Operator. Thank you, ladies and gentlemen, for standing by. Welcome to the CTG First Quarter 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. As a reminder, this call is being recorded. I would now like to turn the conference over to our host, Director of Investor Relations, Mr. Jim Culligan. Please go ahead.

Jim Culligan. Thank you, Karen, 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 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 financial results press release distributed early this morning, you can access it in 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 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 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 news 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, then discuss our progress on key business objectives previously outlined for our staffing, healthcare, European and diversified industrials markets.

First quarter revenue grew sequentially to $85.9 million as a result of three additional billing days in the quarter and early contribution from our new business efforts but was just below our expectations as a result of weaker demand at one of our larger staffing customers. We are pleased to report earnings at the middle of our guidance range, when excluding the non-cash write-down of goodwill. In short, the quarter came in about as anticipated from an operational standpoint, and we continue to expect 2016 results weighted towards the back half of the year, as we begin to realize greater benefit from the investments we have undertaken to date.

On our call last quarter, we reviewed a number of actions implemented since I joined the company as CEO in April 2015. These actions included a comprehensive review of our business units, streamlining our balance sheet, realigning our business unit teams and cutting costs to partially fund new investments necessary to put CTG back on a path to growth. However, we knew that those actions alone would not achieve our goals, and further investment in the business was also necessary. Much of that additional work was underway by year end, including sales team hires, new platform development and transitioning our staffing and solution teams to provide integrated solutions more aligned to customer needs.

While we have several quarters of works still ahead on these efforts, I am pleased to report that our first quarter includes early indications of success. Perhaps the most notable indicator is the meaningful number of new clients we brought on in the first quarter. We added 9 new clients in staffing, 5 in healthcare, 13 in Europe and 1 in diversified industrials. This is a significant number of new clients compared with the past several quarters and a direct result of our sales teams focus on generating new accounts. As expected, these accounts are starting small, and we will grow them over time through diligent execution and industry-leading reliability.

I previously communicated that our new solution sales hires would take up to 12 months to achieve a full run rate. Those expectations have not changed. It is also important to note that many of the contracts larger than $1 million are delivered over 12 months or longer. This means that revenue as a result of a closed deal does not all occur in the next quarter, but instead is recognized over the life of a contract. The growing sales pipeline for opportunities is as good as it has been since I joined the company, and we continue to see improvement week-over-week.

New client wins and revenue growth may not be linear from quarter-to-quarter. In fact, we know from prior experience they will not be. But each new logo is validation that we are making the right investments in CTG's future.

Let me now turn to each of our four focus areas in more detail for a few minutes before passing the call to Brendan to discuss CTG's consolidated quarterly financial result. I'll begin with staffing, which continues to account for approximately two-thirds of our revenue. Staffing revenue was slightly below our expectations, primarily due to greater than anticipated headwinds at one of our larger accounts. This customer has been the source of steady declines over several quarters, but we believe their business may now be stabilizing.

Business at our largest customer grew quarter-over-quarter and we continue to work closely with each of our large accounts to add value in line with our underlying business performance metrics. One of our key goals in staffing is to broaden and diversify our customer base. This not only reduces our revenue reliance on any one customer but also provides a path to margin improvement, since new accounts on average have a higher direct profit. To that end, we added nine new customers in the first quarter, following seven new accounts in the fourth quarter of 2015.

As we have discussed previously, new accounts typically start smaller and grow over time. That growth is not always linear from quarter-to-quarter due to the variable nature of the staffing business. With most of our revenue coming from clients of greater than ten years tenure with CTG, the long-term potential contribution of each new account is significant.

We also continue to make progress in transforming our staffing organization. We hired a vice president to focus on organizational and workflow needs to improve operating efficiency and open new accounts. We also added a new director of recruiting to help manage fulfillment needs. Additionally, we added another three individuals to our recruiter headcount and expect to continue adding recruiters and account executives throughout 2016 in support of growing demand and an increasingly tight labor market.

We also made further progress towards integrating our staffing and solutions capabilities to better align with managed service provider driven RFPs and total solution performance metrics at large customer accounts. This is an important evolution in our industry as customers increasingly turn to managed service providers to handle this aspect of their business.

Finally, our new sales team and leadership hires have been working hard to build relationships with both existing and new customers, including adding CTG to an increasing number of vendor lists that broaden our reach and new client opportunities. We have built a reputation over 50 years as the most reliable provider of IT and staffing solutions.

Turning now to healthcare solutions. We are building on our existing relationships, managing the increasing throughput from sales and continuing to cultivate new client opportunities. As we added two additional sales people in the first quarter, bringing the full team to nine sales professionals and two associates, I am pleased to say that the team is ramping in line with our expected timeline. We signed deals with five new customers in the first quarter, one of which integrated staffing services.

Our pipeline is expanding, and the number of proposals written and submitted to clients has more than doubled since the first quarter of 2015. We remain committed to winning our share of these opportunities. This important shift reflects the first time since our first quarter last year that we've seen meaningful new business activity in our healthcare solutions unit. Importantly, we also continue to invest in delivery capabilities for our healthcare solutions in order to position ourselves for growth.

This included the addition of a chief clinical operations officer for the group, a billable delivery management focused on EMR connectivity to physician practices, and a quality analyst. The investments in our healthcare and life sciences solutions groups are happening against the backdrop of expected longer-term growth in healthcare IT services.

The industry is also continuing to see consolidation across hospitals, providers and payers. These trends are driving more aggressive reliance on back office integration, vendor management systems and managed service providers. This is an ideal environment for CTG's unique ability to integrate a broad range of IT services and solutions and staffing as we continue to open new doors in this market.

Turning to our diversified industrials group, which consists of offerings in energy, logistics, mining, telecommunications and government IT services, we continue to build our new business pipeline in spite of the decline in the energy sector. We are committed to increasing our scale and scope in this market through both geographic expansion and the addition of new customers outside of oil and gas.

Diversified industrials remains a smaller revenue contributor for CTG, but our excellent performance and strong platform could be leveraged to expand our presence in adjacent markets with solid margins. Growth will take time as entering new geographies require building new relationships, but we are seeing good progress in line with our goals.

Moving to the fourth focus area and our strategic growth plan, I'd like to highlight the progress in Europe. First, we continue to see the benefit from our decision to invest in additional sales, recruiting and technical roles. We secured 13 new accounts in Europe in the quarter in spite of increasing competition for talent in general macroeconomic challenges. Our pipeline of opportunities is growing as our sales team continues to open new doors and increase the number of RFPs responding to, and the business unit is on track to their plan.

Our European presence is diversified across staffing, financial services, healthcare and life sciences, industrials, telecommunications and government clients. We are now targeting a number of new opportunities in utilities, chemical, logistics, transportation and retail applications.

Regional expansion was one of our key focus areas for 2015, and we are executing well on our goal with entry into the Wallonia region of Belgium. We also introduced new product offerings, including our Luxembourg-based IT outsourcing and private cloud which we will expect will open a large number of smaller client opportunities.

Before I turn the call over to Brendan, I would also like to update you to progress with regard to our tuck-in acquisitions. Acquisitions can provide an opportunity to accelerate our market entry and growth rate by expanding on our platform with capabilities that can be leveraged across a larger combined customer base or entry to new geographies or customers sets we do not currently serve. All prospective acquisitions must meet a number of criteria, including a clear value proposition providing access to a customer set or services in a more cost-efficient or timely manner than building access organically.

We remain disciplined in our approach in pricing, with a proven willingness to walk away if it is not the right deal. Our primary focus is still organic growth through internal investments in the business; however, should the right opportunity arise with a compelling value proposition, we are well positioned to execute.

In conclusion, we continue to execute on the transition that we began in 2015 to place CTG back on a path to growth. We restructured our balance sheet, repositioned our business units and executed on our market initiatives in line with the new strategy. We also strengthened our sales team and have now begun to win new clients while continuing to expand our pipeline. We are pleased with the early indications of success and continue to work diligently to create even greater value for both our customers and shareholders.

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

Brendan Harrington. Thank you, Cliff. Good morning, everyone. As we indicated in this morning's news release, revenue in the first quarter was $85.9 million, compared with $84.2 million in the fourth quarter and $97.5 million in the first quarter last year. The sequential increase in revenue primarily reflects growth in staffing revenue as a result of three additional billing days in the quarter and early contribution from our new business efforts, offset by a slight reduction in staffing headcount at a larger client.

Negative currency translation reduced revenue in the first quarter by $406,000 compared to first quarter 2015. We had 65 billing days in the 2016 first quarter versus 66 in the year ago quarter and 62 days in the fourth quarter 2015.

Staffing revenue increased by $2.5 million from the fourth quarter, or 4.4%, and declined by $5.2 million, or 8%, year-over-year. Revenue from our solutions business declined by $890,000 or 3.3% sequentially and $6.4 million or 20% year-over-year. The decline was primarily in our healthcare business unit due to the expected runoff of large EMR contracts and ongoing transition to population health focused services.

Revenue from IBM was $25.9 million, or 30.1% of revenue, compared with $23.2 million, or 23.8% of revenue, in last year's first quarter, primarily driven by increases in mid-2015. Revenue from Lenovo was $8.3 million, or 9.7% of revenue, compared with $13.6 million, or 13.8% of revenue, in the year-ago quarter. The decrease in the revenue from Lenovo was primarily due to lower demand in the manufacturing vertical. While our business with Lenovo has declined over the past four quarters, we believe this business is stabilizing.

Direct costs as a percentage of revenue were 83% in the first quarter compared with 80.1% in the 2015 fourth quarter and 82.2% of revenue in the 2015 first quarter. SG&A expenses were 15.7% of revenue in the first quarter compared with 15.5% of revenue in the fourth quarter and in the year-ago quarter as well.

As described in our news release, CTG preliminarily recorded a non-cash impairment charge in the 2016 first quarter of $21.5 million, or $1.35 per diluted share, for the write-down of goodwill related to its healthcare business under generally accepted accounting principles. The charge was incurred after a review of the carrying value of goodwill triggered by a sustained decrease in the company's market capitalization below the carrying value of its net assets.

The review assessed expected operating results, future cash flows, the healthcare market in general, and the market capitalization of the company and concluded that the fair value of goodwill was below its carrying value. This non-cash impairment charge does not impact the company's future performance or compliance with debt covenants under its existing revolving credit agreement. CTG's balance sheet after the impairment charge includes $15.8 million in goodwill related to its healthcare business.

The company is currently in the process of completing its goodwill valuation and expects the final impairment charge to range from $19.5 million to $23.5 million and be recorded prior to the company filing its Form 10-Q with the SEC for the 2016 first quarter.

Non-GAAP operating income excluding the goodwill impairment charge in the first quarter was $1.1 million, or 1.3% of revenue, compared with $3.7 million, or 4.4% of revenue, in the fourth quarter of 2015 and $2.2 million, or 2.3% of revenue, in the first quarter of 2015.

The effective tax rate for the fourth quarter was 0.8%, compared with 33% in the fourth quarter and 42.5% in last year's first quarter. The non-GAAP income tax rate in the first quarter of 2016 was 36.2%. GAAP net loss in the 2016 first quarter was $20.4 million or $1.31 per diluted share. Excluding the non-cash impairment charge, adjusted net income was $648,000, or $0.04 per share. This compares with GAAP net income of $2.6 million, or $0.16 per diluted share, last quarter and $1.3 million, or $0.08 per share, in the year-ago quarter.

Fourth quarter 2015 earnings per share included the benefit of $0.02 per diluted share related to the death benefit from an insurance policy on a former executive.

Our headcount at the end of the 2016 first quarter was 3,500 compared with 3,600 at the end of the prior quarter and 3,900 at the end of the first quarter 2015. The decrease in headcount from the prior quarter again relates to macroeconomic pressures primarily affecting one large staffing customer. Approximately 91% of our first quarter employees were billable resources.

Cash at quarter end was $9.4 million, and long-term debt was $1.5 million. The changes in other assets on the balance sheet compared to April 3, 2015, reflect a pay-down of $23 million in higher cost loans against the company owned life insurance policies. The surrender value of life insurance policies at the end of Q1 2016 was $29.9 million. We also terminated an early payment program with a larger customer in the third quarter 2015, causing our days sales outstanding to increase to 81 days compared to 65 days a year ago.

CTG's corporate headquarters building which has a net book value of $1.3 million continues to be up for sale at an asking price of $3.95 million.

Turning to our guidance, we anticipate total revenue for the 2016 second quarter to range between $85 million and $87 million. Net income is expected to be between $0.03 and $0.05 per diluted share. There are 64 billing days in the second quarter 2016 compared with 63 days in the prior year second quarter.

For the full year 2016, CTG expects revenue to range between $338 million and $350 million. Net income excluding the Q1 impairment charge is expected to be between $0.13 and $0.21 per diluted share.

The adjustments to our EPS outlook are primarily due to mix shift in our expected revenue ramp along with the investments we are making in business development, operations and recruiting resources.

We continue to expect the year to be backend loaded into the fourth quarter 2016 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 the Q&A session?

Operator. Kevin Liu, B. Riley & Company, your line is open.

Kevin Liu. Hi, good morning. I just wanted to start a little bit on the life science and healthcare area, where you're excited to win some new clients. Can you just talk about the nature of the projects you're winning; what sort of duration those have and the relative size of those versus what you've done historically on the healthcare side?

Cliff Bleustein. The deals that we are winning have a tendency to play out typically over around ten months. In terms of our new contracts at new clients, we're not disclosing what the average size of our deals are, but many of our new deals are in some of the areas that we do very well in, such as application support and partial IT outsourcing, where we typically fall in the top of rankings with external firms.

Kevin Liu. And the doubling of proposals outstanding, I imagine they're in some of these newer focus areas. Is it simply just much larger number of transactions that you're chasing now or are you also seeing fairly significant growth in the overall kind of transaction value in that pipeline?

Cliff Bleustein. Whenever you report on pipeline values, every company has a tendency to look at those differently as contracts have a tendency to come in and out of the pipeline. How we internally measure pipeline is qualified pipeline, which means, in essence, that the salesperson or delivery individual has had a conversation with the business unit owner that's responsible for the implementation of the project.

We look in near term at the number of opportunities that are coming across as potential proposals. With respect to the delivery of proposals, you know, in comparison to Q1 of last year the number of proposals going out of the door for opportunities has more than doubled. So we're seeing more opportunities, more opportunities are coming in, we're maintaining the pipeline and we're expecting to win and continue to win our fair share of those deals.

Kevin Liu. In terms of the fiscal '16 revenue guidance, you took down the low end slightly, the high end a little bit more. So is that purely reflective of what you're seeing with kind of the large staffing customers that started off a little slower this year, or are there are other factors that are driving that?

Brendan Harrington. It's primarily what we saw with the one particularly large customer, Kevin, and we were a little shy of our low end of our guidance in Q1. So we were short of our midpoint, and the reduction in the revenue guidance is really reflective of that miss that we had in the first quarter.

Operator. Next we'll go to Vincent Colicchio, Barrington Research. Please go ahead.

Vince Colicchio. Thanks for taking my questions. Cliff, could you maybe give us a little bit more color on what service lines of your healthcare you're most excited about?

Cliff Bleustein. I think that there are significant opportunities in application support in particular as legacy systems are getting retired. I think there is significant opportunity in managing clinical service desks which we're continuing to see increasing interest across our clients in terms of managing that. We're seeing clear demand for services around population health and the management of the IT systems required for that, and certainly seeing increases in technology consulting which runs the gamut from data governance to data oversight, data integration, business intelligence and so forth.

So I think we're seeing broad-based needs coming from our clients as they've implemented their EMRs and continue to look towards the future for where healthcare is going.

Vince Colicchio. On the consolidation side in healthcare, are you seeing the consolidation trend as more of an opportunity than a threat in terms of potential client losses? Is that the right way to look at that?

Cliff Bleustein. You know, we look at it as an opportunity. Whenever a hospital system merges, there are legacy systems that need to be managed that they transition to whatever system the parent company has and their needs for moving the IT infrastructure out towards physicians for expansion of the types of services that we provide.

At the same time, as these organizations get larger, there is a greater tendency for them to implement either managed service provider or vendor manager, and because of our legacy within the staffing environment we are effective at getting onto those vendor lists as well. So we see that as an opportunity not as a threat.

Vince Colicchio. In terms of your plans on hiring more salespeople, how has your plan changed from last conference call to today, and does that reflect more optimism or not?

Cliff Bleustein. I think we've over doubled our sales force. So we added more people than we had discussed on our last call. I think of the salespeople that we have, a vast majority of them are ramping up appropriately in line with expectations. I think if we continue to see needs improve and demand, we're going to continue to respond with incremental investments to continue to scale up.

I think we've added some additional support people in terms of the delivery side to help us manage the increasing throughput and to help us to go to the increasing number of client conversations that we're having. So we'll continue to invest ahead of growth as we continue to see that growth come to us.

Operator. We'll go to Bill Sutherland, Emerging Growth Equities. Please go ahead.

Bill Sutherland. I'm curious on the EMR trajectory. Are you essentially through the process of disengaging with the projects and moving on to kind of the support and ongoing consulting business?

Cliff Bleustein. I wouldn't say that we're disengaging from any of our engagements. Many of our clients are going to continue to have needs for optimization work and upgrade work, and we're continuing to work with clients to do that. Many of our clients have continuing needs for our individuals, and we always look to extend and renew the current individuals that we have at current clients.

There are always some projects that run their course of the implementation, where at the end of that course we will lose some individuals, but we try and maintain those relationships and look for other opportunities that may be there at those clients.

We're still managing the trail-off of some of the EMR implementations that are expected to end either in Q2 or Q3 of this year, and as those projects end, we seek to renew our individuals or look for other opportunities at those clients to assist them with other capabilities that we have. I think part of what we've being doing is diversifying our skillsets and diversifying our portfolio of opportunities to give us a greater chance and likelihood of being able to add other services beyond EMR implementations.

So we've enhanced our offshore offerings and have started proposing to clients onshore-offshore models of delivery as well. And we're going to continue to look for other ways to provide value to our clients to manage whenever any form of project hits their end of life.

Bill Sutherland. So that headwind is coming to an end by later this year in terms of implementations. The European business, is that more staffing and solutions or vice versa?

Brendan Harrington. It's more heavily weighted towards staffing, Bill. The overall company is about 70%/30%, and the European group is not significantly different from that.

Bill Sutherland. And that's characteristic of the new business you just said you got?

Brendan Harrington. Yes.

Bill Sutherland. Is it fair to say, in terms of the pick up later in the year, that it will be mostly in the staffing line? And then for solutions, just a longer process of getting revenue recognition there?

Brendan Harrington. Staffing is roughly expected in the guidance to be about flat. It was, as you saw, down about 7% in the first quarter. So we're expecting some pick up in staffing. And we'll continue to see a bit of a trail-off in healthcare into Q2, and we expect some growth in the latter half of the year from our healthcare business as well.

Cliff Bleustein. It's correct to say there is some trail between when you sign a contract with a new client in healthcare and when that project actually starts, and then the earning of the revenue is over the life of the contract.

And as we said, some of our newer contracts have a tendency to be longer contracts than either a renewal or a contract at an existing client.

Bill Sutherland. One quick one, Brendan. What's the share assumption that you're using in your EPS guidance?

Brendan Harrington. It's about $15.7 million shares.

Operator. There are no further questions at this time, so please continue.

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 to 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.

Note: This transcript has been edited slightly to make it more readable. It is not intended to be a verbatim recreation of the Computer Task Group (CTG) financial results teleconference and webcast that occurred on the date noted. Please refer to the audio version of the call, which is available on the Company's Web site (www.ctg.com) for approximately 90 days from the call date, as well as to information available on the SEC's Web site (www.sec.gov) before making an investment decision. Please also refer to the opening remarks of this call for CTG's announcement concerning forward-looking statements that were made in the course of the call.