Operator. Ladies and gentlemen, thank you for standing by and welcome to the CTG Fourth Quarter and Full Year 2015 Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. Instructions will be given at that time. (Operator instructions.) As a reminder, this call is being recorded. I would now like to turn the conference over to our host, Mr. Jim Culligan, Director of Investor Relations. Please go ahead.

Jim Culligan. Thank you, Martin, and good morning, everyone. We have CTG's Chief Executive Officer, Cliff Bleustein, and Brendan Harrington, Chief Financial Officer on the call today. Cliff will open the call with an overview of our business during the quarter and year, and Brendan will follow with a detailed review of our financial results. We will then open the call for questions. If you don't have a copy of the earnings results press release distributed early this morning, you can access it on the IR section of the company's website at ctg.com.

Before we begin, I want to mention that statements during the course of this conference call that state the company's or management's intentions, hopes, beliefs, expectations and predictions for the future are forward-looking statement. It's important to note that the company's actual results could differ materially from those projected. These forward-looking statements are based on information as of this date. The company assumes no obligation to update these statements based on information from and after the date of this conference call.

Additional information concerning factors that could cause actual results to differ from those in the forward-looking statements is contained in our earnings release, as well as in the company's SEC filings. You can find these in our website or the SEC's website at sec.gov. Please review our forward-looking statements in conjunction with these cautionary factors. I will now turn the call over to Cliff to begin the discussion.

Cliff Bleustein. Thank you Jim and good morning everyone. Today I will begin with a brief overview of our results in the quarter and year, followed by an update on the initiatives in both our staffing and solutions businesses to position CTG for long-term growth.

Fourth quarter revenue was $84.2 million, below our original guidance range of $87 to $89 million, due to sharper than expected headcount reduction at two key customers in our staffing business. Despite lower revenue, we were able to record EPS of 16 cents per share, exceeding our earnings guidance of 11 to 13 cents per share.

For the full year, revenue was $369.5 million, compared to $393.3 million in the prior year. The year-over-year decline reflects $13 million in negative currency impact and the anticipated run-off of legacy EMR contracts within our solutions IT business. Full year earnings were 41 cents per share, ultimately reflecting many of the headwinds that the global macro-environment had on our industry and customers.

Looking back on 2015, it was a year characterized by change and the beginning of a transition for CTG. Following my appointment as CEO in April 2015, the executive team and board initiated a comprehensive review of CTG and our underlying business lines. We also closely examined the ways in which our industry has evolved over time, in particular the early stages of integration between staffing and solutions services, the growing reliance on contingent workforces and the increasing role of managed service providers across multiple end markets.

As a result of this process, we determined that changes in our markets and business mix would not allow us to sustain the level of profitability we had recorded previously. However, there was an opportunity to regain those levels if we undertook investment in our future success. As such, the board and executive team launched a calculated repositioning of our business units to begin to refocus CTG on the most attractive market opportunities.

More specifically, we recognized the need to better align the company with emerging trends in the market, while still leveraging CTG's existing position as the most reliable provider of IT services. Although we are less than a year into the investment process and fully expect the transition to continue into 2016, we've already made great strides towards adapting our solutions and services offerings, expanding our sales teams, enhancing our marketing, and adding capabilities such as partnerships for off-shore services. We are also starting to win new business and re-grow our pipeline, which are the first steps toward achieving our long-term goals.

In addition to looking at market trends and our business units, we also examined our operating and capital structures and began implementing more efficient and cost effective way to run our business. Our finance team worked diligently to restructure our balance sheet, pay off higher interest borrowings against company owned life insurance policies, secure a committed $40 million credit facility at a lower cost, and end an early payment discount program on our receivables from a significant customer. These efforts delivered multiple immediate benefits. They yielded 4 cents per share in annualized savings that we will be able to reinvest in our growth efforts, including our sales team expansion and we now have a more efficient corporate cost structure, creating future leverage at the operating profit line once combined with sustainable revenue growth.

I do want to reiterate that improvements and repositioning are ongoing and it will take time to generate measurable results. Business to business sales, especially new accounts, require a well-known ramp up time. Most of the new sales force has been added over the last 3 months, and we do not expect results to be linear due to quarterly fluctuations in revenue often seen in solution sales.

The reality is that CTG is entering 2016 significantly better positioned and more streamlined, even if we are starting from a smaller revenue base due to the run-off of multiple large healthcare implementation contracts that have benefitted our results in prior years. I strongly believe we have identified a realistic and effective path for greater success and value creation as we work to win new contracts and accounts. These efforts will enable us to grow and diversify our revenue base with more sustainable and higher margin contracts.

Let me now provide an update on four key areas that make-up our larger strategic growth initiative to illustrate these efforts in more detail. I will begin with staffing, which currently accounts for approximately two-thirds of our revenue.

Market research indicates that contingent employment is expected to grow by at least 17% in the US over the next two years, with IT employment outpacing other non-farm employment categories. More specifically, our typical customers expect contingency based workers to become 20% of their workforces within the next decade, which compares to only about 15% of the workforce today.

These market dynamics are ideal for CTG, however we need to further diversify and expand our staffing client base to capture a larger share of these opportunities and also realize the benefits of greater scale. We are focused on adding both new customers as well as additional divisions at existing customers. We established a staffing vice president role in support of these efforts, have increased the number of people dedicated to sales, and also increased our recruiter headcount by more than 35% during 2015. We expect to further enhance our fulfillment and recruiting capabilities in 2016. Our staffing sales pipeline has since been steadily increasing, and we have begun winning new accounts including 7 new clients in the last quarter.

While new accounts often begin as smaller engagements, they represent meaningful growth opportunities over time as we demonstrate value to our customers. Account management has always been a strength of CTG. This is demonstrated a number of ways, such as greater than 90% of our revenue coming from repeat and existing clients, most of our key clients having tenure of more than 10 years, and top performance ratings in client driven annual reviews of vendors. Additionally, new accounts are also an opportunity to command higher margins than some of our larger legacy staffing engagements -- improving overall profitability as we diversify our customer base.

Simultaneously, we are working to equip our staffing business and personnel to pursue managed services and statement of work oriented contracts, which represent a fundamental change in our approach to securing new business and delivering added value to clients. This shift is not only better aligned with the way staffing engagements are going to be evaluated in the market, but also allows CTG to leverage existing managed service provider relationships and co-selling across our staffing and solutions teams to gain access to new clients through our best-in-class service and reliability. The approach also enables us to place increased emphasis on unlocking new and higher value RFP opportunities. We recently won a managed engagement with a public utility where we are performing software testing that was referred to the US by Europe, sold by staffing, and being delivered with assistance from Healthcare.

Lastly in our staffing business, we are exploring off-shore relationships to increase capacity, lower client cost and improve margin, while also considering complementary strategic opportunities that add unique services, geographies or capabilities to CTG's offerings.

Turning now to healthcare… The market for healthcare IT services is expected to outpace overall IT sector expansion, averaging growth of approximately 5% per year for the next several years. A recent HIMSS survey of healthcare organizations also indicated that 67% of respondents expect their employers to increase IT staffing and operating budgets. However, we believe this growth will occur against a backdrop of continuing consolidation across hospitals, provider groups and payers, which increases the prevalence of back-office integration, vendor management systems and managed service providers. The trend of the convergence of solution work within the context of a staffing environment with managed service providers and vendor management systems is where CTG's unique heritage of delivering both staffing and solutions serves us well.

We appointed Al Hamilton as our Vice President of Health Solutions and Life Sciences in late July to lead a revamping of our healthcare solutions practice, and he has been a critical part of our refocused strategic approach in this end market. This includes an expanded focus on EMR support and optimization, an increased emphasis on population health, partial IT outsourcing including application management and service desk, technical consulting and staff augmentation.

Our capabilities are better aligned to advisory, implementations, partial IT outsourcing, staff augmentation and technical consulting. Furthermore, our ability to offer a more complete solution adds tangible value and differentiates us significantly from traditional staffing and IT firms, and I believe we can benefit substantially as standard solution programs shift toward contracting within a staffing environment.

Additionally, we more than doubled our sales team in 2015 and are now seeing the pipeline begin to grow as our team sources a broader array of market opportunities. We believe that these opportunities will begin to reach decision stages at an increasing pace as we progress through 2016.

Turning to our diversified industrials group, which consists of offerings in energy, logistics, mining, telecommunications, and government IT services… We continue to see a growing pipeline of opportunities in spite of the decline in the energy sector. This growth is in large part due to our reputation of reliability and delivering consistent results across a number leading customers and the teams focus on delivering hard-to-find, high-value resources. We are committed to increasing our scale and scope in this market by replicating our successes across a larger customer base, in particular with new clients in the Pacific Northwest, Texas and Southeast. We added a new sales role late in the year and are already seeing positive traction from this addition. While this area has historically been a smaller revenue contributor for CTG, our excellent performance has created a strong platform that can be leveraged to build our presence in adjacent markets.

Moving to the fourth focus area in our strategic growth plan, I'd like to highlight our progress in Europe. First we are seeing the benefit of our decision to reallocate certain resources and invest in additional sales, recruiting and technical roles. Although currency was a headwind throughout 2015, we successfully generated solid organic growth year-over-year on a local currency basis.

Our European solutions span staffing, financial services, healthcare and life sciences, industrials, telecommunications and government customers, and we are now targeting a number of new opportunities in utilities, chemical, logistics, transportation and retail applications. Regional expansion with our diverse offerings of IT solutions, staffing and our multi-lingual delivery centers will remain a key strategic focus for us in 2016.

We are also actively seeking tuck in acquisitions in the US and Europe to complement our strategy and at the same time introduce us to new geographies and customers.

In conclusion, 2015 was a year in which we began a transition in the face of multiple headwinds. We formalized a strategy that establishes a clear path to growth, restructured our balance sheet, and began to reposition our business units and execute on our market initiatives in line with the new strategy. We are embracing the opportunity to start implementing a more effective operating structure, strengthen our sales team and optimize the balance sheet to support both organic and strategic growth. This growth will take additional time to cultivate, but we are better positioning CTG to extract the full potential from long-standing client relationships and ability to deliver a unique blend of integrated staffing and solutions services capabilities. As we look to 2016 and celebrate 50 years as the most reliable IT services provider, we will continue to strive to create even greater value for both our customers and shareholders.

With that, I will turn the call over to Brendan to discuss our financial results in more detail.

Brendan Harrington. Thank you Cliff, and good morning everyone.

As we indicated in this morning's news release, revenue in the fourth quarter was $84.2 million, compared with $93.1 million in the third quarter and $98.3 million in the fourth quarter last year. The decline in revenue primarily reflects reduction in staffing headcount on both a sequential and year-over-year basis. Negative currency translation reduced revenue in the fourth quarter by $2.3 million. We had 62 billing days in the 2015 fourth quarter versus 66 in the year-ago quarter.

Staffing revenue declined by $6.2 million, or 9.8%, year-over-year, primarily reflecting macroeconomic factors. Revenue from our solutions business declined by $7.8 million or 22.7%, primarily in our healthcare business due to the expected run-off of large EMR contracts and ongoing transition to population health focused services.

Revenue from IBM increased $3.7 million in the year over year quarter and was $24.8 million, or 29.4% of revenue, compared with $21.1 million or 21.5% of revenue in last year's fourth quarter. However, we did see lower demand from IBM in the fourth quarter 2015 compared with the trailing third quarter as revenue from IBM decreased by $1.5 million on a sequential quarter basis. Revenue from Lenovo was $8.5 million, or 10% of revenue, compared with $13.2 million or 13.5% of revenue in the year-ago quarter and $10.5 million in the trailing third quarter. The decrease in revenue from Lenovo was primarily due to lower demand in the manufacturing vertical.

Direct costs as a percentage of revenue were 80.1% in the fourth quarter, compared with 81.2% in the 2015 third quarter and 81.5% of revenue in the 2014 fourth quarter. The year-ago fourth quarter included a non-cash impairment charge totaling approximately $1.5 million to write off the net book value of the Company’s medical fraud, waste, and abuse software solution. The lower direct costs in the fourth quarter of 2015 were primarily related to reductions in claims from our self-insured medical plan. Overall medical claims decreased by $1.4 million in the 2015 fourth quarter compared with last year’s fourth quarter, and by $600,000 compared with the third quarter of 2015.

SG&A expenses were 15.5% of revenue in the fourth quarter, compared with 15.0% of revenue in the third quarter and 16.8% of revenue in the year-ago quarter. SG&A expenses in fourth quarter 2014 included costs of $2.0 million associated with the death of the Company’s previous CEO. The effective tax rate for the fourth quarter was 33.0%, which benefitted from the legislative extension of federal research and development and work opportunity tax credits of approximately $0.02 per share compared with 41.5% in the third quarter and 23.8% in last year's fourth quarter.

Net income in the 2015 fourth quarter was $2.6 million, or 16 cents per diluted share, compared with $2.1 million, or 13 cents per diluted share last quarter, and compared with $1.2 million, or 8 cents per diluted share in the year-ago quarter, which included charges of 13 cents per share as previously described.

The 2015 fourth quarter results include equity-based compensation expense of approximately $0.02 per diluted share, net of tax. The 2015 fourth quarter results also include a gain of $0.02 per diluted share related to a death benefit from a former executive for which the company had an insurance policy.

On a full-year basis, 2015 revenue was $369.5 million, compared to $393.3 million in 2014. Revenue in 2015 was impacted by $13.0 million related to negative currency translation. Direct costs for 2015 were $302.3 million, or 81.8% of revenue, compared with $313.9 million, or 79.8% of revenue in 2014. SG&A expense was $56.5 million, or 15.3% of revenue, down from $62.2 million, or 15.8% of revenue, in the prior year, which included costs of $2.0 million associated with the death of the Company's former CEO. Net income for 2015 was $6.5 million, or $0.41 per diluted share, compared with net income of $10.4 million, or $0.64 per diluted share, in 2014.

Our headcount at the end of the 2015 fourth quarter was 3,600, compared with 3,700 at the end of the prior quarter and 3,800 at the end of the fourth quarter 2014. The decrease in headcount from the prior quarter again relates to macroeconomic pressures primarily affecting two large staffing customers. Approximately 91% of our fourth quarter employees were billable resources.

Cash at year end was $10.8 million, and long-term debt was $1.2 million. We paid off $23 million in higher cost loans against the company owned life insurance policies during 2015, and now have a $40 million lending facility in place offering lower cost financing options for both operating and strategic purposes. The cash surrender value of the life insurance policies at year end 2015 was $29.8 million. We also terminated an early payment program with a large customer, causing our accounts receivable working capital to increase compared to prior periods.

The net savings on an annualized basis from our balance sheet restructuring equates to approximately $0.04 per diluted share. As Cliff previously mentioned, we are using the savings generated from these changes to fund additional business development and recruiting investment to support growth in both our staffing and solutions businesses.

Tangible net book value per share at December 31, 2015 was $4.24 based on our total outstanding share count of 19 million shares. The share count includes 3.3 million shares owned by CTG's Stock Employee Compensation Trust. In July 2015, we put our corporate headquarters building in Buffalo, NY up for sale at an asking price of $3.95 million.

Turning to our guidance, we anticipate total revenue for the 2016 first quarter to range between $86 and $88 million. Net income is expected to be between $0.03 and $0.05 per diluted share. There are 65 billing days in the first quarter 2016 compared to 66 billing days in the prior year first quarter. For the full year 2016, CTG expects revenue to range between $340 and $360 million. Net income is expected to be between $0.15 and $0.25 per diluted share. The lower year-over-year EPS outlook is primarily due to a mix shift to lower margin staffing revenue along with the investments we are making in business development and recruiting resources. In line with these investments, we expect the year to be back-end loaded, and generate incrementally higher earnings as we begin to see the benefit of our revised strategy.

With that, we'd like to open the call for questions. Operator, can you please manage our question-and-answer session?

Operator. We do have a question from the line of Kevin Liu.at B. Riley & Company.

Kevin Liu. Starting on the staffing side of things, maybe with your two large customers, do you feel like the business is starting to stabilize off of Q4 levels or have there been discussions around further potential headcount reductions as you make your way through the early part of this year?

Brendan Harrington. You know, we have seen some recent changes in the headcount as we went through the fourth quarter, and we have seen a little bit more of a reduction in the early part of 2016, but at this point we feel like the two customers have somewhat stabilized and believe that at this point we see some stabilization in the revenue base there.

Kevin Liu. And you guys have talked about seeing some of the pipeline metrics start to improve. Is there anything you can share in terms of percentage growth; how that shapes up between staffing versus solutions or anything else you can point to that would give confidence in kind of renewed growth perhaps towards the end of the year?

Cliff Bleustein. When you look at the execution on our sales, the vast majority of our salespeople have joined us within the last three months. We are seeing tremendous activity in terms of new client meetings, new client conversations and early stages of opportunities materializing. We typically don't track our pipeline until it reaches a stage where we have a known customer with a known opportunity that has been positively confirmed by the business unit owner that's the purchaser. So those numbers, we actually don't report, but we are clearly seeing the total pipeline, which includes early stage opportunities, increasing.

Kevin Liu. Just one last one for me. As you guys look to reinvest back in the business and drive some growth here, obviously earnings are going to be negatively impacted this year. Are there any plans to revisit the dividend or is that something you'd like to ensure remains in place? Just give shareholders a degree of comfort that growth initiatives will pay off and that you can get back to those historically higher levels of earnings.

Brendan Harrington. In our most recent earnings release today, we did announce that we are paying a dividend in Q1. We obviously re-evaluate the dividend payments with the board at every quarterly meeting, and that hasn't changed. But we are confident that we can cover the cost of the dividend during this quarter and are going to continue evaluate it on a go-forward basis.

Operator. We have a question from line of Gregory Macosko with Montrose Advisors.

Gregory Macosko. Could we go in a little bit more into the area of the new customers? How many new customers have you signed up in the last quarter and has there been any turnover there?

Brendan Harrington. Within our staffing business we added seven new customers. We have very little turnover in the vast majority of our customers as evidenced by the fact that over 90% of our revenue within the staffing business is essentially repeat and recurring business at current clients. So, the stability there—due to very, very good account management—has been with our company for a very long time. On the solution side, by the very nature of solution selling business there is always a programmed amount of turnover that you're going to have as certain major projects expire.

So, we do see turnover on the solution side, but it's more expected by the nature of that type of business. Regarding our sales team, which we've more than doubled on the healthcare side alone and added incremental salespeople within Europe and diversified industrials and converted some salespeople into the staffing business, all of those individuals are focusing principally on gaining new clients and new logos, and their compensation plans this year were changed to incentivize them to go do that.

Gregory Macosko. Good color, yes. With regard to the sales team, is it at the level you expect it to be at this point, and how much turnover have you had there? I mean, you've hired a lot; has there been much turnover?

Cliff Bleustein. So, within healthcare, we've over doubled the healthcare sales team. We have what we believe to be the right number of salespeople to cover the opportunities that we're seeing within the marketplace and cover the geographies as appropriate. We've also initiated a Director of Alliances position to help us manage the partnerships and get flow-through revenue associated with that. I think as we've discussed before, with any new salespeople, or salespeople in general, you typically expect at least half of them to be successful at hitting their targets.

The other half will have a little bit slower ramp-up or ultimately may need to be turned over. But I think that that's the normal sales process of salespeople in general. I think the salespeople we've hired have all been very experienced and successful individuals from other companies, and we expect them to ramp up appropriately. Obviously, for all of our salespeople, we monitor their pipeline on a weekly basis and help them work through the sales cycle to be successful.

Gregory Macosko. Good, and then one last question regarding acquisitions. Have you spoken with people out there? Are you actively looking into the possibility of combining with another company? And is the objective, you mentioned customers and geographies, is that the primary area or it is diversification within industries? Give us some color on what you're looking for and how active you are there.

Cliff Bleustein. We are actively looking. We are looking for smaller tuck-in acquisitions that either bring to us a diversified customer base, a skill set that helps complement what we are currently offering or a newer region or geographic area. We always have needs to complement the overall strategic focus, and that's really what we're looking for.

Operator. We have a question from the line of Bill Sutherland with Emerging Growth Equities.

Bill Sutherland. Good morning, guys. I wanted to understand a little bit more about where we are with the revenue runoff in healthcare and then also, a little more detail perhaps on how you're seeing the uptick, likely, the timing of new business, population health, and otherwise. Thanks.

Cliff Bleustein. As we said before about the ramp up of the new sales team, it typically takes about six months for sales people to start improving their pipeline. You start seeing smaller sales at around 9 months and then closing deals by 12 months. So, we expect the increase in the sales within healthcare to start occurring in the second half of this year. As those sales start kicking in, we'll see growth on a quarter-by-quarter basis occurring within that business unit.

Bill Sutherland. And where you are with the runoff and EMR, and I guess mostly in that part of the business?

Brendan Harrington. EMR continues to decline on a year-over-year basis, Bill. The revenue was down about $1.7 million or 25%. We still have a number of projects that are ongoing, roughly seven projects that are ongoing, but those have a natural tendency to run off. When we look at total health solutions business, in the fourth quarter it was down about 25%, and in our projection for 2016, it's projected to be down roughly another 21%. And again, that has to do with the runoff primarily of the EMR business and those projects are larger than the projects that are tending to start up, especially in

Operator. There are no further questions in queue at this time.

Cliff Bleustein. Thank you, everyone, for joining us. We remain focused on executing our plans to enhance our existing growth opportunities and to create new opportunities aligned with the strengths cultivated over CTG's 50-year history. We appreciate your time today and look forward to continuing to report our progress in the upcoming quarters.