities:		
Loss from discontinued operations	36	42
Goodwill impairment	85,923	—
Depreciation	1,523	1,357
Amortization of intangible assets	593	—
Deferred income tax expense	1,274	1,313
Provision for (recovery of) doubtful receivables	308	(149)
Share-based compensation expense	1,951	1,756
Amortization of debt costs	189	143
Other, net	4	2,728
Changes in operating assets and liabilities:		
Accounts receivable	10,052	(5,429)
Other current and long-term assets	666	(3,507)
Accounts payable	(7,877)	(8,553)
Accrued compensation and related liabilities	4,700	(23,231)
Other current and long-term liabilities	(5,396)	(4,032)
Income taxes payable/refundable	(330)	(191)
Cash used in operating activities — continuing operations	(3,384)	(33,577)
Cash used in operating activities — discontinued operations	(128)	(127)
Cash used in operating activities	(3,512)	(33,704)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment, net	(5,298)	(1,215)
Cash used in investing activities — continuing operations	(5,298)	(1,215)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on long-term debt	43,613	91,341
Payments on long-term debt	(37,638)	(83,563)
Employee stock purchases and options exercised	141	456
Purchase of shares for employee tax withholdings	(365)	(398)
Purchase of treasury stock	—	(762)
Cash provided by financing activities — continuing operations	5,751	7,074
Effect of foreign exchange rate changes on cash and cash equivalents	1,067	(1,298)
Net decrease in cash and cash equivalents	(1,992)	(29,143)
Cash and cash equivalents, beginning of period	20,404	45,858
Cash and cash equivalents, end of period	$18,412	$16,715

See accompanying notes to unaudited consolidated financial statements.

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Ciber, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

(1) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited Consolidated Financial Statements include the accounts of Ciber, Inc. and its wholly-owned subsidiaries (together, "Ciber," "the Company," "we," "our," or "us") and have been prepared in accordance wit accounting principles generally accepted in the United States ("GAAP") for interim financial information. Consistent with these requirements, this Form 10-Q does not include all the information required by GAAP for complete financial statements. As a result, this Form 10-Q should be read in conjunction with the Consolidated Financial Statements and accompanying Notes in our Annual Report on Form 10-K for the year ended December 31, 2015.

Management believes the accompanying unaudited Consolidated Financial Statements reflect all adjustments, including normal recurring items and restructuring and other items, considered necessary for a fair statement of results for the interim periods presented. The results of operations for the three months ended March 31, 2016 are not necessarily indicative of the results of operation for the full fiscal year.

As fully explained in Note 4, due to the balance available for borrowing under our Asset Based Lending Facility ("ABL Facility") falling below $15 million during the three months ended March 31, 2016, we became subject to certain covenants including a Fixed Charge Coverage Ratio. We were not in compliance with the Fixed Charge Coverage Ratio covenant at March 31, 2016 and subsequently. Because this non-compliance would allow our lender to accelerate the indebtedness making it due and payable immediately, the amount due under the ABL Facility is classified as a current liability in our balance sheet at March 31, 2016. Our lender has not requested full payment of the facility, but if such action occurred, the Company believes it would be difficult to immediately pay the amount due upon request. Further, due to the default, the Company's ability to draw additional amounts from the ABL Facility could be limited. Management is currently seeking a covenant waiver and implementing actions to be in compliance with the ABL Facility covenants. Management evaluated its working capital, cash flows and operating forecasts and currently believes, based on this evaluation, the Company can continue to operate for the foreseeable future and will be able to cure the covenant defaults, although this cannot be assured. Additionally, as a normal course of business or as a result the debt being called, we may take further actions that include, but are not limited to, obtaining a covenant waiver or modification, restructuring, divesting certain assets and business units, cost reductions, refinancing, and obtaining new debt or equity financing. The financial statements are prepared on a basis that the Company will continue as a going concern.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"). The core principle of the standard is when an entity transfers goods or services to customers, it will recognize revenue in an amount that reflects the consideration the entity expects to be entitled to for those goods or services. The update outlines a five-step model and related application guidance, which replaces most existing revenue recognition guidance. ASU 2014-09 is expected to be effective for annual periods beginning after December 15, 2017, and for interim periods within that year, and allows for both retrospective and prospective methods of adoption. We are currently evaluating the impact of implementing this guidance on our consolidated financial statements, as well as which transition method we intend to use.

In August 2014, the FASB issued ASU No. 2014-15, “Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern” (“ASU 2014-15”), which requires management to evaluate, at each annual and interim reporting period, whether there are conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date the financial statements are issued and provide related disclosures. ASU 2014-15 is effective for annual periods beginning after December 15, 2016, and interim periods thereafter. Early adoption is permitted. We do not anticipate that this guidance will materially impact our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02") which is intended to increase transparency and comparability among organizations by recognizing all lease transactions with terms in excess of 12 months on the balance sheet as a lease liability and a right-of-use asset. ASU 2016-02 is effective for fiscal years

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beginning after December 15, 2018, including interim periods within those fiscal years, with earlier application permitted. This standard is to be applied with a modified retrospective approach at the beginning of the earliest comparative period presented in the financial statements. We are currently evaluating the impact of implementing this guidance on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations" ("ASU 2016-08"). The amendments are intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations. The effective date for this ASU is the same effective date for ASU 2014-09. We are currently evaluating the impact of implementing this guidance on our consolidated financial statements.

Adopted Accounting Pronouncements

In April 2015, the FASB issued ASU No. 2015-05, “Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-4)” which is meant to help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement by providing guidance as to whether an arrangement includes the sale or license of software. This update is effective for interim and annual periods beginning after December 15, 2015 and we have elected to adopt the guidance prospectively. The adoption of this guidance did not have an impact on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation-Stock Compensation- Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"), which involves accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The adoption of this guidance did not have an impact on our consolidated financial statements.

PRSU Grant

On January 26, 2015, June 24, 2015, July 1, 2015 and August 10, 2015, we granted 79,761, 69,558, 47,550 and 5,000 Performance Based Restricted Share Units ("PRSUs"), respectively, to our executives. On January 1, 2016, we granted 201,868 PRSUs to our executives. The performance conditions include both an internal performance condition and an external market-based condition. We have valued the external market-based condition using a Monte Carlo approach. Probability of reaching the internal performance condition is assessed quarterly and the associated expense is adjusted based on the target expected to be achieved. There is the potential for 590,605 shares of common stock to vest under these grants if maximum performance targets are achieved. There were no shares that vested and 5,000 shares forfeited during 2016.

Fair Value

Authoritative guidance defines fair value as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. Authoritative guidance also establishes a fair value hierarchy that is intended to increase consistency and comparability in fair value measurements and related disclosures. The fair value hierarchy is based on inputs to valuation techniques that are used to measure fair value that are either observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity's pricing based upon its own market assumptions.

The fair value hierarchy consists of the following three levels:

•Level 1 – Inputs are quoted prices in active markets for identical assets or liabilities.

•Level 2 – Inputs are quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable and market-corroborated inputs which are derived principally from or corroborated by observable market data.

•Level 3 – Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

The Company estimates the fair value of each foreign exchange forward contract by using a present value of expected cash flows model. This model calculates the difference between the current market forward price and the

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contracted forward price for each foreign exchange contract and applies the difference in the rates to each outstanding contract. Valuations for all derivatives fall within Level 2 of the GAAP valuation hierarchy.

Derivatives may give rise to credit risks from the possible non-performance by counterparties. Credit risk is generally limited to the fair value of those contracts that are favorable to us. The Company has limited its credit risk by entering into derivative transactions only with highly-rated global financial institutions, limiting the amount of credit exposure with any one financial institution and conducting ongoing evaluation of the creditworthiness of the financial institutions with which the Company does business.

The carrying value of the outstanding borrowings under the Company's ABL Facility, as defined in Note 4, approximates its fair value as (1) it is based on a variable rate that changes based on market conditions and (2) the margin applied to the variable rate is based on Ciber's credit risk, which has not changed since entering into the facility in May 2012. If Ciber's credit risk were to change, we would estimate the fair value of our borrowings using a discounted cash flow analysis based on current rates expected to be available from the lender for similar types of debt. The inputs used to establish the fair value of the ABL Facility are considered to be Level 2 of the GAAP Valuation hierarchy.

(2) Earnings (Loss) Per Share

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

	Three Months Ended March 31,	
	2016	2015
	(In thousands, except per share amounts)	
Numerator:		
Net income (loss) from continuing operations	$(96,964)	$4,218
Net income attributable to noncontrolling interests	20	2
Net income (loss) attributable to Ciber, Inc. from continuing operations	(96,984)	4,216
Loss from discontinued operations, net of income tax	(36)	(42)
Net income (loss) attributable to Ciber, Inc.	$(97,020)	$4,174
Denominator:		
Basic weighted average shares outstanding	80,210	78,727
Dilutive effect of employee stock plans	—	810
Diluted weighted average shares outstanding	80,210	79,537
Basic and diluted earnings (loss) per share attributable to Ciber, Inc.:		
Continuing operations	$(1.21)	$0.05
Discontinued operations	—	—
Basic and diluted earnings (loss) per share attributable to Ciber, Inc.	$(1.21)	$0.05
Anti-dilutive securities omitted from the calculation	4,515	2,768

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 attributable to Ciber, Inc. from continuing operations, or when stock options have an exercise price that is greater than the average market price of Ciber common stock during the period.

(3) Goodwill

During the first quarter of 2016, the Company observed a sustained decrease in the stock price and lower than expected earnings during the three months ended March 31, 2016, thereby providing a potential indicator of goodwill impairment. As a result, the Company initiated an impairment test in the three months ended March 31, 2016.

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We compared the carrying values of our International and North America reporting units to their estimated fair values at March 31, 2016. 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 3%. 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 17% and 14% 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/EBITDA multiples of approximately 5 and 6, respectively, under the market approach using the guideline public company method and approximately 7 and 7, respectively, under the market approach using the guideline transaction method in order to value each of our reporting units. In addition, the fair value under the market approach using the guideline public company method included a control premium of 30%. 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.

Upon completing step one of the impairment test for each reporting unit, the Company determined that the carrying fair value of the North America reporting unit was greater than the carrying value by approximately 30%. It was determined that the carrying fair value of International reporting unit was less than the carrying value by approximately 30%, thus indicating potential impairment and requiring step two analysis.

The Company performed the second step of the goodwill test to determine the implied fair value of goodwill for the International reporting unit. The estimated implied fair value of goodwill was determined in a consistent manner utilized to estimate the amount of goodwill recognized in a business combination. As a result, we calculated the estimated fair value of certain non-recorded assets, including customer relationships, trade name and workforce. The implied fair value of goodwill was measured as the excess of the estimated fair value of the reporting unit over the amounts assigned to its assets and liabilities. The impairment loss for the reporting unit was measured by the amount that the carrying value of goodwill exceeded the implied fair value of the goodwill. Based on this preliminary assessment using reasonable estimates for the theoretical purchase price allocation, we recognized a preliminary impairment charge of $85.9 million in the three months ended March 31, 2016, which represented 69% of the goodwill of the International reporting unit prior to the impairment charge. The preliminary impairment charge will be subject to adjustments when the step two test is finalized in the quarter ending June 30, 2016. The preliminary impairment charge in our International reporting unit is primarily a result of the decreased operating performance of the reporting unit, including a lag in new sales and our inability to achieve operational efficiencies.

We have 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.

The changes in the carrying amount of goodwill during the three months ended March 31, 2016, were as follows:

International	North America	Total
(In thousands)		

Balance at January 1, 2016	$123,055	$133,681	$256,736
Goodwill Impairment	(85,923)	—	(85,923)
Effect of foreign exchange rate changes	2,302	—	2,302
Balance at March 31, 2016	$39,434	$133,681	$173,115

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(4) Borrowings

We have an ABL Facility of up to $60 million with Wells Fargo Bank, N.A ("Wells Fargo"). The maximum amount available for borrowing at any time under such line of credit is determined according to a borrowing base valuation of eligible account receivables, which was $54.2 million at March 31, 2016. The ABL Facility provides for borrowings in the United States, the Netherlands, the United Kingdom and Germany and matures on May 7, 2017. As of March 31, 2016, we had $39.5 million outstanding under the ABL Facility. We expect our borrowings to fluctuate based on our working capital needs. Our obligations under the ABL Facility are guaranteed by us and are secured by substantially all of our U.S., Netherlands, United Kingdom, and German assets. The ABL Facility 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 ABL Facility can be prepaid in whole or in part at any time. The ABL Facility must be repaid to the extent that any borrowings exceed the maximum availability allowed under the ABL Facility.

We are required to be in compliance with a minimum trailing 12-month fixed charge coverage ratio of consolidated EBITDA (as defined in the ABL Facility) to consolidated fixed charges of 1.1/1.0 (the "Fixed Charge Coverage Ratio") if (i) an event of default has occurred and is continuing, (ii) Ciber fails to maintain excess availability of at least the greater of (i) $15 million or (ii) an amount equal to 25% of the aggregate amount of the commitments at any time. We must then continue to comply with the minimum trailing 12-month fixed charge coverage ratio until (1) no event of default is continuing and (2) excess availability has equaled or exceeded the greater of (a) $15 million or (b) an amount equal to 25% of the aggregate amount of the commitments for 30 consecutive days. Due to the balance available for borrowing falling below $15 million during the three months ended March 31, 2016, we became subject to the Fixed Charge Coverage Ratio and we were not in compliance with the Fixed Charge Coverage Ratio at March 31, 2016.

Due to the default in the Fixed Charge Coverage Ratio at March 31, 2016, the lender has the right to declare all outstanding debt under the ABL Facility immediately due and payable, and thus, the Company has reclassified all long-term debt to current portion of long-term debt on our balance sheet at March 31, 2016. Our lender has not requested full payment of the facility, but if such action occurred, the Company believes it would be difficult to immediately pay the amount due upon request. Further, due to the default, the Company’s ability to draw additional amounts from the ABL Facility could be limited. Management is currently seeking a covenant waiver and implementing actions to be in compliance with the ABL Facility covenants.

Management evaluated its working capital, cash flows and operating forecasts and currently believes, based on this evaluation, the Company can continue to operate for the foreseeable future and will be able to cure the covenant defaults, although this cannot be assured. There can be no assurance that we will achieve or be in compliance with these bank covenants until operating cash flow improves.
Additionally, as a normal course of business or as a result the debt being called, we may take further actions that include, but are not limited to, obtaining a covenant waiver or modification, restructuring, divesting certain assets and business units, cost reductions, refinancing, and obtaining new debt or equity financing.
Management believes that other sources of credit or financing would be available to us; however, cannot predict at this time what types of credit or financing would be available in the future, the costs of such credit or financing, or that the terms of any amended or new facility will not be materially less favorable to the Company.

The ABL Facility also contains certain requirements relating to perfection of security interests of the Loan Parties (as defined in the ABL Facility), as well as an affirmative solvency (as defined in the ABL Facility) representation applicable as of the date of the making of any Revolving Loan (as defined in the ABL Facility) or any other extension of credit. During the three months ended March 31, 2016, Wells Fargo notified us that we had become subject to, and waived an event of default relating to an additional perfection notice requirement that had become applicable the German borrowers, which we cured in March 2016. In May 2016, Wells Fargo notified us that we were not in compliance with a similar perfection notice requirement applicable to the Dutch borrowers that was applicable to us during the three months ended March 31, 2016. We currently are working with Wells Fargo to cure this non-compliance.

In addition, the ABL Facility includes ongoing representations including solvency of the Company. Based on the ABL Facility definition of solvency, which includes the ability to pay amounts due on the prescribed invoice due dates, the Company may have breached the solvency representation during the three months ending March 31, 2016, and may be in breach of that

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representation at the time of each subsequent borrowing under the ABL Facility. This may limit future borrowings under the ABL Facility.

The ABL Facility provides that Wells Fargo Bank would take dominion over our U.S. cash and cash receipts and would automatically apply such amounts to the ABL Facility on a daily basis if (a) an event of default has occurred and is continuing or (b) Ciber fails to maintain excess availability of at least the greater of (i) $10 million or (ii) an amount equal to 16 2/3% of the aggregate amount of the commitments at any time. During such times as was applicable during the three months ended March 31, 2016, and subsequently, Wells Fargo had the ability to exercise dominion over our U.S. cash and cash receipts. Wells Fargo has not exercised its right to apply our U.S. cash and cash receipts to the ABL Facility; however, Wells Fargo will continue to have dominion over our U.S. cash and cash receipts until (a) no event of default is continuing and (b) excess availability has equaled or exceeded the greater of (i) $10 million or (ii) an amount equal to 16 2/3% of the aggregate amount of the commitments under the ABL Facility for 30 consecutive days.

In addition, at all times during the term of the ABL Facility, Wells Fargo would have dominion over the cash of the United Kingdom, Dutch, and German borrowers when a balance is outstanding to those entities and would automatically apply such amounts to the ABL Facility on a daily basis. As a result, if we have any outstanding borrowings that are subject to the bank's dominion, such amounts would be classified as a current liability on our balance sheet. At March 31, 2016, we had $4.5 million of foreign borrowings that were subject to the bank's dominion and are classified as a current liability on our balance sheet.

(5) Financial Instruments

We are exposed to certain risks related to our ongoing business operations. From time to time, we may choose to use derivative instruments to manage certain risks related to foreign currency exchange rates and interest rates.

During the three months of 2016 and 2015, we entered into various foreign currency forwards related to intercompany transactions denominated in a foreign currency. These forwards allow us to manage our foreign currency exposure with respect to the Euro, the Indian Rupee, the Pound Sterling, the Norwegian Krone, the Swedish Krona, and the Australian Dollar. The duration of these contracts generally ranges from one to three months, and we are generally entering into new contracts on a monthly basis. We have not elected hedge accounting for these derivatives.

The details of our realized and unrealized gains (losses) on derivative instruments, net, are as follows:

	Three Months Ended March 31,	
	2016	2015
	(In thousands)	
Foreign currency forward contracts	$169	$2,461
Total realized and unrealized gain (loss) on derivatives	$169	$2,461

These gains and losses are included in "other expense, net" on the Consolidated Statements of Operations. Each forward and the option is recognized as either an asset or liability on our Consolidated Balance Sheets at fair value and is presented in either "prepaid expenses and other current assets" or "other accrued expenses and liabilities," as applicable. All cash flows associated with these forward instruments are classified as operating cash flows in our Consolidated Statement of Cash Flows.

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The following table summarizes our outstanding foreign currency forward contracts at March 31, 2016:

Currency Purchased Forward		Currency Sold Forward		Maturity Date
NOK	44,100,000	EUR	4,682,175	4/29/2016
USD	11,200,000	EUR	9,829,994	4/29/2016
EUR	7,000,000	GBP	5,553,870	4/29/2016
AUD	2,950,000	EUR	1,983,327	4/29/2016
EUR	1,300,000	SEK	12,003,290	4/29/2016
AUD	360,432	NZD	400,000	4/29/2016
INR	507,282,975	USD	7,650,000	4/29/2016
INR	233,478,980	EUR	3,100,000	4/29/2016
USD	1,000,000	GBP	695,410	4/29/2016

(6) 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 March 31,	
	2016	2015
	(In thousands)	
Income (loss) from continuing operations before income taxes:		
U.S.	$(6,510)	$1,268
Foreign	(89,506)	4,201
Total	$(96,016)	$5,469
Income tax expense:		
U.S.	$612	$674
Foreign	336	577
Total	$948	$1,251

Due to our history of domestic losses, we have a full valuation allowance for all U.S. net deferred tax assets, including our net operating loss and tax credit carryforwards. As a result, we cannot record any tax benefits for additional U.S. incurred losses, and any U.S. income is offset by a reduction in valuation allowance. Irrespective of our income or loss levels, we continue to record U.S. deferred tax expense related to tax-basis goodwill amortization.

The effective rate on our foreign tax expense varies with the mix of income and losses across multiple tax jurisdictions with most statutory tax rates varying from 19% to 34%. The foreign losses did not create the expected tax benefit as a result of the current mix of income and losses across jurisdictions, with income being earned in jurisdictions where taxes are paid, and losses being generated in jurisdictions that have a full valuation allowance recorded against them. Additionally, we have recorded significant goodwill impairment charges that do not result in a tax benefit at the local country level.

(7) Restructuring Charges

On July 25, 2014, we approved a restructuring plan focused on the implementation of a go-to-market model, realigning the organization and improving our near and offshore delivery mix ("the 2014 Plan"). The 2014 Plan commenced in the third quarter of 2014 and was completed in the third quarter of 2015. The 2014 Plan impacted approximately 290 people. The total amount of the restructuring charges for the 2014 Plan was approximately $27 million, substantially all of which was settled in cash. The total estimated restructuring expenses included approximately $20 million related to employee severance and related benefits and approximately $7 million related to professional fees, office closures and other expenses.

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The changes in our 2014 Plan restructuring liabilities, which are primarily recorded in other accrued expenses, during the three months ended March 31, 2016, are as follows:

	Employee Severance and Termination	Professional Fees, Office Closures and Other	Total
	(In thousands)		
Restructuring liability, as of January 1, 2016	$1,791	$ 990	$2,781
Restructuring charge	—	—	—
Non-cash items	—	—	—
Cash paid	(1,541)	—	(1,541)
Foreign exchange rate changes	44	—	44
Restructuring liability, as of March 31, 2016	$294	$ 990	$1,284

For the three months ended March 31, 2016, the Company recognized employee severance and related benefits of $0.3 million. These costs represent additional restructuring activities outside of the original restructuring plans. As of March 31, 2016 and December 31, 2015, additional restructuring liabilities of $0.8 million and $0.7 million, respectively, were included in other accrued expenses.

(8) Segment Information

The following presents financial information about our reportable segments:

	Three Months Ended March 31,	
	2016	2015
	(In thousands)	
Revenues:		
International	$75,964	$96,687
North America	99,585	105,567
Other	764	788
Inter-segment	(1,262)	(1,037)
Total revenues	$175,051	$202,005
Operating income (loss) from continuing operations:		
International	$(1,036)	$6,413
North America	6,544	9,996
Other	125	76
Corporate expenses	(14,112)	(10,488)
Operating income from continuing operations before goodwill impairment, amortization and restructuring charges	(8,479)	5,997
Goodwill impairment	(85,923)	—
Amortization of intangible assets	(593)	—
Restructuring charges	(345)	(61)
Total operating income (loss) from continuing operations	$(95,340)	$5,936

(9) Contingencies

We are subject to various claims and litigation that arise in the ordinary course of business. The litigation process is inherently uncertain. Therefore, the outcome of such matters is not predictable.

As previously reported, a lawsuit titled 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

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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 involves many of the same parties 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 were CamSoft's former alleged joint venturers and are now co-defendants in the current lawsuit. Proceedings in the federal appellate courts concluded in January 2015 with the matter remanded back to state court. Ciber is vigorously defending the allegations. Based on information known to us, we have established a reserve that we believe represents a probable estimate of the loss. We are unable to predict the outcome of this litigation.

A lawsuit titled Pennsylvania Turnpike Commission. v. Ciber, Inc., and Dennis Miller was filed in January 2015 in Pennsylvania state court against Ciber and a former employee. The complaint generally alleges breach of contract, negligent misrepresentation, violation of an anti-bid-rigging statute and procurement code, and conspiracy to commit fraud with and by Ciber’s own employee. These claims arise out of a project in 2004-2008 to implement a new finance and administrative system for the Pennsylvania Turnpike Commission (“PTC”). PTC alleges $38 million in damages. We believe the claims are without merit and Ciber is vigorously defending against these allegations. At this time, we are unable to predict the outcome of this litigation.

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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, 2015, 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, 2015. 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," "should," and "will" and similar expressions, are intended to ide 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 could cause actual results to differ materially from those expressed or implied by our forward-looking statements.
For a more detailed discussion of our risk factors, see the information under the "Risk Factors" heading in this Quarterly Report on Form 10-Q and other documents filed with or furnished to the SEC. We undertake no obligation to publicly update any forward-looking statements in light of new information or future event other than as required by law. Readers are cautioned not to put undue reliance on forward-looking statements.

Business Overview

Ciber is a leading global information technology ("IT") services company founded in 1974 with over 40 years of proven IT experience and a wide range of technology expertise. Ciber has the infrastructure and expertise to deliver IT services on a global scale. Focusing on the client, we take a personalized approach that includes building long-term relationships via the creation of IT solutions for the client, and implementing business strategies that reflect anticipated trends. We are committed to delivering quality solutions precisely configured to our clients' needs and achieving the highest level of customer satisfaction and self-assessed customer delight. Our goal is delivering business value to our clients.

The key initiatives of our strategic plan include: (i) focusing on high-value, tightly-defined core offerings with a well-developed portfolio of reusable solution sets; (ii) performing under heightened operational regimes and (iii) customer service.

We operate our business by geography. Our reportable operating segments consist of International and North America. Our International segment transacts business in the local currencies of the countries in which it operates. In recent years, approximately 50% to 60% of our International division's revenue has been denominated in Euros, 15%

to 20% 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.

Restructuring

On July 25, 2014, we approved a restructuring plan focused on the implementation of a go-to-market model, realigning the organization and improving our near and offshore delivery mix ("the 2014 Plan"). The 2014 Plan commenced in the third quarter of 2014 and was completed in the third quarter of 2015. The 2014 Plan impacted approximately 290 people. The total

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amount of the restructuring charges for the 2014 Plan was approximately $27 million, substantially all of which was settled in cash. The total estimated restructuring expenses included approximately $20 million related to employee severance and related benefits and approximately $7 million related to professional fees, office closures and other expenses.

Our 2014 Plan had restructuring liabilities of $2.8 million at December 31, 2015, of which Ciber paid $1.5 million in the three months ended March 31, 2016. The remaining liability of $1.3 million is recorded in other accrued expenses as of March 31, 2016.

Results of Operations — Comparison of the Three Months Ended March 31, 2016 and 2015

The following table and related discussion provide information about our consolidated financial results for the periods and are presented in dollars and expressed as a percentage of revenue:

	Three Months Ended March 31,			
	2016		2015	
	(Dollars in thousands)			
Consulting services	$166,238	95.0 %	$191,054	94.6 %
Other revenue	8,813	5.0	10,951	5.4
Total revenues	$175,051	100.0 %	$202,005	100.0 %
Gross profit - consulting services	$36,795	22.1 %	$47,259	24.7 %
Gross profit - other revenue	3,949	44.8	4,456	40.7
Gross profit - total	40,744	23.3	51,715	25.6
SG&A costs	49,223	28.1	45,718	22.6
Goodwill Impairment	85,923	49.1	—	—
Amortization of intangible assets	593	0.3	—	—
Restructuring charges	345	0.2	61	—
Operating income (loss) from continuing operations	(95,340)	(54.5)	5,936	2.9
Interest expense	(544)	(0.3)	(314)	(0.2)
Other expense, net	(132)	(0.1)	(153)	(0.1)
Income (loss) from continuing operations before income taxes	(96,016)	(54.9)	5,469	