CIBER INC
Form 10-K
March 12, 2012

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Item 8. Financial Statements and Supplementary Data

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2011

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)

Registrant's telephone number, including area code: **(303) 220-0100**

Securities registered pursuant to Section 12(b) of the Act:

Title of class	Name of exchange on which registered
Common Stock, $0.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. o Yes ý No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. o Yes ý No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ý Yes o No

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). ý Yes o No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

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.

Large accelerated filer o	Accelerated filer ý	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 Exchange Act). o Yes ý No

The aggregate market value of the outstanding voting stock held by non-affiliates of the registrant as of June 30, 2011, was $367,043,361 based on the closing price of the registrant's Common Stock of $5.55 per share reported on the New York Stock Exchange on such date.

As of February 29, 2012, there were 72,753,075 shares of the registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Registrant's 2011 Annual Meeting of Shareholders to be held on May 9, 2012, are incorporated by reference into Part III of this Report.

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Part I

Disclosure Regarding Forward-Looking Statements

This Annual Report on Form 10-K 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, assumptions and projections. Words, such as "anticipates," "believes," "could," "expects," "estimates," "intends," "may," "plans," "projects," "should," and "will" and similar expressions, are intended to identify forward-looking statements. Forward-looking statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Forward-looking statements are based upon assumptions as to future events that may not prove to be accurate. Actual outcomes and results may differ materially from what is expressed or forecast in these forward-looking statements. Risks, uncertainties and other factors that might cause such differences, some of which could be material, include, but are not limited to, the factors discussed below under the section entitled "Risk Factors." Our forward-looking statements speak only as of the date on which they are made, and we assume no obligation to update or revise any forward-looking statements. Readers are cautioned not to put undue reliance on forward-looking statements.

In this Annual Report on Form 10-K, references to "we," "our," us," "the Company" or "CIBER," refer to CIBER, Inc. and its subsidiaries. All references to years, unless otherwise noted, refer to our fiscal year, which ends on December 31.

Item 1. Business

Overview

CIBER is a leading provider of information technology ("IT"), business consulting and outsourcing services. We take a results driven approach to create high-value, long-term relationships with the clients we serve, including Global 2000 blue-chip companies, governmental agencies and educational institutions. We are recognized as a leader in solving complex IT and business issues across growing industries like energy and utilities, telecommunications, retail, healthcare, financial services, entertainment and manufacturing. In order to excel in this competitive industry and to develop deep domain expertise, 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. Our combination of local, on-site account management with a global delivery model allows us to serve clients in an intimate manner while still utilizing the power and cost efficiencies of global resources. Clients enjoy and benefit from CIBER's flexible approach, and take great comfort in knowing their needs will be met with CIBER's world-class delivery resources. CIBER is truly large enough to matter, yet small enough to care. For more than 35 years, CIBER has been helping clients achieve their results by understanding their goals, recommending the right solutions and delivering on our commitments.

IT Industry Background

We participate in a large and growing marketplace. The worldwide IT industry is expected to grow by 3.7% in 2012 with IT services specifically expected to grow by 3.1%. The economic climate in Europe is causing some downward pressure on IT spending. However, this creates an opportunity as clients turn more toward managed services and systems integrators like CIBER to help them implement enabling technology to increase their enterprise growth, attract and retain new customers and reduce their costs. Clients also seek advice on technology trends that help them cope with vastly increased volumes of information. This market for IT consulting and managed services is expected to reach nearly $1 trillion by 2015, larger than computing hardware, software or telecommunications equipment. (Gartner, IT Spending Worldwide, Jan. 3, 2012 Update)

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Services and Operations

We organize our operations by geography and the nature of services. In 2011, we operated in four reportable segments, which were our primary operating divisions. In January 2012, we entered into an agreement to sell substantially all of the assets of our Federal division, and the transaction was completed on March 9, 2012. The Federal division met the conditions to be reported as discontinued operations within the financial statements in December 2011, and accordingly, our financial position, results of operations and cash flows have been reclassified for all periods presented in this Annual Report on Form 10-K to conform to the current presentation. Additionally, discussions throughout this Annual Report on Form 10-K exclude the Federal division, unless otherwise noted. Excluding discontinued operations, our operating divisions for 2011 consisted of International, North America and IT Outsourcing. For 2012, we will be combining the operations of our IT Outsourcing division with our remaining two divisions.

For the year ended December 31, 2011, our percentage of total revenue by division was as follows:

	2011 Revenue %
International	48%
North America	42%
IT Outsourcing	10%

International

Our CIBER International division, headquartered in the Netherlands, delivers a mix of ERP and custom ADM solutions. CIBER International offers a range of services covering the full IT solution lifecycle to both commercial enterprises and public sector organizations. Key geographies for our International division include the Netherlands, the United Kingdom ("UK"), Germany and the Scandinavian region consisting of Norway, Sweden and Denmark.

The International division's enterprise solutions focus primarily on providing services related to ERP and CRM software products, as well as managed services. Our major partner relationships include SAP and Microsoft, with SAP-related solutions and services accounting for approximately 67% of the International division's total revenue in 2011. We have "Special Expertise" status in SAP Industry Solutions such as retail, automotive and chemicals, and we are a value-added reseller of SAP software in some international geographies. We also work closely with Microsoft to deliver ERP and CRM solutions in selected international geographies.

Additionally, our International division builds custom solutions based on leading technologies such as Microsoft and Oracle to develop web services applications, implement workflow solutions, integrate legacy systems as part of an extended enterprise and build sophisticated information infrastructures through the use of Business Intelligence technologies.

North America

Our North America division was formed at the beginning of 2011 through the combination of our former Custom Solutions division and substantially all of our former U.S. ERP division. Our North America division is organized by and operates in a matrix of geographies and practices. This structure allows us to maximize our expertise to cross-sell and to leverage delivery expertise across our new and existing client base of commercial companies, educational institutions and state and local governments.

Our North America division provides ADM services, IT Strategy and Architecture, Business Intelligence/Data Warehousing, Collaborative Solutions, CRM and Supply Chain. The division also offers consulting services to support multi-package ERP solutions from vendors including Oracle (including E-Business Suite, PeopleSoft and JD Edwards), SAP and Lawson, as well as several education management products. We possess deep industry knowledge and are highly focused on industry solutions for vertical markets such as telecommunications, healthcare, manufacturing, financial services, technology, state and local governments, higher education and entertainment. This division's ability to offer cost-effective solutions from leading software vendors and to deploy global resourcing, positions CIBER as a valued partner to our clients.

Additionally, we design and develop custom-tailored offerings to best suit our client's business needs. Our custom solutions provide a full range of application portfolio management support, including analysis, design, development, testing, implementation, outsourcing and maintenance of business applications. Our expertise spans service-oriented architectures, including J2EE and ..NET, as well as traditional client/server and mainframe development. We also offer portal development, wireless and mobility applications and content delivery.

The North America division is an Oracle Platinum Partner, which is the highest level of partnership in the Oracle Partner Network Specialized Program and a strategic partner to Oracle in several key industries such as the public sector, higher education and food and beverage. Our Oracle, PeopleSoft and JD Edwards solutions involve building, integrating and supporting mission critical systems for real-time enterprises.

In addition to being an SAP gold channel partner, our North America division also is an SAP-certified global provider of application management services. The division's comprehensive SAP solutions support their customers throughout the life cycle and include implementations and upgrades, extensions, integrations and customizations. The North America division has organized its SAP Practice to serve multiple vertical markets. In its SAP Commercial Practice, the North America division focuses on customers in retail, apparel and footwear, mining, metals, manufacturing, financial services and aerospace and defense industries. In its SAP Public Sector Practice, the North America division focuses on delivering solutions to state and local governments.

The North America division is a Certified Lawson Consulting Partner, providing full-scale business transformation projects in Lawson's target vertical markets through business process, change management and functional and technical services around Lawson technology. These target markets are healthcare, public sector, food and beverage and general manufacturing, for which we offer budgeting, financial processing and analysis, human capital management, sales order processing and manufacturing systems solutions.

IT Outsourcing

Our IT Outsourcing division is a global business with domestic headquarters in Edison, New Jersey, and international presence throughout Europe. The division offers outsourced enterprise infrastructure management solutions, including managed hosted infrastructure, end user service desk and desktop services, remote infrastructure management ("RIM") and application operations support. The IT Outsourcing division's data centers, service desk centers and global operations are located in the U.S., UK, Poland, India and Spain.

The division's Technology Solutions Group Practice focuses on providing customers with the best infrastructure products and architecture. Offerings include enterprise servers, storage, middleware, integration services, assessments and related products required to support critical business applications. Strategic relationships with IBM, NetApp, Dell, HP and other leading manufacturers allow us to architect and deploy the right solutions for our customers' environments.

Financial Information about Segments and Geographic Areas

Please refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 14 of the Notes to our Consolidated Financial Statements included under

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"Financial Statements and Supplementary Data" of this Annual Report on Form 10-K for a discussion of financial information by segment and geographic areas.

Clients

Our clients consist primarily of Global 2000 blue-chip companies across most major industries, as well as governmental agencies in the U.S. and abroad. These organizations typically have significant IT budgets and frequently depend on outside consultants to help achieve their business and IT objectives. In 2011, our approximate percentage of total revenue by client industry was:

Manufacturing/high tech	22%
Government	13%
Healthcare/pharmaceutical	11%
Energy & Utilities	10%
Financial	9%
Retail	9%
Telecommunications	7%
Automotive	6%
Education	2%
Services and other	11%

Note: Data presented in above table excludes revenue for our Federal division because it is reported as a discontinued operation in this Annual Report on Form 10-K; however, substantially all of the Federal division's revenue is funded by the U.S. federal government, including our contracts with several federal government prime contractors.

Certain clients account for a significant portion of our revenue. Our International division had one client that accounted for 9% of total division revenue in 2011. Additionally, North America had two clients that accounted for 9% and 8%, respectively, of total division revenue in 2011. No client accounted for more than 5% of our total revenue in 2011.

Client retention and turnover is highly dependent upon the type of solution we are providing. Many of our client relationships in which we are providing a custom solution have continued for many years. Each year as a result of our long-standing client relationships, most of our services revenue comes from our existing client base. Our IT Outsourcing division typically contracts with their clients for periods ranging from three to five years. With services related to package software solutions, which includes a portion of our North America division, as well as a large part of our International division, client engagements most typically involve a large enterprise software implementation over a period of six to eighteen months. Typically, once package software implementations are completed, future consulting services revenues from that client are minimal and, as a result, client turnover, with respect to these services, may be high.

Typically, both our commercial and government clients may cancel their contracts or reduce their use of our services on short notice. If any significant client terminates its relationship with us or substantially decreases its use of our services, it could have a material adverse affect on our financial condition and results of operations.

Competition

The IT services industry is extremely competitive and characterized by continuous changes in customer requirements and improvements in technologies. Our competition varies significantly from city to city, as well as by the type of service provided. Our principal competitors include Accenture plc, Cognizant Technology Solutions Corp, Infosys Technologies Limited, Perficient, Inc., Sapient Corp and

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The Hackett Group, Inc. We also compete with privately-held local and regional IT consulting firms, as well as the service divisions of various software developers. In addition, a client may choose to use its own resources rather than to engage an outside firm for the type of services that we provide.

Our industry is being impacted by the growing use of lower-cost offshore delivery capabilities. There can be no assurance that we will be able to continue to compete successfully with existing or future competitors, or that competition will not have a material adverse effect on our results of operations and financial condition. To improve our ability to compete we continue to move additional work to our lower-cost, offshore Global Solutions Centers and, specifically, to expand our presence in India and integrate India into our services delivery. We plan to continue to grow the scope of our operations in India and Poland over the next 12-18 months.

Our Competitive Strengths

We believe that our corporate strengths, identified below, position us to respond to the long-term trends, changing demands and competition within our principal markets.

Long-term Client Relationships We have been in business since 1974. We continually achieve high client satisfaction and have great success renewing client relationships. In fact, a prominent client from our first year in business, Ford Motor Company, remains one of our top five clients today in terms of annual revenue. This relationship exemplifies the kind of long-term commitment that we have toward our clients and speaks to the quality and breadth of the services that we provide.

Scale of Operations The competitive landscape for the delivery of IT services is highly fragmented. In almost every major market we compete with larger national and international publicly-held firms, as well as a host of smaller regional and local privately-held firms. For the past several years, large clients have attempted to consolidate the purchasing of IT services and work with fewer firms. Because of the relatively large scale of our operations, we have been able to remain a vendor to some of these large clients. Our successes have come at the expense of local and regional competitors that currently lack the scale to compete successfully for this work.

Balanced Business Model We have developed a business model that allows us to provide superior, leading-edge services that are routinely updated to meet the current needs of our clients. We have developed a reputation for thought leadership in selected industry verticals.

Valued Service Offerings We offer services to our clients in both the private and public sectors, including core competencies in ADM, ERP, CRM, Business Intelligence and Data Warehousing, Managed Services, Testing and Quality Assurance, Mobility Services and Digital Marketing, as well as managed hosting, call center support and the resale of certain hardware and software products. We believe that having these valued service offerings is often a competitive advantage, particularly when competing against smaller local and regional firms.

Software Delivery Methodology CIBER has developed a comprehensive delivery methodology that, when coupled with our project management methodology, enables us to deliver custom solutions effectively, in accordance with industry best practices. CIBER's Software Delivery Methodology ("CSDM") is a set of repeatable, measurable processes that guide software development and allow us to evaluate our performance and manage all facets of the software delivery process. CSDM leverages IT industry knowledge and practices to ensure that our projects meet client requirements and quality expectations. CSDM fits within CIBER's larger ISO 9001 quality framework of policies and procedures that direct our business processes from initial client contact through final product delivery. Adhering to these methods allows us to offer our clients high quality performance, high value and reduced risk.

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Employees

As of December 31, 2011, we had approximately 6,500 employees, including billable consultants and support staff. We routinely supplement our employee consulting staff with the use of subcontractors, which totaled approximately 900 at December 31, 2011, most of which are from other services firms. None of our employees are subject to a collective bargaining arrangement. We have employment agreements with our executive officers and certain other employees. We believe our relations with our employees are good. Excluded from the above employee totals are approximately 1,000 billable consultants and 75 support staff that are employed in our discontinued Federal division.

Seasonality

We experience a moderate amount of seasonality. Typically, our billable hours, which directly affect our revenue and profitability, decrease in the second half of the year, especially during the fourth quarter, due to the large number of holidays and vacation time taken by our billable consultants. As a result, our operating income as a percentage of total revenue is generally the lowest in the fourth quarter of each calendar year.

Available Information

Our website address is http://www.ciber.com. On the Investor Relations section of our website, we make available free of charge our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to those reports, as soon as reasonably practicable after such reports are electronically filed with or furnished to the Securities and Exchange Commission (the "SEC") pursuant to Section 13(a) or 15(d) of the Exchange Act.

Item 1A. Risk Factors

We operate in a dynamic and rapidly changing economic and technological environment that involves numerous risks and uncertainties, many of which are driven by factors that we cannot control or predict. The following section describes some, but not all, of the factors that could have a material adverse affect on our business, financial condition, results of operations and the market price of our common stock.

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

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) developing a world-class sales organization; and (iii) performing under heightened operational regimes.

To tighten focus on our market approach, in 2011, we re-aligned our sales and delivery functions with our global markets and refined our offerings into practices and verticals. This involved analyzing and better qualifying our customer base, as well as identifying those customers that represent greater opportunity for selling services of strategic value. If we failed to properly analyze and classify our customers or refine our offerings, we may not be focusing on the optimal customer group or service offerings to help us achieve our desired objectives and, as a consequence, our results may not meet the forecasted levels.

To improve our revenue and profitability, we transitioned to a collaborative sales force that is driven by global account management. In addition, we are continuing to improve the training of our sales force in consultative selling techniques. This transition and training requires the investment of both time and capital. If we are unable to effectively transition to a globally-integrated, effective sales force, we may be less effective in generating revenue and profit than our competitors.

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To improve our delivery execution, resource utilization, decision making process and cash collection cycle, we changed our internal operational regimes. As with any organization with over 7,400 employees and contractors, effecting significant changes in operational regimes and corporate culture can be challenging. If we are unable to instill the appropriate operational regimes and gain the anticipated improvements, we may not be able to increase our profitability, improve our cash flow and strengthen our balance sheet.

Implementing our strategic plan requires, among other things, expending capital, developing and adopting new technologies, recruiting talented employees and changing our corporate culture. If we are unable to successfully execute any or all of the initiatives of our strategic plan, our revenues, operating results and profitability may be adversely affected. Even if we successfully implement our strategic plan, we cannot guarantee that our revenues, operating results and profitability will improve.

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

Our results of operations are affected by the level of business activity of our clients, which in turn is affected by the regional and global economic conditions in which they operate. The uncertainty of global economic conditions has affected, and may continue to affect, demand for our services. These circumstances have caused some of our clients to delay, cancel or scale back their IT projects or IT spending, to seek lower pricing or extended payment terms, to delay payments due to us and, as occurred with several clients, to enter into bankruptcy or liquidation. Reduced demand for IT services has also resulted in reductions in the growth of new business and led to increased price competition for our services and increased the likelihood of entering into contracts that produce lower profit margins. In the event our clients continue to be negatively affected by economic conditions, our revenues, results of operations and financial condition may be materially adversely affected.

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

Our five largest clients accounted for approximately 16% of our total revenue in 2011, including one client that accounted for 9% of total International division revenue and two clients that accounted for 9% and 8%, respectively, of total North America division revenue. Our clients typically retain us on a non-exclusive, engagement-by-engagement basis. Most individual client assignments are from three to twelve months; however, many of our client relationships have continued for many years. Although they may be subject to penalty provisions, clients may generally cancel a contract with short notice. Under many contracts, clients may reduce or delay their use of our services without penalty. These terminations, reductions or delays could result from factors unrelated to our work product or the progress of the project, such as factors related to business or financial conditions of the client, changes in client strategies or the economy generally. When contracts are terminated, for whatever reason, we lose the associated revenues, and we may not be able to eliminate associated costs in a timely manner. There is a risk that we could experience significant contract terminations that adversely affect our revenue and profit margins.

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The IT services industry is highly competitive, and we may not be able to compete effectively.

We operate in a highly competitive industry that includes a large number of participants. We currently compete principally with other IT professional services firms and technology vendors, including a variety of large multinational providers and large off-shore service providers that offer some or all of the services that we offer, as well as many niche solution or service providers that compete with us in a specific geographic market, industry segment or service area. In addition, a client may choose to use its own resources rather than to engage an outside firm for the type of services that we provide. Many of the companies that provide services in our industry have significantly greater financial, technical and marketing resources than we do. Additionally, some of our competitors, particularly those located in regions with lower costs of doing business, may be able to provide services and solutions to clients at lower costs or on more attractive terms. Increased competition has, and may continue to, put downward pressure on the prices we can charge for our services. In particular, our ability to improve our profitability is related to our ability to move additional work to our lower-cost, offshore Global Solutions Centers and, specifically, to expand our presence in India and to integrate India into our services delivery.

Our marketplace is experiencing rapid changes in its competitive landscape. Some of our competitors have sought access to public and private capital and others have merged or consolidated. A possible consequence of the consolidation activity among hardware manufacturers, software developers and vendors and IT service providers may be greater convergence of products and services that were once offered separately by independent vendors. This possible integration of products and services could adversely affect our competitive position.

We may be unable to compete successfully with current or future competitors, and our revenue and profitability may be adversely affected.

Our current level of indebtedness places restrictions upon our business, and we face the risk of breaching the financial covenants in our Senior Credit Facility.

We have a senior credit agreement with several financial institutions as lenders and Bank of America, N.A. as administrative agent (the "Senior Credit Facility") that matures on January 1, 2013. We had borrowed a total of $66.2 million under the Senior Credit Facility at December 31, 2011. The Senior Credit Facility provides for a revolving line of credit of up to $85 million and a term loan with a balance of $25.0 million at December 31, 2011. Under the senior credit agreement, the entirety of the term loan balance was required to be repaid by the Company on January 31, 2012. As such, $25 million of our total obligation was classified as a current liability at December 31, 2011. The term loan was repaid on January 31, 2012, through the repatriation of some of our foreign cash. CIBER's remaining obligation under the Senior Credit Facility is classified as long-term debt on our Consolidated Balance Sheets. Based on the scheduled maturity date, and absent an amendment, all obligations under the Senior Credit Facility will need to be reclassified to short-term debt in our financial statements in our Quarterly Report on Form 10-Q for the period ended March 31, 2012. As a result, prior to the issuance of our financial statements for the period ending on March 31, 2012, we intend to either amend this facility to provide for an extension of the maturity date, or replace the facility with alternative bank financing or other equity or debt financing.

We are currently in the process of seeking credit financing to replace our Senior Credit Facility; however, we cannot predict at this time the costs of such credit or financing or that the terms of any new facility will not be materially less favorable to the Company. We are also contemplating other alternatives to pay down the facility such as possible asset sales, including the sale of our Federal division, which closed on March 9, 2012 and, as a result, the borrowings available to us under the revolving line of credit were reduced by $9 million. In addition, we could seek to raise additional funds through public or private debt or equity financings. There can be no assurances that we would be successful in achieving any or all of the above-mentioned financing alternatives, or that such alternatives would not be on terms materially less favorable to the Company.

CIBER's obligations under the Senior Credit Facility are secured by all of our present and future domestic tangible and intangible assets, as well as a pledge of 66% of the capital stock of our direct foreign subsidiaries. The terms of the Senior Credit Facility, as amended, include, among other provisions, specific limitations on the incurrence of additional indebtedness and liens, stock repurchases, investments, guarantees, mergers, dispositions and acquisitions, and a prohibition on the payment of any dividends. Additionally, the Senior Credit Facility also requires us to maintain certain financial covenants, including a maximum consolidated total leverage ratio, a minimum consolidated fixed charge coverage ratio, a minimum EBITDA and an asset coverage test. At June 30, 2011, and occasionally earlier, we have been out of compliance with our covenants under our bank borrowings that were either waived by our lenders or required amendment of the covenants. The failure to comply with any of these debt covenants in the future would cause a default under the Senior Credit Facility. A default, if not waived or cured by amendment, could cause our debt to become immediately due and payable and terminate our ability to draw upon our revolving line of credit. In such a situation, we may not be able to repay our debt or borrow sufficient funds to refinance it, and even if new financing is available, it may not contain terms acceptable to us. Additionally, if we needed to obtain a waiver under, or an amendment to, the Senior Credit Facility in the future, or if we seek other financing, if available, our cost of borrowing would be likely to significantly increase (including higher interest rates) and we could face more restrictive covenants. This could materially adversely affect our ability to stay in compliance with our debt covenants and our results of operations and financial condition. If we are unable to obtain a waiver or an amendment to the Senior Credit Facility in the event of a covenant default and we are otherwise unsuccessful in achieving other financing or repayment alternatives in order to repay the outstanding amount due immediately, the Company's ability to continue as a going concern may be materially adversely affected.

Given current global economic conditions, fluctuations in exchange rates against the U.S. dollar and other factors, there is an increased risk regarding our ability to maintain compliance with these debt covenants due to the impact that the global economy, exchange rates and other factors have on creating unexpected variances in our revenues, operating results and profitability, which may also cause increased volatility in our stock price.

In the past, we have been successful in generating sufficient cash flow from operations to reduce our indebtedness; however, that does not mean that we will be successful in doing so in the future. If we are unable to repay outstanding balances that exceed our maximum credit available as the aggregate commitments under the Senior Credit Facility are reduced, we will be in default unless we can obtain a waiver or amendment.

In light of the above, if we are unable to successfully refinance our indebtedness, complete the sale of other assets, reduce or delay capital investments or raise additional capital, we may continue having trouble meeting the financial covenants in our Senior Credit Facility and, as a result, we may decide to seek restructuring advice or protection from creditors under bankruptcy laws.

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

Although the percentage may vary from year to year, approximately 20-25% of our total services revenue in 2011 was from engagements performed in accordance with fixed-price contracts. When making a proposal or managing a fixed-price engagement, we rely on our estimates of costs and timing for delivering our services, which might be based on limited data and could be inaccurate. These estimates reflect our best judgment regarding the efficiencies of our methodologies and consultants as we plan to apply them to the engagement. If we do not accurately estimate our costs and timing for completion of projects, our contract could prove unprofitable or yield a profit margin that is lower than expected.

Some fixed-price engagements are long-term contracts of three to five years and estimating future year costs on such engagements is extremely difficult and subject to additional risks. Often our cost estimates and pricing from outsourcing projects anticipate long-term cost savings from transformational and other initiatives that we expect to benefit from over the term of the outsourcing contract. There is a risk that we will fail to accurately estimate the costs of performing our services, and that we will under price our contracts causing an adverse effect on our profits.

Losses, if any, on fixed-price contracts are recognized when the loss is determined. Any increased or unexpected costs or unanticipated delays in connection with the performance of fixed-price contracts, including delays caused by factors outside of our control, could make these contracts less profitable or unprofitable and may affect the amount of revenue reported in any period.

For example, in the second quarter of 2011, we made approximately $13.4 million in revenue adjustments in our North America division for significant changes in estimates related to costs or scope on five fixed-price projects.

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.

As a professional services firm, we depend largely on our relationships with our clients and our reputation for high-quality professional services and integrity to attract and retain clients. Additionally, many of our engagements involve projects that are critical to the operations of our clients' businesses and many involve the protection of confidential client information. If a client is not satisfied with the quality of work performed by us or a subcontractor, or with the type of services or solutions delivered, or if a data security breach occurs, we could incur additional costs to address the situation, the profitability of that work might be impaired, and the client's dissatisfaction with our services could damage our ability to obtain additional work from that client. Clients that are not satisfied may also seek to terminate our contracts. In addition, negative publicity related to our client relationships, regardless of its accuracy, may further damage our business by affecting our ability to compete for new contracts with current and prospective clients.

If we do not meet our contractual obligations to a client, we could be subject to legal liability. Our contracts typically include provisions to limit our exposure to legal claims relating to our services and the applications we develop; however, these provisions may not protect us, or may not be enforceable under some circumstances or under the laws of some jurisdictions. We may enter into non-standard agreements because we perceive an important economic opportunity or because our personnel did not adequately adhere to our guidelines. We may find ourselves committed to providing services that we are unable to deliver or whose delivery will cause us financial loss. If we cannot or do not fulfill our obligations, we could face legal liability. Although we maintain professional liability insurance, the policy limits may not be adequate to provide protection against all potential liabilities. In addition, if we were to fail to properly deliver on a project, we may not be able to collect any related accounts receivable or could even be required to refund amounts paid by the client.

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

Our success depends on our ability to develop and implement technology services and solutions that anticipate and keep pace with rapid and continuing changes in technology, industry standards and client preferences. We may not be successful in anticipating or responding to these developments on a timely basis, and our services and solutions may not be successful in the marketplace. In addition, services, solutions and technologies developed by current or future competitors may make our service

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or solution offerings uncompetitive or obsolete. Any one of these circumstances could adversely affect our ability to obtain and successfully complete client engagements.

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

We have continued to expand our international operations and estimate that our foreign offices currently represent approximately half of our total revenue. We operate in over 15 foreign countries. Due to our international operations, we are subject to a number of financial and operational risks that may adversely affect our revenue and profitability, including:

- the costs and difficulties related to managing geographically diverse operations;
- foreign currency exchange rate fluctuations (discussed in more detail below);
- differences in, and uncertainties arising from, changes in foreign business culture and practices;
- restrictions on the movement of cash and the repatriation of earnings;
- multiple and possibly overlapping or conflicting tax laws;
- the costs of complying with a wide variety of national and local laws;
- operating losses incurred in certain countries and the non-deductibility of those losses for tax purposes; and
- differences in, and uncertainties arising from, changes in legal, labor, political and economic conditions, as well as international trade regulations and restrictions, and tariffs.

The revenues and expenses of our international operations generally are denominated in local currencies. Accordingly, we are subject to exchange rate fluctuations between such local currencies and the U.S. dollar. These exchange rate fluctuations subject us to currency translation risk with respect to the reported results of our international operations. There can be no assurance that we will not experience fluctuations in financial results from our operations outside of the U.S., and there can be no assurance that we will be able, contractually or otherwise, to reduce the currency risks associated with our international operations. We manage our exposure to changes in foreign currency exchange rates through our normal operating and financing activities and, when deemed appropriate, with derivative financial instruments. There is no assurance that we will continue to use such financial instruments in the future or that any such use will be successful in managing or controlling foreign currency risks.

We have experienced and may continue to experience material impacts to revenues and earnings due to fluctuations in foreign currency rates, and in addition, these impacts may cause material fluctuations in our revenues and earnings from period to period. Significant strengthening or weakening of the U.S. dollar against currencies like the Great Britain Pound and the Euro may materially impact our revenue and profits. As we expand our presence in India, we will have increased exposure to fluctuations between the Indian Rupee and the U.S. dollar. In addition, we have transactions with clients, as well as inter-company transactions between our subsidiaries, that cross currencies and expose us to foreign currency gains and losses. These types of events are difficult to predict and may recur.

We intend to increase our presence in India, which may expose us to operational risks.

To enhance our global offshore delivery structure, we plan to continue to grow the scope of our operations in India over the next 12-18 months. As of December 31, 2011, we had approximately 1,300 employees in India. Concentrating our global offshore delivery structure in India presents a number of operational risks, many of which are beyond our control. India has experienced severe weather, political instability, worker strikes and terrorist attacks. These types of events may impair the ability of our people to safely travel to, and work in, our facilities in India. Our business continuity and disaster

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recovery plans may not be effective, particularly if catastrophic events occur. If any of these circumstances occurs, it may impact our ability to communicate with our personnel and clients in other locations. In addition, down-time in any processes operated for clients may adversely affect our operations and reputation.

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

Our quarterly revenues, operating results and profitability have varied significantly in the past, making them difficult to predict. This has led to volatility in the price of our stock. Our goal is to deliver more sustained, predictable performance in the future; however, there are factors that have caused and may continue to cause variations in our revenues, operating results and profitability, such as:

- the business decisions of our clients regarding the use of our services;
- the stage of completion of existing projects and/or their termination;
- client satisfaction with our services;
- our clients' financial ability to pay for our services;
- our ability to properly manage and execute client projects, especially those under fixed-price arrangements;
- our ability to properly price fixed-price contracts to provide for adequate profits;
- our ability to maintain our profit margins and manage costs, including those for personnel and support services;
- acquisition and integration costs related to possible acquisitions of other businesses;
- costs or charges associated with potential asset sales or dispositions;
- changes in, or the application of changes in, accounting principles or pronouncements under U.S. generally accepted accounting principles;
- changes in significant accounting estimates;
- changes in interest rates on our debts;
- currency exchange rate fluctuations;
- changes in estimates, accruals or payments of variable compensation to our employees; and
- global, regional and local economic and political conditions and related risks.

Our profit margin, and therefore our profitability, is a function of the rates we charge for our services and the utilization rate, or chargeability, of our consultants. Accordingly, if we are not able to maintain the rates we charge for our services or an appropriate utilization rate for our consultants, we will not be able to sustain our profit margin and our profitability will suffer. A number of factors affect the rates we charge for our services, including:

- our clients' perception of our ability to add value through our services;
- changes in our pricing policies or those of our competitors;
- the introduction of new products or services by us or our competitors;

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- the use of globally-sourced, lower-cost service delivery capabilities by our competitors and our clients; and
- economic conditions in the U.S. and abroad.

Additionally, a number of factors affect our utilization rates, such as:

- seasonality, including number of workdays, holidays and vacations;
- our ability to transition consultants quickly from completed projects to new engagements;
- our ability to forecast demand for our services and thereby maintain an appropriately balanced and sized workforce; and
- our ability to manage employee turnover.

As a services business, our largest expense is salaries and payroll-related expenses. However, it is our skilled employees that generate our revenues. Balancing our workforce levels against the demands for our services is extremely difficult in troubled economic times. Delays or cutbacks in projects or delays in finding new projects increase the non-productive time of our consultants which decrease our utilization levels and our margins. We generally cannot reduce our labor costs as quickly as negative changes in revenue can occur. In addition, in a number of the foreign countries in which we operate, the local labor regulations make it very expensive to involuntarily terminate employees. As a result, our foreign operations will often retain underutilized employees for longer periods than our domestic operations.

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

The protection of client, employee and company data is critical to the Company. We have ongoing processes to assess and mitigate risks including intrusion prevention systems and training tools to educate employees on information security and data privacy risks before deployment to client engagements. The regulatory environment surrounding information security and privacy is increasingly demanding, with the frequent imposition of new and constantly changing requirements. Our risk management techniques are continuing to evolve in response to these changing requirements. In addition, our clients have a high expectation that we will adequately protect their confidential information. Protection of client, employee and Company data, along with compliance in the constantly changing regulatory environment may add expenses to our business operations. We are required at times to manage, utilize and store sensitive or confidential client or employee data. As a result, we are subject to numerous U.S. and foreign jurisdiction laws and regulations designed to protect this information, such as the European Union Directive on Data Protection and various U.S. federal and state laws governing the protection of health or other individually identifiable information. If any person, including any of our employees, negligently disregards or intentionally breaches our established controls with respect to such data or otherwise mismanages or misappropriates that data, we could be subject to monetary damages, fines and/or criminal prosecution. Unauthorized disclosure of sensitive or confidential client or employee data, whether through systems failure, employee negligence, fraud or misappropriation, could damage our reputation and cause us to lose clients. Similarly, unauthorized access to or through our information systems or those we develop for our clients, whether by our employees or third parties, could result in system disruptions, negative publicity, legal liability, monetary damages and damage to our reputation.

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

Our business depends on our ability to successfully obtain payment from our clients for the amounts they owe us for work performed. We evaluate the financial condition of our clients and usually bill and collect on relatively short cycles. We maintain allowances against receivables, but actual losses

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on client balances could differ from those that we currently anticipate and as a result, we might need to adjust our allowances. There is no guarantee that we will accurately assess the creditworthiness of our clients. In addition, timely collection of client balances depends on our ability to complete our contractual commitments and bill and collect our contracted revenues. Recent global economic conditions and other factors resulted in financial difficulties for a number of our clients and, consequentially, we experienced a greater amount of bad debt expense.

If we are unable to meet our contractual requirements, we might experience delays in the collection of, and/or be unable to collect, our client balances and, if this occurs, our results of operations and cash flows could be adversely affected.

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

Our business involves the delivery of professional services and is highly labor intensive. Our future success depends upon our ability to continue to attract, train, effectively motivate and retain highly-skilled technical, managerial, sales and marketing personnel. Although we invest significant resources in recruiting and retaining employees, there is often considerable competition for certain personnel in the IT services industry and as a result, employee turnover is generally high. From time to time, we have trouble locating enough highly-qualified candidates that are in our desired geographic locations, with the required specific expertise or at the desired compensation levels. The inability to attract and retain qualified employees in sufficient numbers could have a serious negative effect on us, including our ability to obtain and successfully complete important client engagements and thus, maintain or increase our revenues. Such conditions could also force us to resort to the use of higher-priced subcontractors, which would adversely affect the profitability of the related engagement. Our ability to attract and retain qualified personnel in India will become increasingly important as we implement our plans to expand our Global Solutions Center in India and increase the number of employees working there.

In addition, we believe that there are certain key employees within the organization, primarily in the senior management team, who are important for us to meet our objectives. Due to the competitive employment nature of our industry, there is a risk that we will not be able to retain these key employees. The loss of one or more key employees could adversely affect our continued growth. In addition, uncertainty created by turnover of key employees could result in reduced confidence in our financial performance, which could cause fluctuations in the price of our securities and result in further turnover of our employees.

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

We have recorded a significant amount of goodwill on our consolidated balance sheet as a result of numerous acquisitions. At December 31, 2011, the carrying value of our goodwill was $275.5 million. The carrying value of goodwill represents the fair value of an acquired business in excess of identifiable assets and liabilities as of the acquisition date. We are required to test goodwill for impairment annually and do so during the second quarter of each year, as well as on an interim basis to the extent that factors or indicators become apparent that could reduce the fair value of any of our reporting units below its book value. These determinations are based in part on several factors, including our judgments regarding the cash flow potential of each of our business units and involve projections that are inherently subject to change based on future events. A significant downward revision in the fair value of one or more of our business units that causes the carrying value to exceed the fair value, as determined based on discounted future cash flows of the related business, will cause goodwill to be considered impaired, and would result in a non-cash impairment charge in our consolidated statement of operations.