Operator: Ladies and gentlemen, welcome to today's CTG Fourth Quarter 2017 Earnings Conference Call. Please note that all lines will be muted until the Q&A portion of the call. At that time, if you have a question, you can press pound two on your telephone keypad. With that, I'll turn the call over to Jim Culligan, Director of Investor Relations. Jim, please go ahead.

Jim Culligan: Thank you, Jordan, and good morning everyone. With me on today's call are Bud Crumlish, CTG's President and Chief Executive Officer and John Laubacker, Senior Vice President and Chief Financial Officer. Before we begin, I want to mention that statements during the course of this conference call that states the Company's or management's intentions, hopes, beliefs, expectations, and predictions for the future, are forward-looking statements. 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 today, Tuesday, February 20th, 2018. 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 made in forward-looking statements is contained in our earnings release, as well as the Company's filings with the SEC.

Also, the company's press release and management's statement during this conference call will include discussions of certain adjusted non-GAAP measures and financial information. These financial measures and a reconciliation of GAAP to non-GAAP results are provided in both today's press release and the related Form 8-K. It's now my pleasure to turn the call over to Bud for his opening remarks.

Bud Crumlish. Thanks, Jim, and good morning to everyone on the call. There are a number of exciting developments to cover on today's call, but before addressing all of the significant news announced last week, I want to begin with a brief overview of our fourth quarter financial results.

Revenue for the quarter was $74.6 million, which was above the midpoint of our guidance of $72 to $75 million. Our operating results were strong in the quarter as well, with operating margin and earnings per share both at or above the mid-point of guidance.

As we have seen for the past couple of years, our European business performed exceptionally well on both a sequential and year-on-year basis, even after adjusting for favorable currency translation.

Revenue, excluding our three largest Staffing accounts, increased more than 11% year-over-year, reflecting our continued success in securing and growing incremental new business. This helped to somewhat offset the softer demand from these clients.

Before I go into the specifics of the quarter in greater detail, I'd like to take a step back and highlight several meaningful actions CTG has taken over the last 15 months toward the achievement of our strategic initiatives and shareholder value creation. While 2017 was challenging, the significant actions we undertook to realign our business and build the right foundation for successful achievement of our three-year plan leave us confident in our ability to achieve the goals we set for year-end 2019. I'm going to talk about each of the areas in which we made progress, and then I'll discuss the acquisition from last week, and finally the quarter specifically.

With an objective toward advancing operational excellence we added several high-profile executives in newly created sales leadership roles. We are transforming our approach to marketing and development and are already seeing it pay off with new customer wins. The new hires included Jeff Gerkin as executive vice president of sales for North America, in December; Rob Barras as vice president of sales for CTG's North America healthcare business, in October; and Susan Tidswell as a vice president of sales to lead the North American strategic staffing business, this month. We are very pleased and excited to have them aboard.

We also expanded the selling and delivery of existing solutions across all lines of our business. The ONE CTG program, launched in January of 2017, establishes a company-wide framework that encourages pervasive collaboration across the organization, including the cross-selling of staffing and solutions offerings to both new and existing clients. Last May, we introduced Application Advantage, which is a hybrid offering, combining several existing services into a single comprehensive solution designed to maximize the value, efficiency, and cost-effectiveness of application services. We have already secured more than 10 engagements for application management-related services across multiple end markets.

We made efforts to strengthen our financial approach by maintaining disciplined cost management and limiting or reducing fixed costs. Some of our accomplishments have included optimizing certain underutilized resources in selective areas, making our CFO and treasurer a single role, and consolidating all Buffalo-based employees into one building. We will continue to make this a priority and are looking at ways to further streamline our costs ultimately improving our profitability.

We've been very focused on diversifying and driving revenue growth and improving our contract mix by pursuing higher margin opportunities and increasing our market share penetration in areas where we already have a strong foothold.

We are already seeing the results with our newly strengthened sales team we're excited about converting our robust pipeline of opportunities into engagements. These include an electronic health record implementation with a major North American hospital system with multi-state operations; a two-year project optimizing a patient portal for a large university medical center; a multi-year engagement supporting documentation and regulatory compliance with a refinery for one of the world's largest energy companies, and a contract with a large public university system which is a new end market for the Company.

But revenue driven from new clients isn't the whole story. We also expanded relationships with current clients to maximize organic opportunities. We were selected by our largest client as a preferred provider for a new division; which is incremental business. This is in addition to the two-year contract extension with this client for technical services that I discussed last quarter. We currently expect to begin servicing this new contract in the first half of 2018, followed by a more meaningfully ramp during the balance of the year. For another large client, we now are supporting them in a new country; again, incremental business.

Our work over the last 15 months also included reviewing and Improving our corporate governance. We refreshed two-thirds of our Board of Directors, adding four of the six current directors since November 2015. We added a director in 2017 with significant IT services experience and is a seasoned industry executive with over 30 years of experience in staffing solutions. The insight and guidance provided by all of our directors of our board has been invaluable.

Additionally, we made two significant changes to further align the interest of both executive management, and our board, with CTG shareholders. In May, we implemented an innovative equity-based compensation program for management with aggressive vesting hurdles. Then in August, the board adopted a new director compensation program consisting of payment exclusively in CTG shares.

Finally, we continued to take a diligent, shareholder value enhancing approach to capital management Execution. We maintained an active stock buy-back program throughout 2017 with the board increasing its prior repurchase authorization by an additional $10 million in October. In total, we repurchased 1,169,000 shares for $6.1 million in 2017, including 252,000 shares for $1.3 million during the fourth quarter. We've returned $7.3 million, or 9% of outstanding shares, since the start of this program in November 2016.

Most recently, we announced a planned cash tender offer for up to 10% of CTG's common outstanding shares. Upon successful closing of the tender offer, we will have purchased approximately 19% of our total outstanding shares over a 17 month period. And, as you saw last week, we announced our highly synergistic and immediately accretive acquisition that I'll speak to in a moment.

Any number of the items that I just outlined would represent meaningful actions in support of our strategic objectives, but collectively I believe they demonstrate management's dedication and the Board's commitment to CTG's future growth and building tangible shareholder value.

Now, turning to the big news we announced late last week – The acquisition of Soft Company is a significant milestone in our growth strategy. It expands our portfolio of services and extends our reach in Europe. Importantly, the acquisition is immediately accretive to both CTG's operating margin and earnings per share [excluding customary acquisition-related expenses]. At the highest level, the acquisition represents a transaction that brings together two exceptional companies with outstanding reputations and a shared culture of consistently addressing clients' business and technology challenges.

As I said at the start of the call, we had solid results in Europe in 2017 – it has been one of the best performing areas of CTG's business over the last year. Consistent with our growth strategy, this transaction provides an exceptional opportunity to further enhance growth by capturing meaningful share in a very attractive adjacent market. More specifically, the acquisition broadens CTG's strong existing market positions in Belgium and Luxemburg with an established market presence in France, which has a growing and accelerating $40 billion IT services market. Soft Company has long term clients with a strong footprint in the financial sector and the services they provide are positioned high on the value chain; which drives solution engagements. Soft Company adds more than 200 consultants to CTG focused on providing specialized business consulting services, PMO offerings, business intelligence and data analytics offerings, as well as mobile application development.

The addition of Soft Company's team and capability to CTG's established operating platform in Europe is also highly synergistic – It provides CTG Europe the ability to leverage increased scale and complementary offerings as part of cross-selling and serving a shared portfolio of prominent European clients. Today, CTG and Soft Company serve a number of common clients within our respective geographies, however each company is currently providing many of these clients with different services. This acquisition significantly increases the opportunity for CTG to deliver a larger number of solutions and increased value to its clients.

The all-cash transaction is estimated to be $16.5 million for Soft Company's approximately $30 million in annualized revenue and approximately $3.5 million of cash equivalents as of December 31, 2017. This equates to a purchase multiple of approximately 0.6 times trailing revenue, which we believe is strongly aligned with our commitment to prudent capital allocation and prioritizing shareholder value.

Now, I will go back to the fourth quarter and provide comments on the addition of Jeff Gerkin as our North American Executive VP of Sales, along with our three focus areas of healthcare, diversified industrials and Europe.

Prior to joining CTG, Jeff has held several executive level positions at Manpower serving as the Senior Vice President, North American Sales, Senior Vice President and General Manager for Right Management; Vice President of Metro Marketing and Director of Marketing. In addition, he served as Client Sales Director for Accenture Information Management Services. Adding a seasoned business development executive was an important part of the Company's plan to accelerate revenue growth to reach the goals outlined in our three-year strategic plan.

Moving on to healthcare – As part of our ongoing commitment to renew growth in this area we've taken a number of decisive actions over the last year to reposition our offerings and strategy, including the previously mentioned appointment of Rob Barras. In addition to identifying and realigning new strategic offerings aligning with market trends, we are continuing to invest in our sales organization to leverage our strong delivery capability that we already have in place today.

Although still in the early stages, we are increasingly seeing evidence of renewed traction in healthcare. During the quarter, we expanded or extended contracts with several existing clients for our application management and service desk solutions, EMR optimization, and implementations.

In our diversified industrials business, we provide strategic consulting solutions delivered by a highly-skilled group of solution architects and software engineers primarily for the oil and gas industry; in addition, we have extensive expertise in warehouse logistics for the food and beverage, and automotive industries. We are expanding industry geographic reach, as evidenced by our recent win I previously mentioned and I am confident that this organization will continue to grow by leveraging a combination of technology in conjunction with deep industry expertise and supplemented by teaming agreements with partners for enterprise information management, 3D virtualization of facilities and Business Process Management.

Europe has been a key highlight during both the quarter and over the past year. After adjusting for the favorable impact from currency, Europe grew 12% sequentially and 19% year-over-year in the fourth quarter to over $23 million. For the full year, revenue from our business in Europe was approximately $81 million, representing 27% of total revenue and growing 13% over 2016. Billable headcount remained strong during the quarter in response to healthy demand from the financial services sector.

We continue to build on our market leading positions in both Belgium and Luxemburg, as well as an emerging presence in the U.K. During the quarter, we secured a series of new client wins and our pipeline of new business expanded in terms of both the number of new opportunities and aggregate dollar value. More specifically, in Belgium we are seeing increased demand for our testing, validation and General Data Protection Regulation offerings. In Luxemburg, we successfully contracted a multi-year agreement for our Application Advantage solution with a prominent global insurance company.

Our team's ability to execute on the strategic objective of capturing incremental market share in Europe has achieved impressive results as well as growing momentum over the last year. The acquisition of Soft Company immediately positions CTG to further leverage our platform and success in Europe by accelerating entry into an attractive and growing adjacent market.

I'll now turn the call over to John for a more detailed review of our financial results and guidance.

John Laubacker.: Thank you, Bud. Good morning, everyone. We appreciate you joining us on today's conference call.

As we indicated in this morning's news release, consolidated revenue in the fourth quarter was $74.6 million, compared with $74.0 million in the third quarter of 2017 and $77.5 million in the fourth quarter of 2016. Fourth quarter 2017 revenue included a $1.9 million benefit from currency translation. Billing days in the fourth quarter were 63, the same number as in both the prior and the year ago quarters.

Staffing revenue in the fourth quarter was $51.1 million, representing a decline of 2.0% sequentially and 6.9% year-over-year, primarily due to the weaker demand from a few large staffing accounts. Revenue from our solutions business in the fourth quarter increased 7.4% sequentially and 4.1% compared to the year ago quarter. Excluding our three largest clients, total revenue in the fourth quarter increased 5.6% from the third quarter of 2017 and 11.3% from the fourth quarter of 2016.

Revenue from IBM in the fourth quarter was $18.5 million, or 24.8% of total revenue, compared with $18.6 million, or 25.1% in the third quarter of 2017, and $23.0 million, or 29.7% of total revenue in last year's fourth quarter. Revenue from Lenovo in the fourth quarter was $7.0 million, or 9.4% of total revenue, compared with $8.4 million, or 11.3% in the third quarter of 2017, and $9.3 million, or 12.1% of total revenue in the fourth quarter of 2016.

Direct costs, as a percentage of revenue, were 79.7% in the fourth quarter compared with 82.4% in the third quarter of 2017, and 80.8% of revenue in the year-ago quarter. Direct costs in the third quarter were higher due to a significant and unexpected increase in medical costs associated with the Company's self-insured plan. As indicated on our last call, we believe these medical costs will remain closer to historical averages going forward.

GAAP net loss in the fourth quarter of 2017 was $419,000, or $0.03 per share, which includes an 11 cent per share, non-cash charge related to the write-down of deferred tax assets to reflect the future federal tax rate under the recently enacted US tax law, and a 2 cent per share non-taxable gain from the proceeds from a life insurance policy on a former CTG executive. Non-GAAP net income, excluding these items, was $0.06 per diluted share, compared with non-GAAP net income in the third quarter of 2017 of $0.7 million, or $0.05 per diluted share. GAAP net income in the fourth quarter of 2016 was $1.1 million, or $0.07 per diluted share.

CTG's headcount at the end of the fourth quarter was approximately 3,200, compared with 3,250 at the end of the third quarter of 2017 and 3,450 at the end of the fourth quarter of 2016. Approximately 90% of our fourth quarter 2017 employees were billable resources, consistent with previous levels.

Turning to our balance sheet, cash and short-term investments at the end of the fourth quarter were $11.2 million and we had $4.4 million of outstanding long-term debt at quarter-end. In December 2017, we entered into a new three-year revolving credit agreement for $45 million, replacing an existing $40 million revolver and providing improved capital flexibility.

Late last year, we consolidated our Buffalo-based employees into our headquarters building and in February we closed on a $1.8 million sale of the vacated building. We expect to record a gain of less than $100,000 from the sale in the first quarter of 2018. In addition, we estimate that our consolidation into a single building could reduce our annual operating expenses by approximately $0.02 per share.

CTG's tangible book value at the end of the fourth quarter was $5.15 per share.

During the fourth quarter of 2017, the company repurchased 252,000 shares at an average price of $5.15 per share, for a total cost of approximately $1.3 million. As of yesterday, we had approximately $12.5 million available under the expanded repurchase authorization.

Separately, last week we announced a planned cash tender offer to purchase up to 10% of CTG's outstanding shares. We expect to initiate the tender offer in the near future, and it will remain open for at least 20 business days. Additional details on the cash tender offer can be found in the press release issued last week. Upon the successful closing of the tender offer, the company will have purchased approximately 19 % of the total outstanding shares over the last 17 months.

Turning to our guidance, we anticipate total revenue in the first quarter of 2018, which will include approximately one-half of a quarter of contribution from Soft Company, to be in the range between $77 million and $82 million. In addition, we expect first quarter GAAP net income to be in the range between $0.02 and $0.04 per diluted share, and non-GAAP net income to be in the range between $0.05 and $0.07 per diluted share. There are 64 billing days in the first quarter of 2018, the same number as in the first quarter of 2017.

With respect to tax rate, beginning in the first quarter and throughout 2018, we anticipate an effective tax rate of approximately 28%.

For the full year 2018, we anticipate revenue to be in the range between $340 million and $360 million. Full year GAAP net income is expected to be between $0.25 and $0.37 per diluted share, and non-GAAP net income to be in the range between $0.30 and $0.42 per diluted share.

With that, we'll now open the call for questions. Jordan, can you please manage our question-and-answer session. Thank you.

Operator. It looks like we have two questions on the line at the moment. We'll go to our first caller. Your line is unmuted. Please go ahead.

Kevin Liu. Hi. Good morning. It's Kevin Liu with B. Riley FBR. Congrats on a very strong quarter and outlook. First question I have here was just regarding the Soft Company acquisition. What did you assume within your first quarter and full year revenue guidance? And then can you give us some context around what sort of growth and operating margins they've generated historically?

John Laubacker.: Good morning as well. We're not going to release operating margins for Soft Company as we haven't for any of our significant locations consistent with what we've done in the past. Part of what attracted us to see is the fact that they have a growing organization with a $30 million run rate in US revenue which is growing, which is more focused on solutions than staffing. We'd say it's a great opportunity to add a quality business into the CTG group of companies and grow our solution business in Europe.

Kevin Liu.: With respect to the healthcare practice, you guys referenced that you felt like there was a little bit of traction seen in the fourth quarter. Can you talk about what the pipeline of opportunity there looks like and the scope of work you anticipate going forward and what level of growth that you might anticipate in ’18.

Bud Crumlish. Kevin, this is Bud. Good morning. As John discussed, we’ve got a really positive outlook for healthcare. We talked over the last year and a half or that the implementation business has been declining but we’re successful in moving that forward and as well as it’s going back in and optimizing some things. And so, we have a significant pipeline in healthcare. We’re adding more of our client partners, which are our business development executives. And I think that with the appointment of Jeff Gerkin is going to help support all that. We’re really excited about it. And as I mentioned also, the ten application advantage engagements that we’ve sold since May and there’s a lot more out there that we’re looking at as well. So, it’s hard to say exactly in terms of percentage approach, but it’s definitely picking up

Kevin Liu. And then just lastly for me, can you talk a little bit about what you expected that balance and interest expense to be following the acquisition as well after the tender offer and what sort of assumptions have you made around the tender offer within the new fiscal ’18 guidance.

John Laubacker. We, at this point in time, because we’re not sure of how many shares will be tendered within the tender offer we have not factored in a reduction in shares in the EPS calculation going forward. Also, as part of that equation, we would expect an increase in interest expenses as you just indicated that would probably offset any real benefits that we would get from reduction and shares. It’s not one-for-one but you can expect for increase in interest that’s going to offset somewhat by the reduction and shares, or more so by the reduction in shares.

Operator. We currently have one more question on the phone line at this time. And we’ll go to that caller now. Your line is unmuted. Please go ahead.

Vince Colicchio. Bud, it’s Vince Colicchio of Barrington. A couple of questions. Can you give us some help in terms of understanding the growth rate of the pipeline for staffing and solutions, respectively, including both North American and Europe.

Bud Crumlish.: Specifically, if you take a look at this, for the industry average you’re talking between 4% and 8% and really we’re about doing much better than that. We’re about taking market share from our competitors. And that’s why we’re really investing in it and we’re putting the caliber of the people in place. So we certainly expect the staffing business in Europe to grow better than that and they have. And certainly, we expect them to grow. But in Europe, it has been staffing. We’ve got it held back by our three largest clients, although the rest of our business staffing has grown 11%. So that’s what we’re looking for in the future.

John Laubacker. This is John. You may have seen our… or you may have heard from my script that we talked about solutions increase. We did see the increase in solutions over the third quarter and year-over-year as well. So we have had a slight uptick in that business primarily being driven by the increase in revenue in our European business, which has got a higher percentage of solutions versus staffing than the US organization.

Vince Colicchio.: John, you responded to some questions on the Soft acquisition. Did you talk about the historical growth pattern of Soft Company?

John Laubacker. We didn’t specifically talk about it Vince. From our perspective, this is the growing organization that we’ve looked at for some time and feel very strongly about. They have a definitive plan for growing their revenue and we have seen it demonstrated over a number of years. So, while we haven’t given out a specific growth rate for that organization, because we don’t for any of individual components. This is definitely a growing organization with, like the rest of our European business, a higher solutions versus staffing mix that we feel very excited about that we can grow and add margin at a very good level.

Vince Colicchio. What is the tax rate for 2018.

John Laubacker. Yes, it’s 28%.

Vince Colicchio. And then what was capital spending in the quarter?

John Laubacker. Capital spending in the quarter was about 1.1 million, a little bit higher than normal for us. We had some renovations that we did to our existing corporate headquarters to make sure we could accommodate moving everybody into the building. But I expect that to return to the level of maybe $500,000 or 600,000 going forward.

Operator. And with that, we have no further questions on the phone at this time.

Bud Crumlish. In closing, I am pleased by the significant contributions from CTG's board, management and employees, and by what we've accomplished together over the past 14 months in support of our strategic plan. These efforts included a number of specific actions taken to drive tangible improvement across the Company – in both staffing and solutions, as well as in focus areas of healthcare, diversified industrials and Europe. During 2017, we significantly strengthened our sales organization, highlighted by the appointment of three seasoned sales leaders, and we generated solid top-line growth outside of our three largest clients. In addition, we consistently maintained one of the largest pipelines for new business in recent history, while increasingly proving our ability to convert sizable opportunities into new contracted business. Taken together, we believe our strategic initiatives in 2017 successfully established the foundation required for CTG to achieve our three-year financial objectives by the end of 2019.

Additionally, we actively demonstrated our commitment to driving increased shareholder value through a combination of actions. Specifically, we further aligned management and the board with shareholders by implementing an innovative equity-based compensation performance program for executive management, and by modifying the board's compensation program to eliminate cash and consist of equity-only compensation for non-employee directors. During 2017, we also used over $6 million to repurchase nearly 1.2 million shares of stock. Then, last week we announced the planned cash tender offer for up to 10% of CTG's current outstanding shares.

Finally, we are very excited about our acquisition of Soft Company. In addition to broadening our existing presence in Europe into France and providing highly complementary IT services and consulting offerings, this immediately accretive transaction accelerates progress toward our strategic plan and the achievement our financial objectives.

I sincerely want to thank you for joining us today.