CIBER INC
Form 10-K
February 26, 2013

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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, 2012

Commission File Number: 001-13103

Ciber, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**38-2046833** (I.R.S. Employer Identification No.)
6363 South Fiddler's Green Circle, Suite 1400, Greenwood Village, Colorado (Address of Principal Executive Offices)	**80111** (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 29, 2012, was $288,988,159 based on the closing price of the registrant's Common Stock of $4.31 per share reported on the New York Stock Exchange on such date.

As of February 15, 2013, there were 73,896,165 shares of the registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Registrant's 2013 Annual Meeting of Shareholders to be held on May 8, 2013, 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 as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements that are not historical facts and may include financial projections and estimates and their underlying assumptions, statements regarding plans, objectives, and expectations with respect to future operations, products, and services, and statements regarding future performance of one or more aspects of our business. We intend forward-looking statements to be identified by words such as "anticipate," "believe," "expect," "estimate," "intend," "may," "opportunity," "plan," "potential," "project," "should," and similar expressions. Although we believe that the expectations reflected in such forward-looking statements are reasonable at the time they are made, you are cautioned that forward-looking information and statements are subject to various risks and uncertainties, many of which are difficult to predict and generally beyond our control. Risks and uncertainties could cause actual results and developments to differ materially from those expressed in, or implied or projected by, forward-looking information and statements provided here or in other disclosures and presentations. Those risks and uncertainties include, but are not limited to, the risks discussed or identified below in a section titled "Risk Factors." As we may update those Risk Factors from time to time, please consult our public filings at www.sec.gov or www.ciber.com. We do not undertake any obligation to update or revise any forward-looking information or 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 global information technology ("IT") company with nearly 40 years of proven IT experience, world-class credentials and a wide range of technology expertise. With 65 offices worldwide operating on four continents and over 60 supplier partners, Ciber has the infrastructure and expertise to deliver IT services to almost any organization. The three pillars of our business include Application Development and Maintenance ("ADM"), Ciber Managed Services ("CMS"), and Independent Software Vendor relationships ("ISVs"). At Ciber, we take a client-focused, personalized service approach that includes the building of long-term relationships, creation of custom tailored IT solutions, and the implementation of business strategies to reflect anticipated trends. Driven by results, we are committed to delivering quality solutions precisely configured to our clients' needs and achieving high client satisfaction. The consistent goal is sustainable business value delivered on time and on budget.

Expertise and Capabilities:

Ciber Services: We offer application development and management, IT strategy and project management, business intelligence and performance management, quality assurance and testing, cloud computing and mobility. In addition, we offer enterprise resource planning ("ERP") and customer relationship management ("CRM") solutions.

Key Partnerships: Gold and platinum level partnerships with key technology partners such as Oracle, SAP, Infor (Lawson), Salesforce.com, IBM, and Microsoft enable our consultants to offer unique expertise to our clients. Our clients also benefit from our infrastructure outsourcing partnerships that allow us to provide the full life cycle of IT services.

Vertical Markets: Ciber has experience in a wide variety of industries and has developed deep domain expertise and customized, in-depth technology solutions and best practices for Global

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2000 blue-chip companies in industries such as manufacturing, healthcare and life sciences, communications, energy and utilities, financial services, and the public sector.

Integrated Global Delivery: With seven global delivery centers in the U.S., India, Germany, Poland, the Netherlands, and Vietnam, Ciber's robust globally integrated delivery network is equipped to provide solutions onsite, offsite, onshore, near-shore or in a blended combination that optimizes efficiency, investment and speed to value.

IT Industry Background

We participate in a large and growing marketplace. In order to respond efficiently to an ever-changing business environment, many IT departments have shifted all or a portion of their IT function to outside service providers operating with global delivery models. The worldwide IT industry is expected to grow by 4.2% in 2013 with IT services specifically expected to grow by 5.2%. However, the continuation of an uncertain global economy has created a somewhat pessimistic sentiment among businesses and consumers, who are still unsure when an economic upturn will finally occur. This in turn creates an opportunity as clients turn more toward managed services providers and systems integrators like Ciber to help them implement enabling technology to increase their enterprise growth, attract new and retain existing 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 over $1 trillion by 2016, larger than computing hardware, software, or telecommunications equipment markets. (Gartner, IT Spending Worldwide, Jan. 2, 2013)

Operations

We operate our business by geography. On March 9, 2012, we sold our Federal division and on October 15, 2012, we sold the infrastructure portion of our information technology outsourcing practice. As a result, the sold businesses are now both reported as discontinued operations within our financial statements 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 discontinued operations, unless otherwise noted.

Excluding discontinued operations, our reportable operating segments as of December 31, 2012, consisted of International and North America.

International

In 2012, our International segment represented approximately 51% of our total revenue. Revenues from International were $453.0 million, $472.9 million, and $385.2 million for the years ended December 31, 2012, 2011, and 2010, respectively. Our Ciber International division is organized by country and primarily consists of countries in Western Europe and the Nordic region. The four largest territories are the Netherlands, Germany, the United Kingdom, and Norway. Our International division offers a range of services covering the full IT solution lifecycle to both commercial enterprises and public sector organizations.

North America

In 2012, our North America segment represented approximately 49% of our total revenue. Revenues from North America were $432.8 million, $429.3 million, and $496.2 million for the years ended December 31, 2012, 2011, and 2010, respectively. Starting in January 2013, our North America division is organized into two geographies, East and West. 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.

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Services

Our International and North America segments are further divided into eight main practices to globalize our service offerings and provide consistent quality services to our global clients:

1. Application Development and Maintenance

For nearly 40 years, Ciber's Application Development and Maintenance services have provided analysis, design, development, testing, implementation, and maintenance of our client's business applications. We offer flexible, capable, objective, technical and business services, ranging from traditional mainframe or client/server application development and maintenance to legacy modernization, portal development, service-oriented architecture, mobility solutions, and ERP support.

2. IT Project Management

With over 700 project managers (PMs) and business analysts (BAs) and more than 1,500 pipeline candidates, Ciber provides superior talent, capabilities, dedication and consulting acumen. Ciber's expert project manager and business analyst professionals deliver first-class solutions and continue to be client-focused and results-driven. Utilizing a Project Management Office (PMO) centralizes management and control of projects to ensure that they successfully achieve an organization's strategic business objectives. In addition to the PMO, Ciber also offers Project Portfolio Management (PPM) services where our experts identify and analyze all projects in all portfolios, prioritize them for effectiveness, manage and control them in such a way as to achieve IT goals and objectives, and evaluate them for best practices, reusable procedures, and return on investment.

3. Integrated Managed Services

Managed services have been at the core of Ciber's business for nearly 40 years. Today more than 75 percent of companies selectively outsource some IT functions to outside service providers. Outsourcing is a proven strategic way to reduce and control operating costs, improve company focus and gain access to world-class IT capabilities so an organization can concentrate on business innovation.

Ciber has extensive knowledge in custom application development, maintenance and enhancement, application management, outsourcing services, and infrastructure management, starting with early mainframe applications and growing with the industry to server-based and web-based applications, to applications built in a service-oriented architecture, to those now operating in a cloud environment.

4. ISV/Channel Partner Platforms

SAP: Ciber has been committed to SAP and its products since 1989. As an SAP Gold Channel Partner and a Special Expertise Partner to SAP in various industries and applications, Ciber's 1,300 + specialists have the skills and experience to assist our customers with all aspects of their SAP implementation both domestically and internationally. We help our customers' technology investments meet the needs of their business and deliver the results they demand.

Ciber is focused on the entire SAP application lifecycle, which includes core modules such as CRM and ERP, as well as product lifecycle management ("PLM"), supplier relationship management ("SRM"), business intelligence/analytics, and governance, risk and compliance requirements. We are an early adopter of SAP's new technologies such as mobility (Syclo), in-memory computing (HANA), and HR applications (Success Factors). We have templated approaches for the following industries: financial, retail, energy and utilities, transportation and logistics, mining, fabricated metals, industrial machinery, aerospace and defense, and education.

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In October 2012, Ciber was positioned as a "Visionary" for SAP Application Management Service Providers in Gartner's "Magic Quadrant." Vendors positioned in the Visionaries Quadrant articulate important market trends and direction. We believe this positioning is an important part of our transformation from being a services and implementation company to being a full-service provider of Managed Services.

Oracle: Ciber is an Oracle Platinum Partner with expertise in helping clients implement, upgrade, and maintain Oracle's E-Business Suite, PeopleSoft, Hyperion, JD Edwards, and Fusion product lines. Since 1990, we have helped more than 1,000 clients in more than 2,000 separate engagements leverage their Oracle Applications to improve business processes, reduce costs, and provide better support for management decision-making.

We provide expert project management, application and technical consulting, database administration, and infrastructure support in both a project-based or managed-services approach, allowing clients to take maximum advantage of rapid advances in technology. Our consulting solutions range from project strategy and planning, software assessment and selection, to implementation and integration, hosting and change management. Our solutions provide customers with higher productivity, lower costs, and accelerated return on investment.

Infor/Lawson: Since 1995, Ciber has been a premiere Global Alliance Certified Lawson Consulting partner and service provider for a variety of industries including healthcare, education, government, retail, food service, and many others. We have completed more successful implementations, upgrades, and integrations than any other firm and continue to expand globally. Our solutions include full implementation and project management services, application development and integration services, ongoing management of the application and technology layers, and hardware services.

5. Customer Relationship Management

A proven leader in CRM software, Ciber has worked with leading CRM technologies for many years and can help businesses understand the issues around unifying customer data, integrating communication channels, and implementing CRM applications. The primary focus of Ciber's CRM expertise is centered around two platforms: Microsoft CRM and Salesforce.com.

Microsoft Dynamics CRM: As a highly recognized and trusted worldwide leader in the Microsoft technology platform, Ciber's Microsoft Dynamics CRM solution is a fully integrated, customer-relationship-management solution that provides a unified view of all client information and interactions across the organization. Additionally, at Ciber we have a deep understanding of other Microsoft technologies such as SharePoint, SWL Server, and Biz Talk to help our clients gain the benefits that a tight integration of these products can bring.

Salesforce.com: Ciber, one of only a handful of Salesforce.com global Platinum partners, helps define the cloud strategy and architecture through collaboration with the client to optimize business processes and provide customized application development solutions. Ciber provides customers with the vision and services needed to implement their Salesforce.com platform, so they can be a social enterprise where employee and customer interactions are mobile, fluid and continuous, enabling businesses to be more agile and responsive. Our services include consulting, custom application development, quality assurance, and implementation.

6. Global Delivery Coordination/Solutioning

Ciber's Global Solutions Centers ("GSCs") provide a globally integrated delivery network that supports high-quality application development and maintenance, managed services, quality assurance and testing, business intelligence, collaboration, and IT support, in collaboration with Ciber client partners and clients themselves. Based in the U.S., Europe, and Asia, GSCs are focused on achieving

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delivery excellence by providing the right resources with the right skill sets in the right place at the right time at a competitive price.

At the heart of our GSC is accountability to our clients at the local level, with global delivery and access to worldwide resources. Our approach differs from some of the offshore labor arbitrage factory approaches. Our clients not only have access to quality consultants and best practices but have a faster transition and speed to value because of our flexible engagement model and ability to scale rapidly.

7. Business Consulting

Consulting is at the core of our business, and we continue to deliver a client-focused approach to help maximize our client's results with pragmatic planning and efficient delivery and support. Our business consulting services are divided into four competencies which include IT strategy, Business Intelligence/Analytics, Mobility, and Supply Chain consulting services.

Ciber's IT services include strategic and operational plan development, IT governance, application rationalization, business architecture, IT-driven innovation, business process management, and portfolio demand and resource management. Our guidance and leadership help customers align their IT capabilities to business strategies, and provide an integrated framework that optimizes resources, investments and talent within an organization.

Ciber's Business Intelligence ("BI")/Analytics and performance management transforms corporate data into analytical system data structures that render reports, dashboards, and analytics to support business decision-making processes. Solutions include SAP business planning, advanced analytics, data governance, roadmapping, enterprise performance management, and business intelligence for Microsoft, Oracle, and mobile implementations.

For 20 years, Ciber has been focused on mobile technology by conceptualizing, designing, and implementing mobile business processes and applications that enhance our clients' core business, operations, communications, and customer experience. Ciber's mobile development team uses the latest methodologies and technologies, along with industry best practices to create world-class mobile solutions that help drive the unique requirements of any sized business. Our core expertise lies in mobile strategy and development, product development and app realization, custom mobile application development, enterprise architecture, data management, and change management.

8. Enterprise Solutions

Ciber has developed industry-leading solutions and intellectual property in several niche markets. They include:

WIC Managing government women, infant and children ("WIC") programs can be challenging. Ciber is a market leader in delivering established and proven systems for state WIC programs. Our proven leadership is demonstrated in the fact that we were first to create WIC solutions for multi-states, open source, web-based, smart client, and automated vendor reporting.

CRIMES For over 25 years, Ciber has had a presence with local and state government law and justice entities. The three core solutions we provide are law and justice case management, court systems solutions, and facilities management. The majority of our expertise lies with case management, where we have installed over 120 Case Records Management and Exchange Systems ("CRIMES") for prosecuting attorneys, and CiberLaw, a product designed for public-sector attorneys.

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Financial Information about Segments and Geographic Areas

Please refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 15 of the Notes to our Consolidated Financial Statements included under "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 global, yet local approach, as well as the utilization of our worldwide delivery centers, gives Ciber the ability to serve Fortune 500 companies, while also successfully serving middle-market clients. Our clients consist of 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 2012, our approximate percentage of total revenue by client industry was:

Manufacturing	25%
Public Sector	16%
Healthcare and Life Sciences	10%
Communications	10%
Energy & Utilities	9%
Financial Services	8%
Retail and Wholesale	8%
Professional Services	7%
Hospitality and Entertainment	3%
Education	2%
Transportation and Logistics	1%
Natural Resources	1%

Certain clients account for a significant portion of our revenue. Our International segment had one client that accounted for 6% of that segment's revenue in 2012. Additionally, North America had two clients that accounted for 12% and 8%, respectively, of that segment's revenue in 2012, one of which accounted for 6% of consolidated revenue in 2012.

While we have a large number of long-standing clients, client retention and turnover is highly dependent upon the type of solution we are providing. Engagements related to package software solutions most typically involve a large enterprise software implementation over a period of six to eighteen months. Following the implementation and integration of the software, Ciber often manages the ongoing application for the client a trend that is accelerating with cloud technology, as clients seek to concentrate on their core business and work with partners like Ciber to manage their ongoing IT systems. 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 effect 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 geography to geography, 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 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.

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Our industry is being impacted by the growing use of lower-cost offshore delivery capabilities. To improve our ability to compete we continue to move additional work to our lower-cost, offshore GSCs and, specifically, to expand our presence in India and Poland and continue to integrate these countries into our services delivery.

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 regularly 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, we believe 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. Some of our successes have come at the expense of local and regional competitors that currently lack the scale to compete successfully for this work.

Global, yet Local Ciber combines the best of global reach with local presence. We have seven integrated global delivery centers around the world operating with standardized methodologies. When combined with local account management and long-standing client relationships, we are able to provide our clients with flexible, agile service delivery that speeds their time to value of technology investments.

Valued Service Offerings With our client-focused, results-driven approach, our emphasis is on achieving tangible business results for clients. Those include reducing costs, accelerating time to value, and improving quality, all of which are designed to help our clients reach their goals of greater sales, customer satisfaction, and improved profit. We do this through providing services throughout the business process and application life cycle including planning, design and development, through integration, testing, and maintenance, often concluding in full managed services or outsourcing of their business application and processes.

Recognized Thought leader Influencers including technology analyst firms, industry associations, user groups, and partners have recognized Ciber as a thought leader in the industry. We often demonstrate our thought leadership through Ciber-authored white papers, speaking engagements, analyst reports, and blogs. Awards from both influencers and clients alike recognize that thought leadership and resulting client satisfaction.

Global Practices With the expansion of our eight global practices worldwide, Ciber is harnessing the thought leadership and intellectual property of our consultants and making it accessible to our clients everywhere. Each global practice, from Business Consulting to our ISV units to Managed Services, works to stay ahead of the industry trends and enhance our offerings on a global basis.

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

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IT industry knowledge and practices to ensure that our projects meet client requirements and quality expectations.

Ciber has adhered to a Quality Management approach to business for many years. Ciber has achieved ISO 9001, ISO 27001 and 20000 certifications and successfully completed a Software Engineering Institute's Capability Maturity Model Integration (CMMI) appraisal to take advantage of industry best practices. We have since evolved and customized our processes to become more applicable to our outsourcing, management, and solution services. Ciber's quality objective is to provide superior Information Technology Services at competitive prices through teamwork, consistency, and a long-term commitment to our clients.

Employees

As of December 31, 2012, we had approximately 6,700 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, 2012, most of which are from other services firms. Between Ciber consultants and subcontractors, we had 5,900 billable employees at December 31, 2012. 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.

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

On the Investor Relations section of our website (www.ciber.com), 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.

If we fail to properly analyze and classify our clients or refine our offerings, we may not be focusing on the optimal client group or service offerings to help us achieve our desired objectives and, as a consequence, our results may be adversely impacted.

The transition of our sales force to a collaborative global organization and associated training require the investment of both time and capital. If we are unable to effectively accomplish this transition we may be less effective in generating revenue and profit than our competitors.

If we are unable to effect our planned operational regimes around delivery, resource utilization, decision-making processes, and cash collection cycles 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, expanding our offshore capabilities 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.

On November 5, 2012, we approved a restructuring plan to consolidate our real estate portfolio, as well as simplify our business processes, move decision-making closer to the marketplace and create operating efficiencies. While the steps proposed in the plan are expected to eliminate certain costs, there can be no assurance that we will achieve the estimated cost savings.

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

Although the percentage may vary from year to year, approximately 15% to 20% of our total services revenue in 2012 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 underprice 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.

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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.

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.

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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.

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.

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 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.

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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 Credit Agreement, an asset-based and term loan facility, limits our operational and financial flexibility; we also face the need to comply with financial covenants in our Credit Agreement.

We and certain of our European subsidiaries have entered into a Credit Agreement that provides for (1) an asset-based revolving line of credit of up to $60 million, with the amount available for borrowing at any time under such line of credit determined according to a borrowing base valuation of eligible account receivables, and (2) a $7.5 million term loan to Ciber. As of December 31, 2012, we had approximately $19.8 million outstanding under the revolving line of credit and $6.3 million outstanding under the term loan. Ciber's obligations under the Credit Agreement are secured by substantially all the assets of Ciber and its subsidiaries, and the obligations of the European subsidiary borrowers under the Credit Agreement are secured by substantially all the assets of Ciber and such subsidiaries.

We are dependent on our asset-based revolving credit facility to fund operations, and access to our asset-based facility is dependent on, among other things, the borrowing base valuation of eligible account receivables, and the absence of a default under the Credit Agreement, including any default arising from a failure to comply with the financial and other covenants in the facility. The amount available for borrowing under the Credit Agreement could be significantly reduced if there is a reduction in our eligible accounts receivable. Any loss or material reduction of our ability to access funds under the Credit Agreement could materially and negatively impact our liquidity.

Our ability to remain in compliance with our covenants under our Credit Agreement, to maintain an adequate borrowing base valuation, and to make future principal and interest payments in respect of our debt depends on, among other things, our operating performance, competitive developments, and economic conditions, all of which are significantly affected by financial, business, competitive, economic, and other factors. We are not able to control many of these factors. There is an increased risk regarding our ability to maintain compliance with our debt covenants due to the impact that the current global economy, exchange rates, internal reorganizations, and other factors have on creating unpredictable variances in our revenues, operating results, and profitability, which may also cause increased volatility in our stock price.

The Credit Agreement includes, among other provisions, specific limitations on indebtedness, liens, investments, guarantees, mergers, dispositions, acquisitions, liquidations, dissolutions, issuances of securities, payments of dividends, loans and advances, and transactions with affiliates. Additionally, the Credit Agreement requires us to maintain certain financial covenants, including a minimum trailing 12-month EBITDA, a minimum trailing 12-month fixed charge coverage ratio, and a minimum trailing 12-month leverage ratio.

The Credit Agreement replaces our prior senior credit facility under which we completed a series of amendments and waivers during 2010 and 2011 in order to obtain relief from covenant violations and to revise various financial covenants. If we require amendments to the Credit Agreement in the future and are unable to obtain such amendments, we face the risk of failure to comply with the financial and other covenants under the Credit Agreement, which would likely cause a default under the Credit Agreement. 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 the funds under the Credit Agreement. 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. This could materially adversely affect our results of operations and financial condition. Additionally, if we needed to obtain a waiver under, or an amendment to, the Credit Agreement in the future, or if we

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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.

Our revenues, operating results, and profitability will vary from quarter to quarter, which may impact our ability to comply 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, including:

- 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 related to the Federal division and information technology outsourcing practice previous to their respective sales, as well as any additional post-sale costs we may incur;
- 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;
- the use of globally-sourced, lower-cost service delivery capabilities by our competitors and our clients; and

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economic conditions in the U.S. and abroad.

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

seasonality, including the mix 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 operations outside the U.S. will often retain underutilized employees for longer periods than our domestic operations.

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 18% of our total revenue in 2012, including one client that accounted for 6% of total International segment revenue and two clients that accounted for 12% and 8%, respectively, of total North America segment revenue. Our clients typically retain us on a non-exclusive, engagement-by-engagement basis. Most individual client assignments are from three to twelve months. 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 domestic or global 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.

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. 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;

our ability to obtain the necessary visas and work permits for foreign nationals;

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 British pound sterling and the Euro may materially impact our revenue and profits. As we continue to 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, may recur, and may have an adverse effect on our financial results.

The IT services industry, in the U.S. and internationally, is highly competitive, with increased focus on offshore capability 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 offshore 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. Many of the companies that provide services in our industry have significantly greater financial, technical, offshore, and marketing resources than we do. 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. 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. For example, as further discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations," the significant client that accounted for 9% of total International division revenue in 2011 has reduced the level of services purchased from us and, as a result, revenue from this client was 6% of total International division revenue in 2012. 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 presence in India may expose us to operational risks due to regulatory, economic, political, and other uncertainties.

To enhance our global offshore delivery structure, we have a presence in India. As of December 31, 2012, we had approximately 1,000 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 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. In India, wages are lower for similarly skilled professionals compared to the other countries we operate in, however, Indian wages have historically increased at a faster rate than the United States or Europe. If this trend continues, our operating costs will also increase. Our operations could also be effected by high inflation, erratic gross domestic product growth, and shortages of foreign exchange, all common problems in developing countries such as India.

If we are not able to anticipate and keep pace with rapid changes in technology, our business may 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 or solution offerings uncompetitive or obsolete. Any one of these circumstances could adversely affect our ability to obtain and successfully complete client engagements.

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, 2012, the carrying value of our goodwill was $276.6 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, could cause goodwill to be considered impaired and could result in a non-cash impairment charge in our consolidated statement of operations.

We have recorded several goodwill impairment charges over the years. The forecasts utilized in the discounted cash flow analysis as part of our impairment test assume future revenue and profitability

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growth in each of our divisions during the next five years and beyond. If our operating divisions cannot obtain, or we determine at a later date that we no longer expect them to obtain the projected levels of profitability, future goodwill impairment tests may also result in an impairment charge. There can be no assurances that our operating divisions will be able to achieve our estimated levels of profitability. Given fluctuations in the global economic conditions affecting our industry and impacting our clients and their use of our services, we cannot be certain that goodwill impairment will not be required during future periods.

We depend on contracts with various public sector agencies for a significant portion of our revenue and, if the spending policies or budget priorities of these agencies change, we could lose revenue.

In 2012, approximately 16% of our total revenue was from public sector clients, including state, local, and foreign governments and agencies. The market for our services depends largely on legislative programs and the budgetary capability to support programs, including the continuance of existing programs. These programs can be modified or amended at any time by acts of such governments. Moreover, a number of state and local governments and agencies are suffering from significant budget shortfalls, which may result in curtailment of spending on consulting and technology services. A reduction in spending at the state or local level could negatively impact our operations, revenue, and profitability.

Additionally, government contracts contain provisions and are subject to laws and regulations that provide government clients with rights and remedies not typically found in commercial contracts. Among other things, governments may terminate contracts with short notice for convenience, as well as for default, and may cancel multi-year contracts if funds become unavailable. Cancellation or reduction in price or scope could limit our ability to recover incurred costs, reimbursable expenses, and profits on work completed prior to the termination. If insufficient funding is appropriated to the government entity to cover termination costs, we may not be able to fully recover our investments.

Unfavorable government audits could require us to adjust previously reported operating results, to forego anticipated revenue, and subject us to penalties and sanctions.

The government agencies we contract with, and the U.S. federal agencies that our Federal division contracted with, generally have the authority to audit and review our contracts with them. As part of that process, the government agency reviews our performance on the contract, our pricing practices, our cost structure and our compliance with applicable laws, regulations, and standards. Although we sold our Federal division, we remain responsible for any audits related to work performed prior to the sale. An audit of our work, including an audit of work performed by companies we have acquired or may acquire, could result in a substantial adjustment to our previously reported operating results. For example, any costs that were originally reimbursed could be subsequently disallowed. In this case, cash we have already collected may have to be refunded and operating margins may be reduced.

If a government audit uncovers improper or illegal activities by us, or we otherwise determine that these activities have occurred, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines, and suspension or disqualification from doing business with the government. Any unfavorable determination could adversely affect our ability to bid for new work with one or more jurisdictions.

Our services or solutions could infringe upon the intellectual property rights of others, or we might lose our ability to utilize rights we claim in intellectual property or the intellectual property of others.

We cannot be sure that our services and solutions, or the solutions of others that we offer to our clients, do not infringe on the intellectual property rights of third parties and we could have infringement claims asserted against us or against our clients. These claims could harm our reputation,

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compel us to pay damages, and prevent us from offering some services or solutions. In a number of our contracts, we agree to indemnify our clients for expenses or liabilities resulting from claimed infringements of the intellectual property rights of third parties. In some instances, the amount of these indemnities could be greater than the revenues we receive from the client. Any claims or litigation in this area, whether we ultimately win or lose, could be time-consuming and costly, harmful to our reputation, or require us to enter into royalty or licensing arrangements. We might not be able to enter into such royalty or licensing arrangements on acceptable terms. If a claim of infringement were successful against us or our clients, an injunction might be ordered against our clients or our own services or operations, causing further damages. We could also lose our ability to utilize the intellectual property of others. Third-party suppliers of software, hardware, or other intellectual property assets could be acquired or sued and this could disrupt use of their products or services by us and our clients. If our ability to provide services and solutions to our clients is impaired, our operating results could be adversely affected.

In addition, if we are unable to capture the intellectual capital developed by our employees and convert such intellectual capital into reusable and commercially marketable intellectual property, our costs of delivering our services may increase, our development efforts may be duplicated, and we may lose the economic advantage of owning and licensing Ciber intellectual property.

Possible future consideration on the sale of certain contracts and assets associated with our information technology outsourcing practice may not be realized.

On July 28, 2012, we entered into an agreement to sell certain contracts and the related assets and to transfer the personnel associated with our information technology outsourcing practice to Savvis. The transaction closed on October 15, 2012, for an initial purchase price of $6 million in cash. In addition, we may receive potential additional future consideration of up to $14 million, which is mainly dependent upon the post-closing success of the transferred customer contracts to be measured based on December 2013 results. We cannot estimate the amount of the additional future consideration or its potential impact on our results of operations or financial position. In addition, we agreed to indemnify the buyer for certain claims related to continuing contracts and we cannot predict whether any claims will be made or if they could be material.

We have adopted anti-takeover defenses that could make it difficult for another company to acquire control of Ciber or limit the price investors might be willing to pay for our stock, thus affecting the market price of our securities.

We have adopted a Rights Agreement, commonly known as a "poison pill," under which each shareholder of the Company holds one share purchase right, which we refer to as a "Right," for each share of Company common stock held. The Rights become exercisable upon the occurrence of certain events and may make the acquisition of our Company more difficult and expensive. In addition, our certificate of incorporation and bylaws each contain provisions that may make the acquisition of our Company more difficult without the approval of our board of directors, including a provision that gives our board of directors the ability to issue preferred stock and determine the rights and designations of the preferred stock at any time without shareholder approval. The rights of the holders of our common stock will be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. The issuance of preferred stock by our board of directors pursuant to our certificate of incorporation could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from acquiring, a majority of the outstanding voting stock of Ciber.

In addition, the staggered terms of our board of directors could have the effect of delaying or deferring a change in control. These provisions could limit the price that investors might be willing to pay in the future for our securities and as a result, the price of our securities could decline.

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The above factors and certain provisions of the Delaware General Corporation Law may have the effect of deterring hostile takeovers or otherwise delaying or preventing changes in the control or management of Ciber which could adversely affect transactions in which our shareholders might otherwise receive a premium over the then-current market price for their Ciber securities.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our principal corporate office is located at 6363 South Fiddler's Green Circle, Suite 1400, Greenwood Village, Colorado 80111, where we, along with our Colorado operations, occupy office space under a lease that expires in December 2018. Generally, we provide our services at client locations and therefore, our office locations are primarily used for sales and other administrative functions. At December 31, 2012, we had lease obligations for approximately 639,000 square feet of office space in 66 locations.

Approximately 94,000 square feet of these lease obligations was either subleased or available for sublease as of December 31, 2012. We believe our facilities are adequate for our current level of operations. We do not own any real property.

Please see Note 14 of our consolidated financial statements for information on offices that were closed or consolidated as a result of our company restructuring plan.

Item 3. Legal Proceedings

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

We are engaged in legal proceedings in Germany in connection with our acquisition of a controlling interest in Novasoft AG (now known as Ciber AG) in 2004. In August 2006, we completed a buy-out of the remaining minority shareholders of Novasoft. Certain of those former minority shareholders challenged the adequacy of the buy-out consideration by initiating a review by the district court in Mannheim, Germany. The court-appointed independent experts have evaluated the consideration and claims of the minority shareholders. Briefing by the parties is expected to continue into 2013. If the court awards additional consideration, such consideration will increase the goodwill associated with the acquisition and we will be liable for that additional consideration as well as the costs associated with these proceedings. We are unable to predict the outcome of this matter.

CamSoft, Inc., a Louisiana corporation, claims that it had a role in an alleged joint venture that developed a wireless network for video camera surveillance systems to be deployed to municipal governments. The lawsuit, CamSoft Data Systems, Inc. v. Southern Electronics, et al., was filed initially in October 2009 in Louisiana state court against numerous defendants, including Ciber. The lawsuit was subsequently removed to federal court in the Middle District of Louisiana and the complaint was amended to include additional defendants and causes of action including antitrust claims, civil RICO claims, unfair trade practices, trade secret, fraud, unjust enrichment, and conspiracy claims. The suit includes many of the same parties involved in related litigation in the state court in New Orleans, which was concluded in 2009 when Ciber settled the New Orleans suit with the plaintiffs, Active Solutions and Southern Electronics, who are now co-defendants in the current lawsuit and CamSoft's former alleged joint venturers. Ciber is vigorously defending the allegations. The matter is ongoing in the appellate courts where Camsoft has filed a notice of appeal with the Federal Court of Appeals while Ciber and the other defendants have filed notices of appeal with the Fifth Circuit Court of Appeals and with the Federal Court of Appeals. We are unable to predict the outcome of this litigation.

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On October 28, 2011, a putative securities class action lawsuit, Weston v. Ciber, Inc. et al., was filed in the United States District Court for the District of Colorado against Ciber, its current Chief Executive Officer David C. Peterschmidt, current Executive Vice President and Chief Financial Officer ("CFO") Claude J. Pumilia and former CFO Peter H. Cheesbrough (the "Class Action"). The Class Action purports to have been filed on behalf of all holders of Ciber common stock between December 15, 2010, and August 3, 2011, by alleged stockholder and plaintiff, Burt Weston. The Class Action generally alleges that defendants Ciber, Mr. Peterschmidt, Mr. Pumilia and Mr. Cheesbrough (the "Class Action Defendants") violated Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") and Rule 10b-5 thereunder. Specifically, the complaint alleges that the Class Action Defendants disseminated or approved alleged false statements concerning the Company's outlook and forecast for fiscal year 2011 in: (1) the Company's 8-K filed with the SEC and press conference held with investors on December 15, 2010; (2) the Company's press release and earnings conference call on February 22, 2011; (3) the Company's 10-K for fiscal year 2010 filed with the SEC on February 25, 2011; and (4) the Company's press release, earnings conference call, and Form 10-Q for first quarter 2011 filed with the SEC on May 3, 2011. The complaint also generally alleges that the Class Action Defendants violated Section 20(a) of the Exchange Act. Specifically, the complaint alleges that the Class Action Defendants acted as controlling persons of Ciber within the meaning of Section 20(a) of the Exchange Act by reason of their positions with the Company. The Class Action seeks, among other things: (1) an order from the Court declaring the complaint to be a proper class action pursuant to Rule 23 of the Federal Rules of Civil Procedure and certifying plaintiff as a representative of the purported class; (2) awarding plaintiff and the members of the class damages, including interest; (3) awarding plaintiff reasonable costs and attorneys' fees; and (4) awarding such other relief as the Court may deem just and proper. The Court appointed Mr. Weston and City of Roseville Employees' Retirement System as lead plaintiffs and the law firms of Robbins, Geller Rudman & Dowd LLP and Robbins Umeda LLP as lead plaintiffs' counsel on January 31, 2012. Lead plaintiffs filed an amended complaint in early April 2012. The Class Action Defendants have filed a motion to dismiss, which is currently pending. The Company believes that the Class Action is without merit and intends to defend against it vigorously. We are unable to predict the outcome of this litigation.

On February 7, 2012, a purported verified shareholder derivative lawsuit, Seni v. Peterschmidt. et al., was filed in the United States District Court for the District of Colorado (the "Derivative Action") against Messrs. Peterschmidt, Pumilia, and Cheesbrough, and Ciber's then-current board of directors: Messrs. Bobby G. Stevenson, Jean-Francois Heitz, Paul A. Jacobs, Stephen S. Kurtz, Kurt J. Lauk, Archibald J. McGill, and James C. Spira ("Individual Defendants"). Ciber is named as a nominal defendant (collectively, with the Individual Defendants, the "Derivative Defendants"). The Derivative Action is largely based on the same alleged facts as the Class Action. The complaint in the Derivative Action generally alleges that the Individual Defendants breached their fiduciary duties of good faith, fair dealing, loyalty, due care, reasonable inquiry, oversight, and supervision by approving the issuance of allegedly false statements that misrepresented material information about the finances and operations of the Company. The Derivative Complaint also alleges that the Individual Defendants were unjustly enriched as a result of the compensation they received while breaching their fiduciary duties to the Company. The complaint seeks, among other things: (1) damages for losses sustained by the Company as a result of the Individual Defendants' breaches; (2) directives to "reform and improve" the Company's governance; (3) restitution to the Company from the Individual Defendants; (4) an award to plaintiff of reasonable costs and attorneys' fees; and (5) such other relief as the Court may deem just and proper. On April 30, 2012, the Court granted Ciber's Motion to Stay Discovery and Vacate the Scheduling Conference and Related Deadlines. Ciber filed a motion to dismiss, which is pending. The Company believes this litigation is without merit and intends to defend against it vigorously. We are unable to predict the outcome of this litigation.

Item 4. Mine Safety Disclosures

Not applicable.

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Part II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Market Information, Holders and Dividends

Our common stock is listed on the New York Stock Exchange under the symbol "CBR." The table below sets forth, for the periods indicated, the low and high sales price per share of our common stock.

	Price Range	
	Low	High
Fiscal 2011		
First Quarter	$ 4.23	$ 6.73
Second Quarter	4.85	6.98
Third Quarter	2.71	5.87
Fourth Quarter	2.75	4.18
Fiscal 2012		
First Quarter	3.30	4.76
Second Quarter	3.36	4.32
Third Quarter	3.28	4.45
Fourth Quarter	2.70	3.58

On February 22, 2013, the closing price of our common stock was $3.96 and there were 2,496 shareholders of record.

Our policy is to retain our earnings to support the growth of our business. Accordingly, we have never paid cash dividends on our common stock. In addition, we are restricted by our credit agreement in the amount of cash dividends that we can pay. The payment of any future dividends will be at the discretion of our board of directors and subject to the credit agreement and will depend upon, among other things, future earnings, operations, capital requirements, our general financial condition and contractual restrictions.

Recent Sales of Unregistered Securities and Use of Proceeds from Registered Securities

None.

Purchases of Equity Securities by the Issuer

The Company did not repurchase any of our common stock during the quarter ended December 31, 2012.

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Item 6. Selected Financial Data

We have derived the selected consolidated financial data presented below, as adjusted for discontinued operations of our Federal division and a portion of our information technology outsourcing practice, from our Consolidated Financial Statements and the related Notes. This information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our Consolidated Financial Statements and related Notes, included under "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

	As of and for the Year Ended December 31,				
	2012	2011(1)	2010(1)	2009(2)	2008
	(In thousands, except per share amounts)				
Statement of Operations Data:					
Revenues	$ 884,438	$ 901,056	$ 881,623	$ 851,034	$ 998,588
Gross profit	228,567	228,719	228,028	223,187	284,028
Selling, general and administrative expenses	205,550	219,723	213,740	193,593	232,867
Goodwill impairment		16,300	82,000		
Restructuring charge	7,981				
Operating income (loss) from continuing operations	14,392	(8,838)	(70,925)	24,920	46,104
Net income (loss) from continuing operations	(2,472)	(50,723)	(53,954)	14,063	22,445
Income (loss) from discontinued operations, net of income tax	(11,610)	(16,509)	(23,736)	1,053	5,368
Net income (loss) attributable to Ciber, Inc.	(14,627)	(67,261)	(77,160)	14,958	26,884
Basic and diluted earnings (loss) per share attributable to Ciber, Inc.:					
Continuing operations	$ (0.04)	$ (0.71)	$ (0.77)	$ 0.20	$ 0.36
Discontinued operations	(0.16)	(0.23)	(0.34)	0.02	0.09
Basic and diluted earnings (loss) per share attributable to Ciber, Inc.	$ (0.20)	$ (0.94)	$ (1.11)	$ 0.22	$ 0.45
Weighted Average Shares Outstanding:					
Basic	73,166	71,831	69,626	67,996	60,092
Diluted	73,166	71,831	69,626	68,107	60,389
Balance Sheet Data:					
Working capital	$ 105,468	$ 92,818	$ 132,364	$ 136,854	$ 165,233
Total assets	580,471	625,070	722,364	803,256	797,520
Long-term debt, current portion	6,337	25,571	10,473	10,697	2,002
Long-term debt, non-current portion	19,790	41,380	77,879	87,500	165,710
Total shareholders' equity	358,953	357,007	419,500	506,246	453,324
Shares outstanding, net of treasury	73,779	72,568	70,124	69,482	60,085

(1) During the second quarters of 2011 and 2010, we recorded goodwill impairment charges of $16.3 million and $82.0 million, respectively, to write-down the goodwill associated with certain segments in our continuing operations. The goodwill impairment charges in our results from continuing operations resulted in a $4.5 million and a $22.6 million deferred tax benefit in the second quarters of 2011 and 2010, respectively. Additionally, during the second quarter of 2011, we incurred a $29.1 million non-cash charge related to a valuation allowance recorded against our United States deferred tax assets. During the fourth quarter of 2011, we recorded a goodwill impairment charge of $27.4 million and a related $7.5 million deferred tax benefit associated with the Federal division, which is reflected in the loss from discontinued operations during that period. During the second quarter of 2010, we also recorded a $30.0 million goodwill impairment charge

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for our Federal division, which resulted in a deferred tax benefit of $8.3 million, which is reflected in the loss from discontinued operations during that period. For more information about the goodwill impairment charges and the deferred tax asset valuation allowance, please refer to Note 7 and Note 11, respectively.

(2) During 2009, we sold nine million shares of our common stock, for proceeds of $23.2 million, net of issuance costs, which were used to repay a portion of the outstanding borrowings under our then-outstanding senior secured reducing revolving credit facility.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with our Consolidated Financial Statements and related Notes included elsewhere in this Annual Report on Form 10-K. This discussion and analysis also contains forward-looking statements and should also be read in conjunction with the disclosures and information contained in "Disclosure Regarding Forward-Looking Statements" and "Risk Factors" in this Annual Report on Form 10-K. References to "we," "our," "us," "the Company," or "Ciber" in this Annual Report on Form 10-K refer to Ciber, Inc. and its subsidiaries. All references to years, unless otherwise noted, refer to our fiscal year, which ends on December 31.

We use the phrase "in local currency" to indicate that we are comparing certain financial results after removing the impact of foreign currency exchange rate fluctuations, thereby allowing for the comparison of business performance between periods. Financial results that are "in local currency" are calculated by restating current period activity into U.S. dollars using the comparable prior period's foreign currency exchange rates. This approach is used for all results where the functional currency is not the U.S. dollar.

Business and Industry Overview

Ciber is a leading global information technology ("IT") company with nearly 40 years of proven IT experience, world-class credentials and a wide range of technology expertise. With 65 offices worldwide operating on four continents and over 60 supplier partners, Ciber has the infrastructure and expertise to deliver IT services to almost any organization. The three pillars of our business include Application Development and Maintenance ("ADM"), Ciber Managed Services ("CMS"), and Independent Software Vendor relationships ("ISVs"). At Ciber, we take a client-focused, personalized service approach that includes the building of long term relationships, creation of custom tailored IT solutions, and the implementation of business strategies to reflect anticipated trends. Driven by results, we are committed to delivering quality solutions precisely configured to our clients' needs and achieving high client satisfaction. The consistent goal is sustainable business value delivered on time and on budget.

We operate our business by geography. On March 9, 2012, we sold our Federal division and on October 15, 2012, we sold our information technology outsourcing practice. As a result, the sold businesses are now both reported as discontinued operations within our financial statements 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 discontinued operations, unless otherwise noted. For additional information see "Discontinued Operations" below.

Excluding discontinued operations, our reportable operating segments as of December 31, 2012, consisted of International and North America. Our Ciber International segment, is organized by country and primarily consists of countries in Western Europe and the Nordic region. The four largest territories are the Netherlands, Germany, the United Kingdom, and Norway. Our International segment offers a range of services covering the full IT solution lifecycle to both commercial enterprises and public sector organizations. Starting in January 2013, our North America segment is organized into two geographies, East and West. 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. In 2012, we also began allocating the costs of our India global solutions center to both our International and North America segments, whereas in previous years, our India operations had been reported as part of our North America segment. All 2010 and 2011 segment data has been adjusted to conform to the 2012 presentation.

We recognize the majority of our services revenue under time-and-material contracts as hours and costs are incurred. Under fixed-price contracts, which currently make up approximately 15% of our services revenue, our revenue is fixed under the contract, while our costs to complete our obligations under the contract are variable. As a result, our profitability on fixed-price contracts can vary significantly and occasionally can even be a loss. Changes in our services revenue are primarily a

function of hours worked on revenue-generating activities and, to a lesser extent, changes in our average rate per hour and changes in contract mix. Hours worked on revenue-producing activities vary with the number of consultants employed and their utilization level. Utilization represents the percentage of time worked on revenue-producing engagements divided by the standard hours available (i.e., 40 hours per week). With time-and-materials contracts, higher consultant utilization results in increased revenue; however, with fixed-price contracts, it may result in higher costs and lower gross profit margins because our revenue is fixed. We actively manage both our number of consultants and our overall utilization levels. If we determine we have excess available resources that we cannot place on billable assignments in the near future, we consider reducing those resources. As a result, during the last three years, most of our consultant turnover has been from involuntary termination of employment.

The hourly rate we charge for our services varies based on the level of the consultant involved, the particular expertise of the consultant and the geographic area. Our typical time-and-materials hourly rates range from $20 to $200 per hour. As India-based resources become more significant, our average hourly rates will decrease. For projects which are fixed-price or level-of-effort, where our revenue is not directly based on labor hours incurred, our realized rate per hour will vary significantly depending on success or overages on such projects, as well as the blend of resources used to deliver projects.

Selling, general and administrative ("SG&A") costs as a percentage of revenue vary by business segment. Close to 60% of our overall SG&A expenses are typically for personnel costs for our operations management, sales and recruiting personnel and administrative staff, as well as our corporate support staff and executive management personnel. These costs are generally not immediately affected by changes in revenue, however management is constantly evaluating such costs in relation to changes in business conditions. In many foreign countries, short-term personnel actions are prohibited and/or may require significant payments to such impacted employees. As we bid on larger and longer-term projects, the sales cycle and related sales costs for such opportunities have been increasing.

Other revenue includes sale of third-party software licenses and related support agreements and commissions on sales of IT products. Our sales of software generally involve relationships with the software vendors and are often sold with implementation services. The gross profit margin on consolidated other revenues is typically in the range of 30% to 50%. Depending on the mix of these business activities, gross profit margin on other revenue will fluctuate.

The market demand for Ciber's services is heavily dependent on IT spending by Fortune 500 and middle-market corporations, organizations and government entities in the markets and regions that we serve. In recent years, economic recession and volatile economic conditions have negatively impacted many of our existing and prospective clients and caused fluctuations in their IT spending behaviors. Over the last couple of years, economic conditions have had a greater negative impact on clients in a number of our International division's territories. The pace of technological advancement, as well as changes in business requirements and practices of our clients, all have a significant impact on the demand for the services that we provide.

Representing approximately half of our consolidated revenues, our International division operates primarily in Western Europe, with our largest operations located in Germany, the Netherlands and the U.K. These operations transact business in the local currencies of the countries in which they operate. In recent years, approximately 60% to 70% of our International division's revenue has been denominated in Euros, 10% to 15% has been denominated in Great Britain Pounds ("GBP") and the balance has come from a number of other European currencies. Changes in the exchange rates between these foreign currencies and the U.S. dollar affect the reported amounts of our assets, liabilities, revenues and expenses. For financial reporting purposes, the assets and liabilities of our foreign operations are translated into U.S. dollars at current exchange rates at period end and revenues and expenses are translated at average exchange rates for the period.

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Our results of operations are affected by economic conditions, including macroeconomic conditions, credit market conditions and levels of business confidence. Revenue is driven by our ability to secure new contracts and deliver solutions and services that add value relevant to our clients' current needs and challenges. In recent quarters and ongoing for the foreseeable future, we have been affected by significant efforts by our clients (both current and potential) to implement cost-savings initiatives. These initiatives have included going to third-party vendor management systems, taking their business to larger, pure-play offshore vendors and vendor consolidation. In some cases, these initiatives have benefited Ciber, but in others we have lost our revenue stream entirely or seen a decline in our level of revenues with particular clients. The pricing environment continues to be extremely competitive. A number of our competitors are structuring more offshore services into their bids, thereby lowering their pricing to help clients reduce costs, and making it more difficult for us to compete on pricing. We also have global delivery options to offer to our current and potential clients as possible cost savings, and we are expanding our offshore capabilities and increasing the usage of these resources; however, they are on a smaller scale than the offshore offerings of some of our competitors. Another issue that has had and continues to have an impact on our revenues and profitability involves a much longer sales cycle than we have seen historically, which has been driven by a much slower decision-making process in starting new projects in a variety of industries that we currently serve, or in which we are currently bidding for work. The longer sales cycle increases the cost of our sales efforts and pushes potential revenues and profitability further into the future. Some clients remain cautious, seeking flexibility by shifting to a more phased approach to contracting for work. We have standards governing the quality of engagements that we will accept with the goal of growing revenue, increasing margins, improving collectability of receivables and delivering sustained, predictable performance. However, there can be no assurances that we will be successful with such actions, and in certain cases, these actions may slow our revenue growth. Economic conditions and other factors continue to impact the business operations of some of our clients, their ability to continue to use our services and their financial ability to pay for our services in full. The impact of project cancellations cannot be accurately predicted and bad debt expense may differ significantly from our estimates, and any such events may negatively impact our results of operations.

Discontinued Operations

On March 9, 2012, we sold substantially all of the assets and certain liabilities of our Federal division to CRGT Inc. for a preliminary sales price of $40 million, subject to adjustment based on the final determination of the working capital of the Federal division at the time of closing. In November 2012, we reached an agreement with CRGT on the final working capital computation, which resulted in a final sales price of $37.4 million. Net cash proceeds from the sale were $33.6 million, after transaction related costs of $3.8 million. Based on the final sales price, we recorded a $0.7 million pre-tax loss on this sale in 2012. The loss on sale is net of estimated lease exit costs of $1.7 million, related to certain Federal division office space that was vacated with the sale.

On October 15, 2012, we sold certain contracts and related property and equipment and certain other assets associated with our information technology outsourcing (ITO) practice to Savvis Communications Corporation ("Savvis") for $6 million in cash. In addition, we may receive additional future consideration of up to $14 million, which is mainly dependent upon the post-closing success of the transferred customer contracts to be measured based on December 2013 results, with the final amount, if any, to be determined and paid during the first quarter of 2014. We cannot estimate the amount of the additional future consideration or its potential impact on our results of operations or financial position. Under the agreement, we are required to indemnify Savvis for certain losses, if any, incurred by them following the closing under the customer contracts being transferred. There are no known contract losses at this time. The ITO practice was split between our North America and International business units. Net cash proceeds from the sale, after transaction-related costs, were $3.8 million. The carrying value of the tangible assets included in the transaction was $7.2 million, and

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we allocated $3.2 million of goodwill to the business being disposed resulting in a $6.6 million pre-tax loss on sale.

Effective in the fourth quarter of 2011 for the Federal division, and in the third quarter of 2012 for the ITO practice, these business met the criteria to be reported as discontinued operations and accordingly, our financial position, results of operations and cash flows have been reclassified for all prior periods to conform to the presentation as a discontinued operation. The following table summarizes the operating results of the discontinued operations included in the Consolidated Statements of Operations.

	Year Ended December 31,		
	2012	2011	2010
		(In thousands)	
Total revenues	$ 71,936	$ 183,575	$ 189,720
Operating expenses	76,428	178,933	191,945
Goodwill impairment		27,400	30,000
Operating loss from discontinued operations	(4,492)	(22,758)	(32,225)
Interest and other expense	90	528	484
Loss from discontinued operations before income taxes	(4,582)	(23,286)	(32,709)
Income tax expense (benefit)	459	(6,777)	(8,973)
Loss from discontinued operations, net of income tax	(5,041)	(16,509)	(23,736)
Loss on sale	(7,256)		
Income tax benefit	(687)		
Loss on sale, net of income taxes	(6,569)		
Total loss from discontinued operations, net of income taxes	$ (11,610)	$ (16,509)	$ (23,736)

In connection with the planned sale of the Federal division, at December 31, 2011, we performed a goodwill impairment test and based on the expected sales price, we adjusted the carrying value of Federal division goodwill to its implied fair value. As a result, we recorded a goodwill impairment charge of $27.4 million during the quarter ended December 31, 2011, which is included within the 2011 loss from discontinued operations of the Federal division. Refer to Note 7 of the consolidated financial statements for further discussion on the Federal impairment charge. To report the results of discontinued operations, we are required to adjust the reported results of the business sold, from those previously reported as part of operating income by reporting segment. These adjustments eliminate corporate overhead allocations and adjust for costs of the division that will not be recognized on a going-forward basis. In addition, we have allocated interest expense to the Federal discontinued operation by applying the effective interest rate towards the amount of debt that was required to be repaid as a result of the transaction. We have also allocated related tax expense or benefit to the discontinued operations. These adjustments have been made for all periods presented.

Effective with their respective sales, operations and cash flows of these sold businesses were removed from our consolidated operating results. However, in connection with the sale of the Federal division, we have retained certain historical accounts receivable as well as certain liabilities. With respect to the sale of the ITO practice, we retained all of the related net working capital assets. Some of these items, including certain possible contingent liabilities, may not be settled for several years. Accordingly, adjustments to such items will be recorded through our results of operations in future periods. In addition, we expect to incur post-sale administrative costs in connection with required government compliance activities related to our former Federal business.

For additional information on the operating results of discontinued operations included in our Consolidated Statements of Operations, please refer to Note 2 of the Notes to our Consolidated

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Financial Statements included under "Financial Statements and Supplementary Data" of this Annual Report.

Restructuring

On November 5, 2012, we approved a company restructuring plan. The restructuring activities commenced in the fourth quarter of 2012 and relate primarily to the consolidation of our real estate footprint as well as organizational changes designed to simplify business processes, move decision-making closer to the marketplace and create operating efficiencies. We currently estimate the total amount of the restructuring charges to be approximately $13 million, of which approximately $1 million will be non-cash charges related to stock compensation and fixed-asset write-downs related to facility closures. The total estimated restructuring expenses include approximately $7 million related to personnel severance and related benefits primarily in our International division, and approximately $6 million related to the closure of 17 offices and the consolidation of those locations into other existing Ciber locations, mostly in North America. These activities began in the fourth quarter of 2012, and we expect all restructuring activities to be completed by the end of 2013. Pre-tax savings from the initiatives of approximately $7 million in 2013 and $11 million in 2014 and each year thereafter are expected.

Results of Operations Comparison of the Years Ended December 31, 2012 and 2011 Consolidated

The following tables and related discussion provide information about our consolidated financial results for the periods presented. At the end of 2011, our Federal division was classified as a discontinued operation. In the third quarter of 2012, a portion of our information technology outsourcing practice was also classified as a discontinued operation and therefore both are excluded from the results of our continuing operations in the tables and related discussion below, unless otherwise noted.

The following table sets forth certain Consolidated Statement of Operations data in dollars and expressed as a percentage of revenue:

	Year Ended December 31,			
	2012		2011	
	(Dollars in thousands)			
Consulting services	$ 833,496	94.2%	$ 856,113	95.0%
Other revenue	50,942	5.8	44,943	5.0
Total revenues	$ 884,438	100.0%	$ 901,056	100.0%
Gross profit consulting services	$ 208,767	25.0%	$ 209,160	24.4%
Gross profit other revenue	19,800	38.9	19,559	43.5
Gross profit total	228,567	25.8	228,719	25.4
SG&A costs	205,550	23.2	219,723	24.4
Goodwill impairment			16,300	1.8
Amortization of intangible assets	644	0.1	1,534	0.2
Restructuring charges	7,981	0.9		
Operating income (loss) from continuing operations	14,392	1.6	(8,838)	(1.0)
Interest income	743	0.1	987	0.1
Interest expense	(5,976)	(0.7)	(7,898)	(0.9)
Other expense, net	(258)		(2,524)	(0.3)
Income (loss) from continuing operations before income taxes	8,901	1.0	(18,273)	(2.0)
Income tax expense	11,373	1.3	32,450	3.6
Net loss from continuing operations	$ (2,472)	(0.3)%	$ (50,723)	(5.6)%

Percentage of revenue columns may not foot due to rounding.

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Revenue by segment from continuing operations was as follows:

	Year Ended December 31,		
	2012	2011	% change
	(In thousands)		
International	$ 453,034	$ 472,867	(4.2)%
North America	432,832	429,289	0.8
Other	3,109	3,510	n/m
Inter-segment	(4,537)	(4,610)	n/m
Total revenues	$ 884,438	$ 901,056	(1.8)%

n/m = not meaningful

Revenues. Total revenues decreased $16.6 million, or 1.8%, for 2012 compared with 2011. On a local currency basis, revenue increased 1.4% between the comparable years. This change was attributable to the following:

International revenues decreased 4.2% overall, but improved approximately 2% in local currency. The softer European economy caused revenue results to vary considerably by territory. Revenue growth was strong in the U.K., Germany, and Norway, which comprised approximately half of International revenues. In the U.K. and Norway, this increase was due to continued demand for IT services where we have been successful at providing certain technology-specific and/or vertical-specific services. Germany's revenue increase was due to the strong performance of the Managed Services practice which improved 37% compared with 2011. Additionally, revenue in several territories benefited from improved sales of software licenses in 2012. Revenue growth in these territories offset declines elsewhere that were predominately related to client-specific issues, which in certain cases were driven by economic concerns, and included canceled, delayed or completed projects. International revenues continue to be impacted by certain larger European clients focusing on cost-cutting measures such as vendor consolidation, offshoring, and increasing pricing pressure on service providers. In 2011, our largest client accounted for 9% of our International division's revenues and 6% of our total revenue. As a result of a bidding process the client conducted in 2011, we were notified that our status changed to secondary provider from primary provider and, during the second half of 2011, this client began cost-reduction initiatives including reductions in the level of services that they purchased from us. As a result, revenue from this client is down 36% in 2012, compared to 2011. We believe revenue from this client has stabilized and we do not expect significant further deterioration at this time. However, as it is common practice in our industry, our clients can generally reduce the use of our services on relatively short notice and thus our level of revenue may fluctuate and, we are subject to the inherent limitations of such uncertainty.

North America revenues were slightly up during 2012 compared to 2011. However, excluding the impact of the negative revenue adjustments made in 2011 for significant changes in estimates related to costs or scope on fixed-price projects, North America revenues were down approximately 2% year over year. This decrease is predominantly due to service-level reductions and completed projects, which were not offset by increased volume and new projects. This is particularly true for our public sector clients due to recent declines in government spending.

Gross Profit. Gross profit margin improved to 25.8% for the year ended December 31, 2012, compared to 25.4% for the same period in 2011. The revenue adjustments recorded during the prior year period had a significant negative impact on North America's 2011 gross profit margin. Excluding these adjustments, North America's gross margin was relatively flat as improvements in consultant utilization were offset by volume discounts and pricing pressures, especially in our core ADM business, as continued economic uncertainty has resulted in heightened price sensitivity from many of our clients. Gross profit margin for our International division declined due to decreased utilization, increased use of more expensive subcontractor labor, and client pricing pressures.

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Selling, general and administrative costs. Our SG&A costs decreased $14.2 million, or 6.5%, to $205.6 million for 2012, from $219.7 million for 2011. Both our International and North America segments had reductions in SG&A costs in 2012. The decrease in SG&A costs in our International division was due to foreign exchange rates and across the board SG&A savings. North America SG&A costs decreased due to reduced salary and benefits costs for management, as well as reductions in office rent, professional and legal fees, and other discretionary items. 2012 corporate SG&A expenses increased due to an increase in company-wide share based compensation that is all recorded as part of our corporate department. SG&A costs as a percentage of revenue decreased to 23.2% for 2012 from 24.4% for 2011.

Operating income (loss). We had operating income of $14.4 million in 2012 compared to an operating loss of $8.8 million in 2011, respectively. This change is partially due to a $16.3 million goodwill impairment charge recorded in the second quarter of 2011, which was partially offset by an $8.0 million restructuring charge we recorded in the fourth quarter of 2012. See notes 7 and 14 of our consolidated financial statements for additional information on our goodwill impairments and restructuring charges, respectively. Earnings before interest, taxes and amortization ("EBITA") increased 156% to $23.0 million in 2012 from $9.0 million last year, primarily as a result of North America's gross profit improvement, as well as significant SG&A cost reductions in both North America and International.

Operating income (loss) from continuing operations by segment was as follows:

	Year Ended December 31,		%	2012 % of	2011 % of
	2012	**2011**	**change**	**revenue***	**revenue***
	(In thousands)				
International	$ 24,969	$ 27,147	(8.0)%	5.5%	5.7%
North America	30,169	12,385	143.6	7.0	2.9
Other	446	499	n/m	14.3	14.2
Corporate expenses	(32,005)	(29,680)	(7.8)	(3.6)	(3.3)
Unallocated results of discontinued operations	(562)	(1,355)	n/m		(0.2)
Earnings before interest, taxes, amortization, and restructuring charges	23,017	8,996	155.9	2.6	1.0
Goodwill impairment		(16,300)	100.0		(1.8)
Amortization of intangible assets	(644)	(1,534)	58.0		(0.2)
Restructuring charges	(7,981)		n/m	(0.9)	
Total operating income (loss) from continuing operations	$ 14,392	$ (8,838)	262.8	1.6%	(1.0)%

n/m = not meaningful

* International, North America and Other calculated as a % of their respective revenue, all other calculated as a % of total revenue. Column may not total due to rounding.

International operating income decreased to $25.0 million from $27.1 million mostly due to a reduction in gross profit margin which was caused by decreased utilization, an increase in subcontractors and pricing pressures. This reduction in gross margin was partially offset by a decline in SG&A costs that was primarily related to foreign currency and discretionary items.

North America operating income increased to $30.2 million in 2012 from $12.4 million in 2011 primarily related to the prior year negative revenue adjustments for five fixed-price projects, as well as significant reductions in SG&A expenses, primarily related to reduced management salary and benefits expense.

Corporate expenses increased $2.3 million due to increases in stock compensation expense as well as equipment rental and maintenance, partially offset by a decrease in external consulting and recruiting fees.

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Interest expense. Interest expense decreased $1.9 million during 2012 compared to 2011. The current year includes the write-off of $1.1 million of capitalized debt facility fees related to our senior credit facility that was terminated during the second quarter of 2012. Excluding the write-off, interest expense decreased due to a significant reduction in our average borrowings outstanding compared to 2011, slightly offset by an increase in average interest rates.

Other expense, net. Other expense, net decreased $2.3 million during 2012 primarily due to a $3.2 million expense for acquisition-related consideration in 2011. This was slightly offset by $0.4 million of current year foreign exchange losses compared with $0.6 million of foreign exchange gains in 2011.

Income taxes. Our tax expense is significantly impacted by the changes in the amount and the geographic mix of our income and loss. From continuing operations, our income (loss) before income taxes and our income tax expense is as follows:

	Year Ended December 31,	
	2012	**2011**
	(In thousands)	
Income (loss) before income taxes:		
United States	$ (5,058)	$ (49,104)
Foreign	13,959	30,831
Total	$ 8,901	$ (18,273)
Income tax expense:		
United States	$ 5,491	$ 25,156
Foreign	5,882	7,294
Total	$ 11,373	$ 32,450

For the year ended December 2011, our domestic loss from continuing operations includes a goodwill impairment charge of $16.3 million and a related deferred tax benefit of $4.5 million. In April 2011, we recorded deferred tax expense of $29.1 million to establish a valuation allowance against all of our U.S. deferred tax assets and we cannot record income tax benefits for any additional U.S. operating losses. Irrespective of our income or loss levels, we continue to record U.S. deferred tax expense related to goodwill amortization as well as certain other miscellaneous U.S. current tax expense items, which totaled $5.5 million of tax expense for 2012. For purposes of deferred taxes, we estimate our domestic blended Federal and state rate to be approximately 40%.

The effective rate on our foreign tax expense varies with the mix of income and losses across multiple tax jurisdictions with most statutory tax rates varying from 24% to 33%. In both 2012 and 2011, certain of our foreign operations benefited from the utilization of net operating loss ("NOL") carryforwards while certain operations incurred losses without any current tax benefit. The reduction of foreign pre-tax income from 2011 to 2012 is related to an overall decrease in profitability of the business, including impact of restructuring costs and increased inter-company transfer pricing. Although our foreign income before tax decreased by 55%, the related tax expense decreased by only 19% primarily as a result of the shift in the mix of profits and losses across countries as well as increased tax reserves for certain tax exposure items.

For interim periods, we base our tax provision on forecasted book and taxable income for the entire year. As the forecast for the year changes, we adjust our year-to-date tax provision. Our provision for income taxes is based on many factors and is subject to significant volatility from year to year.

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Results of Operations Comparison of the Years Ended December 31, 2011 and 2010 Consolidated

The following tables and related discussion provide information about our consolidated financial results for the periods presented. At the end of 2011, our Federal division was classified as a discontinued operation. In the third quarter of 2012, a portion of our information technology outsourcing practice also classified as a discontinued operation and therefore both are excluded in the results from our continuing operations in the tables and related discussion below, unless otherwise noted.

The following table sets forth certain Consolidated Statement of Operations data in dollars and expressed as a percentage of revenue:

	Year Ended December 31,			
	2011		2010	
	(Dollars in thousands)			
Consulting services	$ 856,113	95.0%	$ 840,913	95.4%
Other revenue	44,943	5.0	40,710	4.6
Total revenues	$ 901,056	100.0%	$ 881,623	100.0%
Gross profit consulting services	$ 209,160	24.4%	$ 211,105	25.1%
Gross profit other revenue	19,559	43.5	16,923	41.6
Gross profit total	228,719	25.4	228,028	25.9
SG&A costs	219,723	24.4	213,740	24.2
Goodwill impairment	16,300	1.8	82,000	9.3
Amortization of intangible assets	1,534	0.2	3,213	0.4
Operating loss from continuing operations	(8,838)	(1.0)	(70,925)	(8.0)
Interest income	987	0.1	614	0.1
Interest expense	(7,898)	(0.9)	(6,553)	(0.7)
Other income (expense), net	(2,524)	(0.3)	61	
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(18,273)	(2.0)	(76,803)	(8.7)
Income tax expense (benefit)	32,450	3.6	(22,849)	(2.6)
NET LOSS FROM CONTINUING OPERATIONS	$ (50,723)	(5.6)%	$ (53,954)	(6.1)%

Percentage of revenue columns may not foot due to rounding.

Revenue by segment from continuing operations was as follows:

	Year Ended December 31,		
	2011	2010	% change
	(In thousands)		
International	$ 472,867	$ 385,155	22.8%
North America	429,289	496,175	(13.5)
Other	3,510	3,480	0.9
Inter-segment	(4,610)	(3,187)	n/m
Total revenues	$ 901,056	$ 881,623	2.2%

n/m = not meaningful

Revenues. Total revenues increased $19.4 million, or 2.2%, for 2011 compared with 2010. In local currency, revenue decreased 1% between the comparable years. This change is attributable to the following:

International segment revenues improved by 22.8% and approximately 16% in local currency. The majority of our local currency revenue growth was due to increased sales volume in our core territories, primarily for SAP-related services and expansion in our German-based managed services practice, which was a start-up business in 2010. Our strategy of focusing on key technologies and verticals has yielded some positive results in our International segment, especially in the manufacturing and energy verticals in 2011. Although International revenue growth was 22.8% for 2011, the segment experienced a substantial deceleration in revenue growth rates throughout the year, particularly between the third and fourth quarters. The deceleration is attributed to a number of factors such as canceled or completed projects, lack of availability of certain skilled SAP resources and economic conditions negatively impacting some of our clients and territories.

The decrease in North America revenues was predominantly due to our inability to sufficiently replace revenue from concluded projects and from reductions in the level of services provided at a number of other clients. ERP implementation revenue declined by approximately $39 million in 2011. Our inability to replace revenue was due to a number of factors. We experienced some operational inefficiencies that were created during our transition away from our previous branch model to a matrixed operating model structured around strategic service offerings and key verticals. Additionally, the segment leadership transition during 2011 delayed efforts to focus on new revenue growth opportunities. Our weaker than expected sales performance related to prioritizing sales of higher-margin, solutions-based services, which have a longer sales cycle, and a number of sales members that weren't fully productive during 2011.

Gross Profit. In total, our gross profit margin decreased 50 basis points to 25.4% for 2011, compared to 25.9% for 2010. Decreased revenues, lower consultant utilization, and some low-margin fixed-price projects in our North America segment were the predominant reasons for the decline in overall gross profit margin in 2011. The International segment increased its overall gross margin by approximately 140 basis points in 2011, a significant portion of which was due to improved profitability of our German-based managed services practice in 2011, a 2010 start-up business that was in the investment stages for much of 2010. 2011 year International gross margin was also positively impacted by the full-year benefit from a June 2010 acquisition.

Selling, general and administrative costs. Our SG&A costs increased $6.0 million, or less than 3%, to $219.7 million for 2011, from $213.7 million for 2010. Increased SG&A costs of $18.1 million in our International segment were partially offset by decreases in North America and corporate SG&A. The increase in the International segment was predominantly related to salary costs, mainly for additional sales and recruiting salaries, as well as higher severance expenses. International also incurred higher facilities and support costs, which increase with headcount growth. Bad debt expense also declined by $6.0 million in 2011 from the prior year. North America implemented cost-cutting measures in the second half of 2011 in response to the segment's continued revenue decline, which contributed considerably to the $5.1 million reduction of SG&A costs. Additionally, 2011 corporate SG&A expenses declined due to reductions in costs related to executive severance and transition. SG&A costs as a percentage of revenue increased slightly to 24.4% for 2011 from 24.2% for 2010.

Operating loss. In connection with our annual goodwill impairment test (performed in the second quarter of each year), we recorded a $16.3 million non-cash goodwill impairment charge in 2011 for our former IT Outsourcing division (now allocated to our North America segment, refer to footnote 7 of our financial statements for further discussion) while in 2010 we recorded an $82.0 million impairment for our North America segment. Including the impairment charges, we had operating losses of $8.8 million and $70.9 million in 2011 and 2010, respectively. Earnings before interest, taxes and amortization ("EBITA") declined by 37% to $9.0 million in 2011 from $14.3 million in 2010, primarily as a result of the North America revenue decline and its resulting impact on gross profit and the negative impacts from some low-margin fixed-price contracts more than offsetting our International segment's growth and profit improvements and our reduced corporate expenses.

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Operating loss from continuing operations by segment was as follows:

	Year Ended December 31, 2011	Year Ended December 31, 2010	% change	2011 % of revenue*	2010 % of revenue*
	(In thousands)				
International	$ 27,147	$ 17,730	53.1%	5.7%	4.6%
North America	12,385	34,817	(64.4)	2.9	7.0
Other	499	318	n/m	14.2	9.1
Corporate expenses	(29,680)	(36,767)	19.3	(3.3)	(4.2)
Unallocated results of discontinued operations	(1,355)	(1,810)	n/m	(0.2)	(0.2)
Earnings before interest, taxes, and amortization	8,996	14,288	(37.0)%	1.0	1.6
Goodwill impairment	(16,300)	(82,000)	80.1%	(1.8)	(9.3)
Amortization of intangible assets	(1,534)	(3,213)	52.3%	(0.2)	(0.4)
Total operating loss from continuing operations	$ (8,838)	$ (70,925)	87.5%	(1.0)%	(8.0)%

* Segments calculated as a % of segment revenue, all other calculated as a % of total revenue

International operating income increased $9 million in 2011, primarily due to revenue growth. Operating income margin improved 110 basis points in 2011, driven by increased gross margins related in large part to the positive contribution from our German managed services business, which was in start-up mode for much of the previous year, as well as the full year impact of a June 2010 acquisition. These margin improvements were partially offset by an increase in SG&A costs as a percentage of revenue, primarily for increased salary costs related to business expansion.

North America operating income decreased to $12.4 million in 2011 from $34.8 million for 2010 primarily related to the negative impact of service-level reductions and concluded engagements. Low-margin fixed-price projects and costs incurred by the division to exit several of these fixed-price contracts and, to a lesser extent, decreased consultant utilization also reduced operating income. In 2011, North America operating income was negatively impacted by approximately $12 million from exiting certain contracts or from contracts with losses. In addition, we estimate that the segment's operating income was reduced by $9 million due to cost overruns on fixed-price projects that reduced project profits below our expected margins. North America began cost-reduction initiatives during the second half of 2011, including staff reductions and discretionary spending curtailments, but was unable to reduce costs as quickly as revenue declined.

Corporate expenses were down $7.1 million. During 2010, we incurred $6.1 million of executive charges and leadership transition costs and we recorded a $2.2 million bad debt allowance. In 2011, we recorded $2.3 million of severance costs. The reductions in bad debt and separation-type expenses were partially offset by increased IT costs and share-based compensation in 2011.

Interest expense. Interest expense increased $1.3 million during 2011 compared to 2010. Interest charges related to a liability for acquisition consideration accounted for $0.7 million of the increase. The remaining $0.6 million related to higher interest costs, including amortization of facility fees, under the senior credit facility in place at that time.

Other income (expense), net. Other expense, net was $2.5 million in 2011, down from other income, net of $0.1 million in 2010. A $3.2 million increase in the fair value of our liability for acquisition-related consideration resulted from a revised agreement that fixed the amount of the future

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consideration in 2011. This was slightly offset by $0.6 million of current year foreign exchange gains compared with nominal foreign exchange losses in 2010.

Income taxes. Our tax expense is significantly impacted by the changes in the amount and the geographic mix of our income and loss. From continuing operations, our income (loss) before income taxes and our income tax expense (benefit) is as follows:

	Year Ended December 31,	
	2011	**2010**
	(In thousands)	
Income (loss) before income taxes:		
United States	$ (49,104)	$ (98,081)
Foreign	30,831	21,278
Total	$ (18,273)	$ (76,803)
Income tax expense (benefit):		
United States	$ 25,156	$ (27,005)
Foreign	7,294	4,156
Total	$ 32,450	$ (22,849)

For the year ended December 31, 2011, our domestic loss from continuing operations included a goodwill impairment charge of $16.3 million and a related deferred tax benefit of $4.5 million. In April 2011, we recorded deferred tax expense of $29.1 million to establish a valuation allowance against all of our U.S. deferred tax assets and we cannot record income tax benefits for any additional U.S. operating losses. Irrespective of our income or loss levels, we continue to record U.S. deferred tax expense related to goodwill amortization as well as certain other miscellaneous U.S. current tax expense items. For purposes of deferred taxes, we estimate our domestic blended Federal and state rate to be approximately 40%.

For the year ended December 31, 2010, our domestic loss from continuing operations included a goodwill impairment charge of $82.0 million and a related deferred tax benefit of $22.6 million. The remaining domestic loss resulted in a 27% tax benefit of approximately $4.4 million.

The effective rate on our foreign tax expense varies with the mix of income and losses across multiple tax jurisdictions with most statutory tax rates varying from 24% to 33%. Our actual tax expense is also impacted by the amount of nondeductible expenses, which increases our effective tax rate. Our fourth quarter 2010 tax rate also had a $1.0 million benefit from the utilization of carried forward net operating losses in Europe, which were previously reserved. A portion of the operations of our India subsidiary were not subject to taxes under a tax holiday that expired March 2011. The income tax benefit attributable to this tax holiday was approximately $0.3 million and $1.1 million in 2011 and 2010, respectively.

Liquidity and Capital Resources

At December 31, 2012, we had an increase in working capital to $105.5 million from $92.8 million at December 31, 2011. Our current ratio was 1.6:1 at December 31, 2012, compared to1.5:1 at December 31, 2011. Our primary sources of liquidity are cash flows from operations, available cash reserves, and debt capacity under our new credit agreement. In addition, we could seek to raise additional funds through public or private debt or equity financings. We believe that our cash and cash equivalents, our expected operating cash flow, and our available credit agreement will be sufficient to finance our working capital needs through at least the next year.

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Our balance of cash and cash equivalents was $58.8 million at December 31, 2012, compared to $65.6 million at December 31, 2011. Our domestic cash balances are used daily to reduce our outstanding balance on our outstanding borrowings. Typically, most of our cash balance is maintained by our foreign subsidiaries. From time to time, we may engage in short-term loans from our foreign operations. In order to meet the scheduled principal reduction requirements for the term loan under our previous senior credit facility, we repatriated $30 million of foreign cash to the U.S. in January 2012. Due to our domestic NOL carryforwards, this repatriation did not result in any material current tax payments. The repatriation reduced the available NOL carryforwards which are available to offset future U.S. taxable income. Except for the $30 million cash repatriation, we have not provided for any additional U.S. income taxes on the undistributed earnings of our foreign subsidiaries, as we currently do not have plans to repatriate cash in the future and we consider these to be permanently reinvested in the operations of such subsidiaries. Effective May 7, 2012, our new credit agreement also provides for foreign borrowings if needed. If future events, including material changes in estimates of cash, working capital and long-term investment requirements, necessitate that the undistributed earnings of our foreign subsidiaries be distributed, an additional provision for income taxes may apply, which could materially affect our future tax expense. At December 31, 2012, we estimate we have approximately $40 million of U.S. Federal NOL carryforwards available to offset future taxable income. Absent the availability of NOL carryforwards or tax credits, the possible tax consequences of any foreign cash repatriation could be significant.

As previously mentioned, we approved a corporate restructuring plan on November 5, 2012. Related to the execution of this plan, we had cash outlays of approximately $2 million in the fourth quarter of 2012. We estimate future cash outlays of $7 million in 2013.

Cash flows from operating, investing and financing activities, as reflected in our Consolidated Statements of Cash Flows, are summarized as follows:

	Year Ended December 31,		
	2012	**2011**	**2010**
	(In thousands)		
Net cash provided by (used in) continuing operations:			
Operating activities	$ 1,304	$ 18,909	$ 25,703
Investing activities	(3,262)	(14,112)	(11,151)
Financing activities	(42,956)	(17,336)	(13,379)
Net cash provided by (used in) continuing operations	(44,914)	(12,539)	1,173
Net cash provided by (used in) discontinued operations:			
Operating activities	(2,981)	12,613	9,418
Investing activities	37,773	(2,214)	(6,419)
Net cash provided by discontinued operations	34,792	10,399	2,999
Effect of foreign exchange rates on cash	3,404	(1,622)	(2,267)
Net increase (decrease) in cash and cash equivalents	$ (6,718)	$ (3,762)	$ 1,905

Operating activities. Cash provided by operating activities from continuing operations was $1.3 million in 2012, compared with $18.9 million and $25.7 million in 2011 and 2010, respectively. Changes in normal short-term working capital items, partially offset by an improvement in earnings, contributed to the overall reduction in cash from operations during 2012 as compared to 2011. While in 2011, reduced earnings and changes in normal short-term working capital items both contributed to the overall reduction in cash from operations as compared to 2010. Our working capital fluctuates significantly due to changes in accounts receivable (discussed below), as well as due to the timing of our domestic payroll and accounts payable processing cycles with regard to month-end dates and other seasonal factors. Typically, the seasonality of our business in many European countries results in

negative cash from operations in the early part of the year with improvements in the second half of the year. Cash flow from European operations are typically maximized in the fourth quarter.

Changes in accounts receivable have a significant impact on our cash flow. Items that can affect our cash flow accounts receivable include: contractual payment terms, client payment patterns (including approval or processing delays and cash management), client mix (public vs. private), fluctuations in the level of IT product sales and the effectiveness of our collection efforts. Many of the individual reasons are outside of our control and, as a result, it is normal for our cash flow from accounts receivable to fluctuate from period to period, affecting our liquidity.

Total accounts receivable increased to $200.3 million at December 31, 2012, from $182.4 million at December 31, 2011. At December 31, 2012, our total unbilled accounts receivable for costs and earnings in excess of billings totaled $16.3 million, which was a decrease of $3.6 million from the prior year. Total accounts receivable day's sales outstanding ("DSO") was 61 days at December 31, 2012, compared to 53 days at December 31, 2011, an increase of 8 days. During 2012, we experienced increased DSO both domestically and from our International segment. The increase in DSO in International was due to longer client payment terms, which was partially offset by some collection improvements. Our International segment typically experiences slower receivable payments during the first half of the year with improvement in the second half of the year, and with their lowest DSO levels typically occurring in December. Domestic DSO was higher at December 31, 2012 due to longer client payment terms, higher revenues, and delayed payments from one of our largest clients. Overall project delays have caused increases in unbilled accounts receivable as well.

Accrued compensation and related liabilities fluctuate from period to period based on a couple of primary factors, including the timing of our normal bi-weekly U.S. payroll cycle and the timing of variable compensation payments. Bonuses are typically accrued throughout the year, and paid either quarterly or annually, based on the applicable bonus program associated with an employee's role and country in which he or she works. As such, bonus accruals can fluctuate from quarter to quarter. Accounts payable and other accrued liabilities typically fluctuate based on when we receive actual vendor invoices and when they are paid. The largest of such items typically relates to vendor payments for IT hardware and software products that we resell and payments to services-related subcontractors.

Investing activities. Investing activities are primarily comprised of purchases of property and equipment and cash paid for acquisitions. Spending on property and equipment was $3.3 million during 2012, compared with $13.2 million in 2011 and $7.6 million in 2010. Generally, our capital spending is primarily for technology equipment and software and to support our global employee base, as well as our management and corporate support infrastructure, and for investment in our domestic and off-shore delivery centers. Such investments will fluctuate from period to period. In 2011, we expanded our delivery center operations in India, which cost approximately $3 million, and we also made other capital investments to begin enhancing our information management systems and to develop management and sales tools. Investing activities from discontinued operations for 2012 consisted primarily of net proceeds totaling $33.6 million from the sale of our Federal division and $4.5 million from the sale of our information technology outsourcing practice.

Financing activities. Typically, our most significant financing activities consist of the borrowings and payments under our credit facility. This primarily fluctuates based on cash provided by, or used in, our domestic operations during the period as our U.S. cash receipts and disbursements are linked to the revolving credit facility. During 2012, we had net payments on our long-term debt of $40.1 million primarily from the repatriation of $30 million of foreign cash to the U.S. in January and the sale of our Federal Division in March 2012, compared to net payments of $21.8 million and $11.1 million in 2011 and 2010, respectively. Additionally, associated with our new credit agreement, we incurred a cash outflow of $3.4 million for credit fees, compared to $2.0 million and $0.7 million in 2011 and 2010, respectively. In 2012, we had a cash inflow of $1.3 million for proceeds from employee stock plans,

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down from $7.5 million in 2011 and $2.4 million in 2010. We did not use cash in 2012 or 2011 to repurchase our own stock, however, in 2010 we used $2.4 million for this purpose.

Credit Agreement. On May 7, 2012, we entered into a Credit Agreement (the "Credit Agreement") with Wells Fargo Bank, N.A. The Credit Agreement replaced our previous credit facility and refinanced all amounts outstanding thereunder. The Credit Agreement provides for (1) an asset-based revolving line of credit of up to $60 million (the "ABL Facility"), with the amount available for borrowing at any time under such line of credit determined according to a borrowing base valuation of eligible account receivables, and (2) a $7.5 million term loan (the "Term Loan"). The full $60 million of the ABL Facility was available for borrowing on December 31, 2012. The ABL Facility provides for borrowings in the United States, the Netherlands, the United Kingdom and Germany and matures on May 7, 2017. The Term Loan amortizes in monthly principal payments of approximately $0.4 million starting October 31, 2012, with the balance of approximately $2.1 million due at maturity on November 7, 2013. As of December 31, 2012, we had $19.8 million outstanding under the ABL Facility and $6.3 million outstanding under the Term Loan. Our obligations under the Credit Agreement are guaranteed by us and and are secured by substantially all of our U.S., Netherlands, United Kingdom, and German assets.

The Term Loan accrues interest at an annual rate of 12.0%. Under the ABL Facility, U.S. borrowings accrue interest at a rate of the London interbank offered rate ("LIBOR") plus a margin ranging from 225 to 275 basis points, or, at our option, a base rate equal to the greatest of (a) the Federal Funds Rate plus 0.50%, (b) LIBOR plus 1%, and (c) the "prime rate" set by Wells Fargo plus a margin ranging from 125 to 175 basis points. All foreign borrowings accrue interest at a rate of LIBOR plus a margin ranging from 225 to 275 basis points, plus certain fees related to compliance with European banking regulations. The interest rates applicable to borrowings under the Credit Agreement are subject to increase during an event of default. We are also required to pay an unused line fee ranging from 0.375% to 0.50% annually on the unused portion of the ABL Facility. At December 31, 2012, our weighted average interest rate on our outstanding borrowing under the ABL Facility was 4.38%.

The Credit Agreement can be prepaid in whole or in part at any time. In addition, the Credit Agreement, subject to certain exceptions and conditions, requires prepayment of the Term Loan with the net cash proceeds received from certain events. These events include, amongst others, receipt of proceeds from a disposition of assets, a judgment or settlement, the issuance of indebtedness, or the issuance of common stock or other equity interests. The ABL Facility must be repaid to the extent that any borrowings exceed the maximum availability allowed under the ABL Facility.

The Credit Agreement includes a number of business covenants, including customary limitations on, among other things, indebtedness, liens, investments, guarantees, mergers, dispositions, acquisitions, liquidations, dissolutions, issuances of securities, payments of dividends, loans and advances, and transactions with affiliates. The Credit Agreement also contains certain financial covenants, including: (i) a minimum trailing 12-month "EBITDA," (ii) a minimum trailing 12-month fixed charge coverage ratio and (iii) a maximum trailing 12-month leverage ratio. We were in compliance with the financial covenants under our Credit Agreement at December 31, 2012. A summary of these financial covenants is as follows:

- We must maintain a minimum trailing 12-month "EBITDA," of at least $30.0 million for January 2013. This minimum fluctuates monthly throughout 2013 until maturity of the Term Loan in early November, when the minimum is $41.4 million.

- The minimum trailing 12-month fixed charge coverage ratio must not be less than 1.1 to 1.0.

- The maximum trailing 12-month leverage ratio may not be greater than 1.3 to 1.0 for January 2013. This maximum fluctuates monthly throughout 2013 until maturity of the Term Loan in early November, when the maximum is 1.0 to 1.0.

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The Company is required to be in compliance with the financial covenants at the end of each calendar month until the Term Loan is repaid in full. The Company is also required to be in compliance with the minimum trailing 12-month fixed charge coverage ratio after the Term Loan is repaid in full if (i) an event of default has occurred and is continuing, (ii) less than 25% of the ABL Facility is available for borrowing, or (iii) less than $15 million is available for borrowing under the ABL Facility. The Company must then continue to comply with the minimum trailing 12-month fixed charge coverage ratio until (1) no event of default is continuing and (2) at least 25% of the ABL Facility and a minimum of $15 million have been available for borrowing under the ABL Facility for 30 consecutive days.

We were in compliance with the above financial covenants at December 31, 2012, with the following calculations for our financial covenant ratios:

Consolidated trailing 12-month "EBITDA": $36.4 million. (Minimum permitted is $27.7 million.)

Consolidated trailing 12-month fixed charge coverage ratio: 1.8 to 1.0. (Minimum permitted is 1.1 to 1.0.)

Consolidated trailing 12-month leverage ratio: 0.7 to 1.0. (Maximum permitted is 1.5 to 1.0.)

Wells Fargo will take dominion over our U.S. cash and cash receipts and will automatically apply such amounts to the ABL Facility on a daily basis if (i) an event of default has occurred and is continuing, (ii) less than 30% of the ABL Facility or less than $18 million is available for borrowing under the ABL Facility for five consecutive days, or (iii) less than 25% of the ABL Facility or less than $15 million is available for borrowing under the ABL Facility at any time. Wells Fargo will continue to exercise dominion over our U.S. cash and cash receipts until (1) no event of default is continuing and (2) at least 30% of the ABL Facility and a minimum of $18 million have been available for borrowing under the ABL Facility for 30 consecutive days. In addition, at all times during the term of the ABL Facility, Wells Fargo will have dominion over the cash of the U.K., Dutch, and German borrowers and will automatically apply such amounts to the ABL Facility on a daily basis. As a result, if we have any outstanding borrowings that are subject to the bank's dominion, such amounts will be classified as a current liability on our balance sheet. At December 31, 2012, no borrowings are subject to the bank's dominion.

The Credit Agreement generally contains customary events of default for credit facilities of this type, including nonpayment, material inaccuracy of representations and warranties, violation of covenants, default of certain other agreements or indebtedness, bankruptcy, material judgments, invalidity of the Credit Agreement or related agreements, and a change of control.

Based on management's current estimates, we do not currently believe a covenant violation to be probable of occurring for at least the next 12 months. However, given the current volatility of the global economy, there can be no assurance that we will continue to be in compliance with these bank covenants. If a covenant violation were to occur, we believe we would be able to obtain a waiver or amendment from our lenders. Any such waiver or amendment would come at additional costs to Ciber and such costs could be material. We believe that other sources of credit or financing would be available to us; however, we cannot predict at this time what types of credit or financing would be available in the future, the costs of such credit or financing, or that the terms of any amended or new facility will not be materially less favorable to the Company.

The carrying value of the outstanding borrowings under the ABL Facility approximates its fair value as (1) it is based on a variable rate that changes based on market conditions and (2) the margin applied to the variable rate is based on Ciber's credit risk, which has not changed since entering into the facility in May 2012. The carrying value of the outstanding borrowings under the fixed rate Term Loan approximates its fair value as (1) market interest rates have not changed significantly since May 2012 and (2) Ciber's credit risk is relatively unchanged since entering into the loan. If market interest rates or Ciber's credit risk were to change, we would estimate the fair value of our borrowings using

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discounted cash flow analysis based on current rates obtained from the lender for similar types of debt. The inputs used to establish the fair value of the Credit Agreement are considered to be Level 2 inputs, which include inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Off-Balance Sheet Arrangements

We do not have any reportable off-balance sheet arrangements.

Contractual Obligations

The contractual obligations presented in the table below represent our estimates of future payments under fixed contractual obligations and commitments. Changes in our business needs, cancellation provisions, changing interest rates and other factors may result in actual payments differing from these estimates. We cannot provide certainty regarding the timing and amounts of payments. We have presented below a summary of the most significant assumptions used in our information within the context of our consolidated financial position, results of operations and cash flows.

The following table is a summary of our contractual obligations as of December 31, 2012:

	Payments due by period				
	Total	2013	2014 - 2015	2016 - 2017	Thereafter
	(In thousands)				
Principal payments on long-term debt	$ 26,127	$ 6,337	$ 15	$ 19,775	$
Interest payments on long-term debt(1)	3,277	1,032	1,146	1,099	
Operating leases(2)	68,624	21,678	26,749	12,999	7,198
Other commitments(3)	23,467	17,594	5,596	275	2
Total	$ 121,495	$ 46,641	$ 33,506	$ 34,148	$ 7,200

(1) Interest payments were calculated based on the terms of our Credit Agreement and effective interest rates as of December 31, 2012, for our borrowings.

(2) Includes operating leases for all office locations, automobiles and office equipment.

(3) Other commitments include, among other things, information technology, software support and maintenance obligations, as well as other obligations in the ordinary course of business that we cannot cancel or where we would be required to pay a termination fee in the event of cancellation. It does not include our remaining unrecognized tax benefits of $5.5 million because we are unable to make a reasonably reliable estimate as to when a cash settlement, if any, with the appropriate taxing authority may occur.

Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenue and expenses during the periods presented. We continually evaluate our estimates, judgments and assumptions based on available information and experience. We believe that our estimates, judgments and assumptions are reasonable based on information available to us at the time they are made. To the extent there are differences between our estimates, judgments and assumptions and actual results, our financial statements will be affected. Such differences may be material to our financial statements. The accounting policies that reflect our more significant estimates, judgments and assumptions are described below.

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Revenue recognition Ciber earns revenue primarily from providing IT services to its clients, and to a much lesser extent, from the sale and resale of IT hardware and software products. Ciber's consulting services revenue comes from three primary sources: (1) technology integration services where we design, build and implement new or enhanced system applications and related processes; (2) general IT consulting services, such as system selection or assessment, feasibility studies, training and staffing; and (3) outsourcing and managed IT services in which we manage, staff, maintain, host or otherwise run solutions and/or systems provided to our customers. Contracts for these services have different terms based on the scope, deliverables and complexity of the engagement, which requires management to make judgments and estimates in recognizing revenue. Fees for these contracts may be in the form of time-and-materials or fixed-price billings. The majority of our consulting services revenue is recognized under time-and-materials contracts as hours and costs are incurred. Consulting services revenue also includes project-related reimbursable expenses for travel and other out-of-pocket expenses separately billed to clients.

Revenue for technology integration consulting services where we design/redesign, build and implement new or enhanced systems applications and related processes for our clients is generally recognized based on the percentage-of-completion method. Under the percentage-of-completion method, management estimates the percentage of completion based upon the contract costs incurred to date as a percentage of the total estimated contract costs. If the total cost estimate exceeds revenue, we accrue for the estimated loss immediately. The use of the percentage-of-completion method requires significant judgment relative to estimating total contract revenue and costs, including assumptions as to the length of time to complete the project, the nature and complexity of the work to be performed and anticipated changes in estimated costs. Estimates of total contract costs are continuously monitored during the term of the contract and recorded revenues and costs are subject to revision as the contract progresses. Such revisions may result in increases or decreases to revenue and income and are reflected in the consolidated financial statements in the periods in which they are first identified.

Revenue for general IT consulting services is recognized as work is performed and amounts are earned. We consider amounts to be earned once evidence of an arrangement has been obtained, services are delivered, fees are fixed or determinable and collectability is reasonably assured. For contracts with fees based on time-and-materials or cost-plus, we recognize revenue over the period of performance. For fixed-price contracts, depending on the specific contractual provisions and nature of the deliverables, revenue may be recognized on a proportional performance model based on level-of-effort, as milestones are achieved or when final deliverables have been provided.

Outsourcing and managed IT services arrangements typically span several years. Revenue from time-and-materials contracts is recognized as the services are performed. Revenue from unit-priced contracts is recognized as transactions are processed based on objective measures of output. Revenue from fixed-price contracts is recognized on a straight-line basis, unless revenues are earned and obligations are fulfilled in a different pattern. Costs related to delivering outsourcing and managed services are expensed as incurred, with the exception of labor and other direct costs related to the set-up of processes, personnel and systems, which are deferred during the transition period and expensed evenly over the period services are provided. Amounts billable to the client for transition or set-up activities, which do not have standalone value, are also deferred and recognized as revenue evenly over the period that the managed services are provided.

We sometimes enter into arrangements (excluding software license arrangements) with customers that purchase multiple services, or a combination of services and IT hardware products, from us at the same time, referred to as multiple-element arrangements. Each element within a multiple-element arrangement is accounted for as a separate unit of accounting provided that the delivered services or products have value to the customer on a standalone basis. We consider a deliverable element to have standalone value if the service or product is sold separately by us or another vendor or could be resold by the customer. For our multiple-element arrangements, the arrangement consideration is allocated at

the inception of the arrangement to all deliverable elements on the basis of their relative selling price (the relative selling price method). When applying the relative selling price method, the selling price for each deliverable is determined using vendor-specific objective evidence ("VSOE") of selling price if it exists; otherwise, third-party evidence ("TPE") of selling price is used. If neither VSOE nor TPE of selling price exists for a deliverable, then we use our best estimate of the selling price ("ESP") for that deliverable when applying the relative selling price method. Since our services are typically customized to each client's specific needs, VSOE and TPE are generally not available. We determine ESP for purposes of allocating the arrangement by considering several external and internal factors including, but not limited to, pricing practices, margin objectives, competition, geographies in which we offer our products and services, and internal costs. We limit the amount of revenue recognized for delivered elements to an amount that is not contingent upon future delivery of additional services or products.

Other revenue primarily includes resale of third-party IT hardware and software products, commissions on sales of IT products and, to a lesser extent, sales of proprietary software products. Revenue related to the sale of IT products is generally recognized when the products are shipped or if applicable, when delivered and installed in accordance with the terms of the sale. Where we are the re-marketer of certain IT products, commission revenue is recognized when the products are drop-shipped from the vendor to the customer. Our commission revenue represents the sales price to the customer less the cost paid to the vendor. Some software license arrangements also include implementation services and/or post-contract customer support. In such multi-element software arrangements, if the criteria are met, revenue is recognized based on the VSOE of the fair value of each element. If a software license arrangement containing multiple elements does not qualify for separate accounting for the implementation services, then the software license revenue and the related costs of third-party software products are generally recognized together with the software implementation services using the percentage-of-completion method. Revenue for software post-contract support is recognized ratably over the term of the related agreement.

Unbilled accounts receivable represent amounts recognized as revenue based on services performed in advance of billings in accordance with contract terms. Under our typical time-and-materials billing arrangement, we bill our customers on a regularly scheduled basis, such as biweekly or monthly. At the end of each accounting period, we accrue revenue for services performed since the last billing cycle. These unbilled amounts are generally billed the following month. Unbilled accounts receivable also arise when percentage-of-completion accounting is used and costs plus estimated contract earnings exceed billings. Such amounts are billed at specific milestone dates or at contract completion. Management expects all unbilled accounts receivable to be collected within one year of the balance sheet date. Billings in excess of revenue recognized are recorded as deferred revenue and are primarily comprised of deferred software support revenue.

Goodwill We perform our annual impairment analysis of goodwill as of June 30 each year, or more often if there are indicators of impairment present. We test each of our reporting units for goodwill impairment. Our reporting units are the same as our operating divisions and reporting segments. The goodwill impairment test requires a two-step process. The first step consists of comparing the estimated fair value of each reporting unit with its carrying amount, including goodwill. If the estimated fair value of a reporting unit exceeds its carrying value, then it is not considered impaired and no further analysis is required. If step one indicates that the estimated fair value of a reporting unit is less than its carrying value, then impairment potentially exists and the second step is performed to measure the amount of goodwill impairment. Goodwill impairment exists when the estimated implied fair value of a reporting unit's goodwill is less than its carrying value.

We compared the carrying values of our International and North America reporting units to their estimated fair values at June 30, 2012. We estimated the fair value of each reporting unit based on a weighting of both the income approach and the market approach. The discounted cash flows for each reporting unit serve as the primary basis for the income approach, and were based on discrete financial

forecasts developed by management. Cash flows beyond the discrete forecast period of five years were estimated using the perpetuity growth method calculation. The annual average revenue growth rates forecasted for our reporting units for the first five years of our projections were approximately 5%. We have projected a minor amount of operating profit margin improvement based on expected margin benefits from certain internal initiatives. The terminal value was calculated assuming projected growth rates of 3% after five years, which reflects our estimate of minimum long-term growth in IT spending. The income approach valuations also included each reporting unit's estimated weighted average cost of capital, which were 11.5% and 13.5% for International and North America, respectively. The market approach applied pricing multiples derived from publicly-traded companies that are comparable to the respective reporting units to determine their values. For our International and North America reporting units, we used enterprise value/revenue multiples of 0.6 and 0.4, respectively, and enterprise value/EBITDA multiples of approximately 7 and 5, respectively, in order to value each of our reporting units under the market approach. In addition, the fair value under the market approach included a control premium of 33%. The control premium was determined based on a review of comparative market transactions. Publicly-available information regarding our market capitalization was also considered in assessing the reasonableness of the cumulative fair values of our reporting units.

As a result of the first step of our goodwill impairment test as of June 30, 2012, we estimated that the fair values for our International and North America reporting units exceeded their carrying amounts by 70% and 12%, respectively, thus no impairment was indicated. We updated our cash flow forecasts and our other assumptions used to calculate the estimated fair value of our reporting units to account for our beliefs and expectations of the current business environment. While we believe our estimates are appropriate based on our view of current business trends, no assurance can be provided that impairment charges will not be required in the future.

For the quarter ended December 31, 2012, we reviewed for indicators of impairment and believed that the decline in our share price warranted an interim test for goodwill impairment for our reporting units. We compared the carrying values of our International and North America reporting units to their estimated fair values at December 31, 2012. We estimated the fair value of each reporting unit based on a weighting of both the income approach and the market approach. We used similar methodologies as during our annual impairment test date of June 30, 2012, and updated our business and valuation assumptions for the income and market approach. The discounted cash flow method (income approach) incorporates various Level 3 inputs including projected revenue growth rates, earnings margins, and the present value, based on the discount rate and terminal growth rate, of forecasted cash flows. The annual average revenue growth rates forecasted for our reporting units for the first five years of our projections were approximately 4%. Again, we projected a minor amount of operating profit margin improvement based on expected margin benefits from certain internal initiatives. The terminal value was calculated assuming projected growth rates of 3% after five years. The income approach valuations also included each reporting unit's estimated weighted average cost of capital, which were 13.0% and 15.5% for International and North America, respectively. The market approach applied pricing multiples derived from publicly-traded companies that are comparable to the respective reporting units to determine their values. For our International and North America reporting units, we used enterprise value/revenue multiples of 0.4 and 0.3, respectively, and enterprise value/EBITDA multiples of approximately 5 in order to value each of our reporting units under the market approach. In addition, the fair value under the market approach included a control premium of 35%. The control premium was determined based on a review of comparative market transactions. Publicly-available information regarding our market capitalization was also considered in assessing the reasonableness of the cumulative fair values of our reporting units.

As a result of the first step of our goodwill impairment test as of December 31, 2012, we estimated that the fair values for our International and North America reporting units exceeded their carrying amounts by 20% and 19%, respectively, thus no impairment was indicated. We updated our cash flow

forecasts and our other assumptions used to calculate the estimated fair value of our reporting units to account for our beliefs and expectations of the current business environment. While we believe our estimates are appropriate based on our view of current business trends, no assurance can be provided that impairment charges will not be required in the future.

We currently have a remaining goodwill balance of $276.6 million at December 31, 2012. The process of evaluating the potential impairment of goodwill is subjective and requires significant judgment at many points during the analysis. In estimating the fair value of the reporting units for the purpose of our annual or periodic goodwill impairment analysis, we make estimates and judgments about the future cash flows of the reporting units, including estimated growth rates and assumptions about the economic environment. Although our cash flow forecasts are based on assumptions that are consistent with the plans and estimates we are using to manage the underlying reporting units, there is significant judgment in determining the cash flows attributable to these reporting units. We consider our market capitalization, adjusted for unallocated monetary assets such as cash, debt, a control premium and other factors determined by management. As a result, several factors could result in the impairment of a material amount of our goodwill balance in future periods, including, but not limited to:

(1) failure of Ciber to reach our internal forecasts could impact our ability to achieve our forecasted levels of cash flows and reduce the estimated fair values of our reporting units; and

(2) a decline in our stock price and resulting market capitalization, if we determine that the decline is sustained and is indicative of a reduction in the fair value of either of our reporting units below their carrying values.

Adverse changes in our market capitalization, long-term forecasts and industry growth rates could result in additional impairment charges being recorded in future periods for goodwill attributed to any of our reporting units. Any future impairment charges would adversely affect our results of operations for those periods.

Income taxes Significant management judgment is required in determining the provision for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against net deferred tax assets. We are required to estimate income taxes in each jurisdiction where we operate. This process involves estimating actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as the depreciable life of fixed assets for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in the Consolidated Balance Sheets. We assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent recovery is believed unlikely, we establish a valuation allowance. Changes in the valuation allowance for deferred tax assets impact our income tax expense during the period.

As a result of our cumulative domestic losses, effective April 1, 2011, we recorded a non-cash charge of $29.1 million to provide a valuation allowance for all of our domestic deferred tax assets. In addition, we haven't recorded any deferred tax benefit for our domestic tax operating losses incurred after April 1, 2011. Our cumulative valuation allowance recorded against all of our deferred tax assets at December 31, 2012, was $35.7 million. The establishment of a valuation allowance does not impair our ability to use the deferred tax assets, such as net operating loss and tax credit carryforwards, upon achieving sufficient profitability. As we generate domestic taxable income in future periods, we do not expect to record significant related domestic income tax expense until the valuation allowance is significantly reduced. As we are able to determine that it is more likely than not that we will be able to utilize the deferred tax assets, we will reduce our valuation allowance. At December 31, 2012, we have federal net operating loss ("NOL") and federal tax credit carryforwards of approximately $40 million and $11 million, respectively. Of this total, $3 million of U.S. NOL carryforwards are subject to annual usage limitations under U.S. tax rules; however, they do not begin to expire until 2022. The remaining

NOL carryforwards do not begin to expire until 2030. Our Federal tax credit carryforwards are subject to annual usage limits but do not begin to expire until 2025. At December 31, 2012, we also have approximately $39 million of foreign NOL carryforwards. We have recorded a valuation allowance for approximately 99% of the foreign NOL carryforwards, as we do not believe it is more likely than not that we will utilize them. Approximately 30% of the foreign NOL carryforwards may expire.

We calculate our current and deferred tax provision based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed during the subsequent year. Adjustments based on filed returns are generally recorded in the period when the tax returns are filed. We apply an estimated annual effective tax rate to our quarterly operating results to determine the provision for income tax expense. In the event there is a significant unusual or infrequent item recognized in our quarterly operating results, the tax attributable to that item is recorded in the interim period in which it occurs. Changes in the geographic mix or estimated level of annual income before taxes will affect our overall effective tax rate.

We are regularly audited by various taxing authorities, and sometimes these audits involve proposed assessments where the ultimate resolution may result in us owing additional taxes, plus interest and possible penalties. Tax exposures can involve complex issues and may require an extended period to resolve. We establish reserves when, despite our belief that our tax return positions are appropriate and supportable under local tax law, we believe it is more likely than not that all or some portion of a tax benefit will not be realized as the result of an audit. We evaluate these reserves each quarter and adjust the reserves and the related interest in light of changing facts and circumstances regarding the estimates of tax benefits to be realized, such as the progress of a tax audit or the expiration of a statute of limitations. We believe the estimates and assumptions used to support our evaluation of tax benefit realization are reasonable. However, final determinations of prior-year tax liabilities, either by settlement with tax authorities or expiration of statutes of limitations, could be materially different from estimates reflected in assets and liabilities and historical income tax provisions. The outcome of these final determinations could have a material effect on our income tax provision, net income or cash flows in the period in which that determination is made. We believe our tax positions comply with applicable tax law and that we have adequately provided for any known tax contingencies.

In order to meet the scheduled principal reduction requirements for our term loan that were accelerated in the October 2011 amendment to the Senior Credit Facility, we repatriated $30 million of foreign cash to the U.S. in January 2012. We have recorded a $12 million deferred tax liability at December 31, 2011, based on our current estimate of the U.S. tax impact from the repatriation. However, due to our currently available net operating losses and tax credit carryforwards, the repatriation does not have a material tax impact to the Company. The repatriation reduces the available deferred tax benefits available to offset future domestic profits. Except for the $30 million cash repatriation, we have not provided for any additional U.S. income taxes on the undistributed earnings of our foreign subsidiaries as we do not plan to repatriate additional cash and we consider these to be permanently reinvested in the operations of such subsidiaries. If future events, including material changes in estimates of cash, working capital and long-term investment requirements, necessitate that these earnings be distributed, an additional provision for income taxes may apply, which could materially affect our future tax expense. Absent the availability of net operating losses or tax credits, the possible tax consequences of any foreign cash repatriation could be significant.

Allowance for doubtful accounts receivable We maintain an allowance for doubtful accounts at an amount we estimate to be sufficient to cover the risk of collecting less than full payment on our receivables. At December 31, 2012, we had gross accounts receivable of $202.0 million and our allowance for doubtful accounts was $1.8 million. Our allowance for doubtful accounts is based upon specific identification of probable losses. We review our accounts receivable and reassess our estimates of collectability each quarter. Historically, our bad debt expense has been a very small percentage of

our total revenue, as most of our revenues are from large, credit-worthy Global 2000 blue-chip companies and government agencies. Since 2008, as global economic conditions worsened, and we have taken on certain riskier clients, we have experienced a higher number of client bankruptcies, clients with financial difficulties, and clients refusing to pay for services. Our bad debt expense was $0.8 million, $0.3 million, and $6.4 million in 2012, 2011, and 2010, respectively. In 2010, four clients accounted for 77% of our total bad debt expense. If our clients' financial condition or liquidity were to deteriorate, resulting in an impairment of their ability to make payments, or if customers were to express dissatisfaction with the services we have provided, additional allowances may be required. Such items are very difficult to predict and require significant management judgment.

Accrued compensation and certain other accrued liabilities Employee compensation costs are our largest expense category. We have several different variable compensation programs that are highly dependent on estimates and judgments, particularly at interim reporting dates. Some programs are discretionary, while others have quantifiable performance metrics. Certain programs are annual, while others are quarterly or monthly. Often actual compensation amounts cannot be determined until after our results are reported. We believe we make reasonable estimates and judgments using all significant information available. In addition, the process to estimate the fair value of share-based compensation also involves various assumptions, inputs, and judgments. We estimate the amounts required for incurred but not reported health claims under our self-insured employee benefit programs. Our accrual for health costs is based on historical experience and specific claim activity and actual amounts may vary. In the ordinary course of business, we are currently involved in various claims and legal proceedings. We periodically review the status of each significant matter and assess our potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss. We use significant judgment in both the determination of probability and the determination as to whether an exposure is reasonably estimable. Because of uncertainties related to these matters, accruals are based only on the best information at that time. As additional information becomes available, we reassess the potential liability related to our pending claims and litigation and may revise our estimates. Such revisions in the estimates of potential liabilities could have a material impact on our financial position and results of operations. We expense legal fees as incurred.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risks related to changes in foreign currency exchange rates and interest rates. We believe our exposure to other market risks is immaterial.

During 2012, approximately 51%, or $454 million of our total revenue was attributable to our foreign operations. Using sensitivity analysis, a hypothetical 10% increase or decrease in the value of the U.S. dollar against all currencies would change total revenue by 5.1%, or $45 million. A portion of this fluctuation would be offset by expenses incurred in local currency. Additionally, we have exposure to changes in foreign currency rates related to short-term inter-company transactions with our foreign subsidiaries and from client receivables in different currencies. Foreign sales are mostly made by our foreign subsidiaries in their respective countries and are typically denominated in the local currency of each country. Our foreign subsidiaries incur most of their expenses in their local currency as well, which helps minimize our risk of exchange rate fluctuations.

Our exposure to changes in interest rates arises primarily because our indebtedness under the ABL Facility of our Credit Agreement has a variable interest rate. At December 31, 2012, our outstanding borrowings under our ABL Facility were $19.8 million. At December 31, 2012, our weighted average interest rate on the outstanding borrowings of the ABL under the Credit Agreement was 4.38%. Therefore, a 1% increase in interest rates on outstanding indebtedness under the ABL Facility would result in approximately $0.2 million of additional interest expense.

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Item 8. Financial Statements and Supplementary Data

The following consolidated financial statements and supplementary data are included as part of this Annual Report on Form 10-K:

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Consolidated Statements of Operations Years Ended December 31, 2012, 2011 and 2010	51
Consolidated Statements of Comprehensive Income (Loss) Years ended December 31, 2012, 2011 and 2010	52
Consolidated Balance Sheets December 31, 2012 and 2011	53
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Consolidated Statements of Cash Flows Years Ended December 31, 2012, 2011 and 2010	55
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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Ciber, Inc.

We have audited the accompanying consolidated balance sheets of Ciber, Inc. and subsidiaries (the Company) as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Denver, Colorado
February 26, 2013

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Ciber, Inc. and Subsidiaries

Consolidated Statements of Operations

(In thousands, except per share amounts)

	Year Ended December 31,		
	2012	2011	2010
REVENUES			
Consulting services	$ 833,496	$ 856,113	$ 840,913
Other revenue	50,942	44,943	40,710
Total revenues	884,438	901,056	881,623
OPERATING EXPENSES			
Cost of consulting services	624,729	646,953	629,808
Cost of other revenue	31,142	25,384	23,787
Selling, general and administrative	205,550	219,723	213,740
Goodwill impairment		16,300	82,000
Amortization of intangible assets	644	1,534	3,213
Restructuring charges	7,981		
Total operating expenses	870,046	909,894	952,548
OPERATING INCOME (LOSS) FROM CONTINUING OPERATIONS	14,392	(8,838)	(70,925)
Interest income	743	987	614
Interest expense	(5,976)	(7,898)	(6,553)
Other income (expense), net	(258)	(2,524)	61
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	8,901	(18,273)	(76,803)
Income tax expense (benefit)	11,373	32,450	(22,849)
NET LOSS FROM CONTINUING OPERATIONS	(2,472)	(50,723)	(53,954)
Loss from discontinued operations, net of income tax	(11,610)	(16,509)	(23,736)
CONSOLIDATED NET LOSS	(14,082)	(67,232)	(77,690)
Net income (loss) attributable to noncontrolling interests	545	29	(530)
NET LOSS ATTRIBUTABLE TO CIBER, INC.	$ (14,627)	$ (67,261)	$ (77,160)
Basic and diluted loss per share attributable to Ciber, Inc.:			
Continuing operations	$ (0.04)	$ (0.71)	$ (0.77)
Discontinued operations	(0.16)	(0.23)	(0.34)
Basic and diluted loss per share attributable to Ciber, Inc.	$ (0.20)	$ (0.94)	$ (1.11)
Weighted average shares outstanding Basic and Diluted	73,166	71,831	69,626

See accompanying notes to consolidated financial statements.

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Ciber, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)

(In thousands)

	Year Ended December 31,		
	2012	2011	2010
Consolidated net loss	$ (14,082)	$ (67,232)	$ (77,690)
Gain (loss) on hedging activity, net of tax		284	(86)
Foreign currency translation adjustments	7,214	(7,946)	(11,462)
Comprehensive loss	(6,868)	(74,894)	(89,238)
Comprehensive income (loss) attributable to noncontrolling interests	545	34	(546)
Comprehensive loss attributable to Ciber, Inc.	$ (7,413)	$ (74,928)	$ (88,692)

See accompanying notes to consolidated financial statements.

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Ciber, Inc. and Subsidiaries

Consolidated Balance Sheets

(In thousands, except per share amounts)

	December 31,	
	2012	2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 58,849	$ 65,567
Accounts receivable, net of allowances of $1,752 and $1,422, respectively	200,257	182,359
Prepaid expenses and other current assets	22,164	25,041
Deferred income taxes	1,890	3,302
Current assets of discontinued operations		21,041
Total current assets	283,160	297,310
Property and equipment, net of accumulated depreciation of $47,859 and $43,617, respectively	13,683	17,827
Goodwill	276,599	275,504
Other assets	7,029	5,888
Long-term assets of discontinued operations		28,541
TOTAL ASSETS	$ 580,471	$ 625,070
LIABILITIES AND EQUITY		
Liabilities:		
Current liabilities:		
Current portion of long-term debt	$ 6,337	$ 25,571
Accounts payable	30,775	35,112
Accrued compensation and related liabilities	68,900	60,124
Deferred revenue	21,872	19,876
Income taxes payable	4,331	8,613
Other accrued expenses and liabilities	45,477	45,454
Current liabilities of discontinued operations		9,742
Total current liabilities	177,692	204,492
Long-term debt	19,790	41,380
Deferred income taxes	21,848	15,462
Other long-term liabilities	2,188	6,729
Total liabilities	221,518	268,063
Commitments and contingencies		
Equity:		
Ciber, Inc. shareholders' equity:		
Preferred stock, $0.01 par value, 1,000 shares authorized, no shares issued		
Common stock, $0.01 par value, 100,000 shares authorized, 74,487 shares issued	745	745
Treasury stock, at cost, 708 and 1,919 shares, respectively	(4,057)	(10,998)
Additional paid-in capital	337,639	330,088
Retained earnings	24,032	44,337
Accumulated other comprehensive income (loss)	208	(7,006)
Total Ciber, Inc. shareholders' equity	358,567	357,166

Noncontrolling interests	386	(159)
Total equity	358,953	357,007
TOTAL LIABILITIES AND EQUITY	$ 580,471	$ 625,070

See accompanying notes to consolidated financial statements.

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Ciber, Inc. and Subsidiaries

Consolidated Statements of Shareholders' Equity

(In thousands)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Ciber, Inc. Shareholders' Equity	Noncontrolling Interests	Total Shareholders' Equity
	Shares	Amount	Shares	Amount						
BALANCES AT JANUARY 1, 2010	74,487	745	(5,005)	(30,069)	322,999	199,668	12,193	505,536	710	506,246
Consolidated net loss						(77,160)		(77,160)	(530)	(77,690)
Loss on hedging activity, net of $52 tax							(86)	(86)		(86)
Foreign currency translation							(11,446)	(11,446)	(16)	(11,462)
Acquisition of noncontrolling interest					(1,201)			(1,201)	(357)	(1,558)
Treasury shares issued under employee share plans			1,216	7,040	(430)	(4,226)		2,384		2,384
Tax benefit from employee share plans					20			20		20
Share-based compensation			82	470	3,789	(169)		4,090		4,090
Purchases of treasury stock			(656)	(2,444)				(2,444)		(2,444)
BALANCES AT DECEMBER 31, 2010	74,487	745	(4,363)	(25,003)	325,177	118,113	661	419,693	(193)	419,500
Consolidated net loss						(67,261)		(67,261)	29	(67,232)
Gain on hedging activity, net of $174 tax							284	284		284
Foreign currency translation							(7,951)	(7,951)	5	(7,946)
Treasury shares issued under employee share plans			2,444	14,005		(6,515-	770			
Issuance of non-vested restricted shares	1,245	13,627								
Forfeiture of restricted shares	(835)	(2,023)								
Common shares	4,095,271	4,096,774								

outstanding
at end of the
period

Preferred Stock - Beginning with the payment date of December 1, 2011, the Company deferred dividend payments on its Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the "Series A Shares"), and Series B (the "Series B Shares"). Although the Company may defer dividend payments, the dividend is a cumulative dividend and failure to pay dividends for six dividend periods would trigger board appointment rights for the holder of these shares. Since the Company has not paid the dividend on its Series A and Series B shares for more than six quarterly periods, the holder of the Company's Series A and Series B shares now has the right to appoint up to two directors to the Company's board of directors.

On March 1, 2013, the United States Department of the Treasury (the "Treasury"), the holder of all 15,249 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A Shares, and 767 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series B Shares, announced that it had auctioned the securities in a private transaction with unaffiliated third-party investors. The Company received no proceeds from the transaction. The clearing prices for the Series A Shares and the Series B Shares were $679.61 per share and $822.61, respectively. Both series have a liquidation preference of $1,000 per share. The closing of the private sale occurred on March 11, 2013.

The sale of the securities had no effect on their terms, including the Company's obligation to satisfy accrued and unpaid dividends (aggregating approximately $1.5 million) prior to payment of any dividend or other distribution to holders of pari pasu or junior stock, including the Company's Fixed Rate Cumulative Mandatorily Convertible Preferred Stock, Series C (the "Series C Shares"), and its common stock, and an increase in the dividend rate on the Series A Shares from 5% to 9% on May 15, 2014. Further, the sale of the securities will have no effect on the Company's capital, financial condition or results of operations. However, the Company generally will not be subject to various executive compensation and corporate governance requirements to which it was subject while Treasury held the securities.

Note 8 – Income Taxes

The income tax expense related to the Company's pretax income for the first quarters of 2013 and 2012 was offset by a reversal of an equal amount of the Company's valuation allowance related to its deferred tax assets. Therefore no income tax provision was recorded for the first quarters of 2013 and 2012.

Note 9 – Net Income (Loss) Per Common Share

Net income (loss) available to common shareholders represents net income adjusted for preferred dividends including dividends declared, accretions of discounts and amortization of premiums on preferred stock issuances and cumulative dividends related to the current dividend period that have not been declared as of period end. All potential dilutive common shares equivalents were deemed to be anti-dilutive for the quarter ended March 31, 2013, due to the net loss available to common shareholders.

The following is a summary of the net income (loss) per common share calculations for the three months ended March 31, 2013 and 2012.

	2013	2012
Net income (loss) available to common shareholders		
Net income	$13,421	$378,488
Preferred stock dividends	249,248	249,248
Deemed dividends on preferred stock resulting from net accretion of discount and amortization of premium	43,900	44,388
Net income (loss) available to common shareholders	$(279,727)	$84,852

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	2013	2012
Basic net income (loss) per common share:		
Net income (loss) available to common shareholders	$(279,727)	$84,852
Average common shares outstanding – basic	4,094,866	4,085,855
Basic income (loss) per common share	$(0.07)	$0.02
Diluted net income (loss) per common share:		
Net income (loss) available to common shareholders	$(279,727)	$84,852
Average common shares outstanding – basic	4,094,866	4,085,855
Dilutive potential common shares	-	213,717
Average common shares outstanding – diluted	4,094,866	4,299,572
Diluted net income (loss) per common share	$(0.07)	$0.02

Note 10 - Equity Incentive Plan

On January 19, 2006, the Company adopted the 2006 Equity Incentive Plan, which provides for the granting of dividend equivalent rights options, performance unit awards, phantom shares, stock appreciation rights and stock awards, each of which are subject to such conditions based upon continued employment, passage of time or satisfaction of performance criteria or other criteria as permitted by the plan. The plan, as amended on September 17, 2010, allows the Company to award, subject to approval by the Board of Directors, up to 950,000 shares of stock, to officers, employees, and directors, consultants and service providers of the Company or its affiliates. Awards may be granted for a term of up to ten years from the effective date of grant. Under this Plan, our Board of Directors has sole discretion as to the exercise date of any awards granted. The per-share exercise price of incentive stock awards may not be less than the market value of a share of common stock on the date the award is granted. Any awards that expire unexercised or are canceled become available for re-issuance.

The Company can issue the restricted shares as of the grant date either by the issuance of share certificate(s) evidencing restricted shares or by documenting the issuance in uncertificated or book entry form on the Company's stock records. Except as provided by the Plan, the employee does not have the right to make or permit to exist any transfer or hypothecation of any restricted shares. When restricted shares vest, the employee must either pay the Company within two business days the amount of all tax withholding obligations imposed on the Company or make an election pursuant to Section 83(b) of the Internal Revenue Code to pay taxes at grant date.

Restricted shares may be subject to one or more objective employment, performance or other forfeiture conditions established by the Plan Committee at the time of grant. The restricted shares will not vest unless the Company’s

retained earnings at the end of the fiscal quarter preceding the third anniversary of the restricted share award date are greater than the award value of the restricted shares. Any shares of restricted stock that are forfeited will again become available for issuance under the Plan. An employee or director has the right to vote the shares of restricted stock after grant until they are forfeited or vested. Compensation cost for restricted stock is equal to the market value of the shares at the date of the award and is amortized to compensation expense over the vesting period. Dividends, if any, will be paid on awarded but unvested stock.

During the three months ended March 31, 2013 and 2012 the Company issued 1,245 and 13,627 shares, respectively, of restricted stock pursuant to the 2006 Equity Incentive Plan. The shares cliff vest in three years and are fully vested in 2016 and 2015, respectively, subject to meeting the performance criteria of the Plan. The weighted-average fair value per share of restricted stock issued during the three months ended March 31, 2013 and 2012 was $1.76 and $1.05, respectively. Compensation cost associated with the issuances was $2,191 and $14,308 for the quarter ended March 31, 2013 and 2012, respectively. During the first quarters of 2013 and 2012, 835 and 2,023 shares were forfeited, respectively, having a weighted average price of $3.50 and $3.18, respectively. Shares vested in the first quarters of 2013 and 2012 were 30,229 and 56,527, respectively. Compensation cost amortized to expense for the first quarters of 2013 and 2012 was $39,039 and $65,756, respectively.

The 2006 Equity Incentive Plan allows for the issuance of Stock Appreciation Rights ("SARs"). The SARs entitle the participant to receive the excess of (1) the market value of a specified or determinable number of shares of the stock at the exercise date over the fair value at grant date or (2) a specified or determinable price which may not in any event be less than the fair market value of the stock at the time of the award. Upon exercise, the Company can elect to settle the awards using either Company stock or cash. The shares start vesting after five years and vest at 20% per year until fully vested. Compensation cost for SARs is amortized to compensation expense over the vesting period.

During the first quarter of 2012, the Board of Directors cancelled all 84,334 SARs that were outstanding at December 31, 2011. Holders of these SARs were given cash and restricted stock totaling $37,500 in exchange for the cancellation. The cancellation resulted in the removal of all accrued SARs expense and related unrecognized compensation costs. For the year ended December 31, 2012, net income of $337,153 was recognized as a result of the cancellation. No SARS were issued during 2012 or during the first quarter of 2013.

Note 11 – Fair Value Measurements

Generally accepted accounting principles ("GAAP") provide a framework for measuring and disclosing fair value that requires disclosures about the fair value of assets and liabilities recognized in the balance sheet, whether the measurements are made on a recurring basis (for example, available-for-sale investment securities) or on a nonrecurring basis (for example, impaired loans).

Fair value is defined as the exchange in price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The Company utilizes fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application of the lower of cost or market accounting or the writing down of individual assets.

The following methods and assumptions were used to estimate the fair value of significant financial instruments:

Fair Value Hierarchy

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine the fair value. These levels are:

Level 1 - Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 - Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 - Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models and similar techniques.

Assets Recorded at Fair Value on a Recurring Basis

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value.

Securities Available-for-Sale - Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange such as the New York Stock Exchange, Treasury securities that are traded by dealers or brokers in active over-the counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government-sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Loans - The Company does not record loans at fair value on a recurring basis, however, from time to time, a loan is considered impaired and an allowance for loan loss is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan are considered impaired. Once a loan is identified as individually impaired, management measures impairment. The fair value of impaired loans is estimated using one of several methods, including the collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring a specific allowance represent loans for which the fair value of expected repayments or collateral exceed the recorded investment in such loans. At March 31, 2013 and December 31, 2012, a significant portion of impaired loans were evaluated based upon the fair value of the collateral. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the loan as nonrecurring Level 3.

Mortgage Loans Held for Sale - The fair value of loans held for sale is estimated based upon binding contracts and quotes from third party investors resulting in a Level 2 classification.

Other Real Estate Owned - Foreclosed assets are adjusted to fair value upon transfer of the loans to other real estate owned. Real estate acquired in settlement of loans is recorded initially at estimated fair value of the property less estimated selling costs at the date of foreclosure. The initial recorded value may be subsequently reduced by additional allowances, which are charges to earnings if the estimated fair value of the property less estimated selling costs declines below the initial recorded value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as nonrecurring Level 3.

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy at March 31, 2013 and 2012.

	Total	Level 1	Level 2	Level 3
March 31, 2013				
Available-for-sale securities:				
U.S. Government-sponsored agencies	$7,916,599	$ -	$7,916,599	$ -
Mortgage-backed securities	47,125,914	-	47,125,914	-
Equity security	30,000	-	30,000	-
	55,072,513	-	55,072,513	-
Mortgage loans held for sale (1)	2,884,964	-	2,884,964	-
	$57,957,477	$ -	$57,957,477	$ -

(1) Carried at the lower of cost or market.

December 31, 2012				
Available-for-sale securities:				
U.S. Government-sponsored agencies	$8,109,028	$-	$8,109,028	$-
Mortgage-backed securities	51,956,484	-	51,956,484	-
Equity security	5,500	-	5,500	-
	60,071,012	-	60,071,012	-
Mortgage loans held for sale (1)	5,621,860	-	5,621,860	-
	$65,692,872	$-	$65,692,872	$-

(1) Carried at the lower of cost or market.

There were no liabilities measured at fair value on a recurring basis at March 31, 2013 and December 31, 2012.

Assets Recorded at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents the assets and liabilities measured at fair value on a nonrecurring basis at March 31, 2013 and December 31, 2012, aggregated by level in the fair value hierarchy within which those measurements fall.

	Total	Level 1	Level 2	Level 3
March 31, 2013				
Collateral-dependent impaired loans receivable	$21,578,164	$ -	$ -	$21,578,164
Other real estate owned	15,075,027	-	-	15,075,027
Total assets at fair value	$36,653,191	$ -	$ -	$36,653,191
December 31, 2012				
Collateral-dependent impaired loans receivable	$18,951,232	$ -	$ -	$18,951,232
Other real estate owned	15,289,991	-	-	15,289,991
Total assets at fair value	$34,241,223	$ -	$ -	$34,241,223

For level 3 assets measured at fair value on a non-recurring basis as of March 31, 2013 and December 31, 2012, the significant unobservable inputs in the fair value measurements were as follows:

	Valuation Technique	Significant Unobservable Inputs	**General Range**
Collateral-dependant impaired loans receivable	Appraised Value	Collateral discounts	0-10%
Other real estate owned	Appraised Value	Collateral discounts and estimated costs to sell	0-10%

There were no liabilities measured at fair value on a nonrecurring basis at March 31, 2013 and December 31, 2012.

Disclosures about Fair Value of Financial Instruments

The following describes the valuation methodologies used by the Company for estimating fair value of financial instruments not recorded at fair value in the balance sheet on a recurring or nonrecurring basis:

Cash and Due from Banks and Interest-bearing Deposits with Other Banks - The carrying amount is a reasonable estimate of fair value.

Time Deposits in other Banks - The carrying amount is a reasonable estimate of fair value.

Nonmarketable Equity Securities - The carrying amount of nonmarketable equity securities is a reasonable estimate of fair value since no ready market exists for these securities.

Loans Receivable – For certain categories of loans, such as variable rate loans which are repriced frequently and have no significant change in credit risk, fair values are based on the carrying amounts. The fair value of other types of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Deposits - The fair value of demand deposits, savings, and money market accounts is the amount payable on demand at the reporting date. The fair values of certificates of deposit are estimated using a discounted cash flow calculation that applies current interest rates to a schedule of aggregated expected maturities.

Securities Sold Under Agreements to Repurchase - The carrying amount is a reasonable estimate of fair value because these instruments typically have terms of one day.

Advances From Federal Home Loan Bank - The fair values of fixed rate borrowings are estimated using a discounted cash flow calculation that applies the Company's current borrowing rate from the Federal Home Loan Bank. The carrying amounts of variable rate borrowings are reasonable estimates of fair value because they can be repriced frequently.

Junior Subordinated Debentures - The carrying value of the junior subordinated debentures approximates their fair value since they were issued at a floating rate.

Accrued Interest Receivable and Payable - The carrying value of these instruments is a reasonable estimate of fair value.

Off-Balance Sheet Financial Instruments - Fair values of off-balance sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

The following presents the carrying amount, fair value, and placement in the fair value hierarchy of the Company's financial instruments as of March 31, 2013 and December 31, 2012. This table excludes financial instruments for which the carrying amount approximates fair value. For short-term financial assets such as cash and cash equivalents, the carrying amount is a reasonable estimate of fair value due to the relatively short time between the origination of the instrument and its expected realization. For financial liabilities such as noninterest-bearing demand, interest-bearing demand, and savings deposits, the carrying amount is a reasonable estimate of fair value due to these products having no stated maturity.

			Fair Value Measurements		
	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2013					
Financial Assets:					
Loans receivable	$256,710,111	$260,458,000	$-	$-	$260,458,000
Financial Liabilities:					
Certificates of deposit	$128,345,352	$129,694,000	$-	$129,694,000	$-
Advances from Federal Home Loan Bank	11,000,000	11,040,000	-	11,040,000	-
December 31, 2012					
Financial Assets:					
Loans receivable	$260,257,334	$258,758,000	$-	$-	$258,758,000
Financial Liabilities:					
Certificates of deposit	$144,690,932	$146,539,000	$-	$146,539,000	$-
Advances from Federal Home Loan Bank	11,000,000	11,077,000	-	11,077,000	-

Note 12 - Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Unrecognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Management has reviewed events occurring through the date the financial statements were issued and no subsequent events occurred that require accrual or disclosure.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation

The following discussion reviews our results of operations and assesses our financial condition. You should read the following discussion and analysis in conjunction with the accompanying consolidated financial statements. The commentary should be read in conjunction with the discussion of forward-looking statements, the financial statements and the related notes and the other statistical information included in this report.

Cautionary Note Regarding Forward-Looking Statements

The statements contained in this report on Form 10-Q that are not historical facts are forward-looking statements subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. We caution readers of this report that such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from those expressed or implied by such forward-looking statements.

Although we believe that our expectations of future performance are based on reasonable assumptions within the bounds of our knowledge of our business and operations, there can be no assurance that actual results will not differ materially from our expectations.

These forward-looking statements involve risks and uncertainties and may not be realized due to a variety of factors, including, but not limited to the following:

- deterioration in the financial condition of borrowers resulting in significant increases in loan losses and provisions for those losses;
- changes in loan underwriting, credit review or loss reserve policies associated with economic conditions, examination conclusions, or regulatory developments;
- the failure of assumptions underlying the establishment of reserves for possible loan losses;
- changes in political and economic conditions, including the political and economic effects of the current economic downturn and other major developments, including the ongoing war on terrorism, continued tensions in the Middle East, and the ongoing economic challenges facing the European Union;

- changes in financial market conditions, either internationally, nationally or locally in areas in which the Company conducts its operations, including, without limitation, reduced rates of business formation and growth, commercial and residential real estate development, and real estate prices;

- the Company's ability to comply with any requirements imposed on it or the Bank by their respective regulators, and the potential negative consequences that may result;

- the impacts of renewed regulatory scrutiny on consumer protection and compliance led by the newly-created Consumer Finance Protection Bureau;

- fluctuations in markets for equity, fixed-income, commercial paper and other securities, which could affect availability, market liquidity levels, and pricing;

- governmental monetary and fiscal policies, including the undetermined effects of the Federal Reserve's "Quantitative Easing" program, as well as other legislative and regulatory changes;

- changes in capital standards and asset risk-weighting included in proposed Federal Reserve rules to implement the so-called "Basel III" accords;

- the Company's participation or lack of participation in governmental programs implemented under the Emergency Economic Stabilization Act (the "EESA") and the American Recovery and Reinvestment Act (the "ARRA"), including, without limitation, the Capital Purchase Program ("CPP") administered under the Troubled Asset Relief Program ("TARP");

- the risks of changes in interest rates or an unprecedented period of record-low interest rates on the level and composition of deposits, loan demand and the values of loan collateral, securities and interest sensitive assets and liabilities;

- the effects of competition from other commercial banks, thrifts, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and other mutual funds and other financial institutions operating in our market area and elsewhere, including institutions operating regionally, nationally and internationally, together with such competitors offering banking products and services by mail, telephone and the Internet; and

- the effect of any mergers, acquisitions or other transactions, to which we or our subsidiary may from time to time be a party, including, without limitation, our ability to successfully integrate any businesses that we acquire.

Forward-looking statements speak only as of the date on which they are made. We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made to reflect the occurrence of unanticipated events.

Overview

The following discussion describes our results of operation for the quarter ended March 31, 2013 as compared to the quarter ended March 31, 2012 and also analyzes our financial condition as of March 31, 2013 as compared to December 31, 2012.

Like most community bank holding companies, we derive the majority of our income from interest received on our loans and investments. Our primary source of funds for making these loans and investments is our deposits, on which we pay interest. Consequently, one of the key measures of our success is our amount of net interest income, or the difference between the income on our interest-earning assets, such as loans and investments, and the expense on our interest-bearing liabilities, such as deposits and borrowings. Another key measure is the spread between the yield we earn on these interest-earning assets and the rate we pay on our interest-bearing liabilities, which is called our net interest spread.

Due to risks inherent in all loans, we maintain an allowance for loan losses to absorb probable losses on existing loans that may become uncollectible. We maintain this allowance by charging a provision for loan losses against our operating earnings for each period. We have included a detailed discussion of this process, as well as several tables describing our allowance for loan losses.

In addition to earning interest on our loans and investments, we earn income through fees and other charges to our customers. We have also included a discussion of the various components of this non-interest income, as well as our non-interest expense.

The following discussion and analysis also identifies significant factors that have affected our financial position and operating results during the periods included in the accompanying financial statements. We encourage you to read this discussion and analysis in conjunction with our financial statements and the other statistical information included in our filings with the SEC.

Critical Accounting Policies

We have adopted various accounting policies, which govern the application of accounting principles generally accepted in the United States of America in the preparation of our financial statements. Our significant accounting policies are described in the notes to the consolidated financial statements at December 31, 2012 as filed on our annual report on Form 10-K. Certain accounting policies involve significant judgments and assumptions we have made, which have a material impact on the carrying value of certain assets and liabilities. We consider these accounting policies to be critical accounting policies. The judgments and assumptions we use are based on the historical experience and other factors, which we believe to be reasonable under the circumstances. Because of the nature of our judgments and assumptions, actual results could differ from these judgments and estimates which could have a major impact on our carrying values of assets and liabilities and our results of operations.

We believe the allowance for loan losses is a critical accounting policy that requires the most significant judgments and estimates used in preparation of our consolidated financial statements. Refer to the portion of this discussion that addresses our allowance for loan losses for a description of our processes and methodology for determining our allowance for loan losses.

Recent Developments

On March 1, 2013, the United States Department of the Treasury (the “Treasury”), the holder of all 15,249 shares of the Company’s Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the “Series A Shares”), and 767 shares of the Company’s Fixed Rate Cumulative Perpetual Preferred Stock, Series B (the “Series B Shares”), announced that it had auctioned the securities in a private transaction with unaffiliated third-party investors. The Company received no proceeds from the transaction. The clearing prices for the Series A Shares and the Series B Shares were $679.61 per share and $822.61, respectively. Both series have a liquidation preference of $1,000 per share. The closing of the private sale occurred on March 11, 2013.

The sale of the securities had no effect on their terms, including the Company’s obligation to satisfy accrued and unpaid dividends (aggregating approximately $1.5 million) prior to payment of any dividend or other distribution to holders of pari pasu or junior stock, including the Company’s Fixed Rate Cumulative Mandatorily Convertible Preferred Stock, Series C (the “Series C Shares”), and its common stock, and an increase in the dividend rate on the Series A Shares from 5% to 9% on May 15, 2014. Further, the sale of the securities will have no effect on the Company’s capital, financial condition or results of operations. However, the Company generally will not be subject to various executive compensation and corporate governance requirements to which it was subject while Treasury held the securities.

Regulatory Matters

Following an examination of the Bank by the Federal Deposit Insurance Corporation (the “FDIC”) during the first quarter of 2010, the Bank’s Board of Directors agreed to enter into a Memorandum of Understanding (the “Bank MOU”) with the FDIC and South Carolina Commissioner of Banks (the “SC State Board”) that became effective August 19, 2010. Among other things, the Bank MOU provides for the Bank to (i) review and formulate objectives relative to liquidity and growth, including a reduction in reliance on volatile liabilities, (ii) formulate plans for the reduction and improvement in adversely classified assets, (iii) maintain a Tier 1 leverage capital ratio of 8% and continue to be “well capitalized” for regulatory purposes, (iv) continue to maintain an adequate allowance for loan and lease losses, (v) not pay any dividend to the Bank’s parent holding company without the approval of the regulators, (vi) review officer performance and consider additional staffing needs, and (vii) provide progress reports and submit various other information to the regulators.

In addition, on the basis of the same examination by the FDIC and the SC State Board, the Federal Reserve Bank of Richmond (the “Federal Reserve Bank”) requested that the Company enter into a separate Memorandum of Understanding, which the Company entered into in December 2010 (the “Company MOU”). While this agreement provides for many of the same measures suggested by the Memorandum already in place for the Bank, the Company MOU requires that the Company seek pre-approval from the Federal Reserve Bank prior to the declaration or payment of dividends or other interest payments relating to its securities. As a result, until the Company is no longer subject to the Company MOU, it will be required to seek regulatory approval prior to paying scheduled dividends on its preferred stock and trust preferred securities, including the Series A and Series B Shares, as well as the Series C Shares issued as part of a private offering completed in 2010. This provision will also apply to the Company’s common stock, although to date, the Company has not elected to pay dividend on its shares of common stock.

The Federal Reserve Bank approved the scheduled payment of dividends on the Company’s preferred stock and interest payments on the Company’s trust preferred securities for the first three quarters of 2011; however, the Federal Reserve did not approve the Company’s request to pay dividends and interest payments relating to its outstanding classes of preferred stock and trust preferred securities due and payable in the six consecutive quarters ended March 31, 2013. Additionally, such approval was not granted for payments due in the second quarter of 2013. As a result, no assurance can be given as to the ability of the Company to obtain approval from the Federal Reserve Bank to resume the payment of such dividends and interest in future quarters while the Company MOU remains in effect. Since the Company has not paid the dividend on its Series A and Series B Shares for more than six quarterly periods, the holder of the Company’s Series A and Series B Shares now has the right to appoint up to two directors to the Company’s board of directors.

In response to these regulatory matters, the Bank and the Company have taken various actions designed to improve our lending procedures, nonperforming assets, liquidity and capital position and other conditions related to our operations, which are more fully described in turn as part of this discussion. We believe that the successful completion of these initiatives will result in full compliance with our regulatory obligations with the FDIC, the SC State Board and the Federal Reserve Bank and position us well for stability and growth over the long term.

Effect of Economic Trends

Economic conditions, competition and federal monetary and fiscal policies also affect financial institutions. Lending activities are also influenced by regional and local economic factors, such as housing supply and demand, competition among lenders, customer preferences and levels of personal income and savings in our primary market area.

Results of Operations

Our results of operations for the first quarter of 2013 were $364,579 lower than the first quarter of 2012. For the first quarter 2013, we incurred a net loss available to common shareholders of $279,727, or a basic and diluted loss per share of $0.07. For the first quarter 2012, we reported a net income available to common shareholders of $84,852, or a basic and diluted income per share of $0.02.

Our 2013 operating results were negatively impacted by the reduction of $707,883 in our net interest income and a reduction of $136,943 in our noninterest income. In addition, our operating results were negatively impacted by the increase of $120,241 in noninterest expenses. However, not having to provide a provision for loan losses for the first quarter of 2013 offset these negative factors by $600,000. See the following for a detailed discussion of each of these items.

Income Statement Review

Net Interest Income

The largest component of our net income is net interest income, which is the difference between the income earned on assets and interest paid on deposits and on the borrowings used to support such assets. Net interest income is determined by the yields earned on our interest-earning assets and the rates paid on interest-bearing liabilities, the relative amounts of interest-earning assets and interest-bearing liabilities, and the degree of mismatch and the maturity and repricing characteristics of interest-earning assets and interest-bearing liabilities. The total interest-earning assets yield rate less the total interest-bearing liabilities rate represents our net interest rate spread.

Net interest income for the first quarter of 2013 was $3,045,620 compared to $3,753,503 for the first quarter of 2012, a decrease of $707,883, or 18.86%. The decrease is due primarily to the significant reduction in the average volume of our loans, which are our earning assets with the highest yields. Comparing the first quarter of 2013 with that of 2012, the average volume of our loans declined $41,806,756, or 13.76%

For the first quarter of 2013, average-earning assets totaled $356,963,528 with an annualized average yield of 4.37% compared to $429,875,140 and 4.76%, respectively, for the first quarter of 2012. Average interest-bearing liabilities totaled $308,409,906 with an annualized average cost of 1.05% for first quarter of 2013 compared to $388,206,350 and 1.38%, respectively, for the first quarter of 2012.

Our net interest margin and net interest spread were 3.46% and 3.32%, respectively, for the first quarter of 2013 compared to 3.51% and 3.38%, respectively, for the first quarter of 2012.

Because loans often provide a higher yield than other types of earning assets, one of our goals is to maintain our loan portfolio as the largest component of total earning assets. Loans comprised 73.40% and 70.68% of average earning assets at March 31, 2013 and 2012, respectively. Loan interest income for the three months ended March 31 2013 and 2012 was $3,471,204 and $4,399,827, respectively. The annualized average yield on loans was 5.37% and 5.82% for the first quarters of 2013 and 2012, respectively. Average balances of loans decreased to $262,024,318 during the first quarter of 2013, a decrease of $41,806,756 from the average of $303,831,074 during first quarter of 2012. Our loan interest income for the first quarter of 2013 was negatively affected by the significant decrease in the average volume of our loans and a slow recovery in our local real estate markets. Additional information may be found in the “Rate/Volume Analysis” presented on the following page.

Available-for-sale investment securities averaged $57,969,319, or 16.24% of average earning assets, for the first quarter of 2013 compared to $86,312,355, or 20.08% of average earning assets for the first quarter of 2012. Comparing the first quarter of 2013 with that of 2012, the average volume of these securities was $28,343,036 lower. During the third quarter of 2012, we sold our entire portfolio of municipal securities because of our concerns about the deterioration in their market bond ratings and to lower the credit risk associated with our securities portfolio. For the first quarter of 2012, municipal securities averaged $20,155,466. It is our intention to only invest in U. S. Government-sponsored agency securities and mortgage-backed securities in the near future. Interest earned on investment securities amounted to $347,984 for the quarter ended March 31, 2013, compared to $661,641 for the same period last year. The annualized average yield on available-for-sale investment securities was 2.43% and 3.08% for the first quarters of 2013 and 2012, respectively. The decrease in yield on our available-for-sale investment securities was caused, in part, by a historically flat yield curve for investment yields that has diminished returns available for this asset type.

Our average interest-bearing deposits were $282,714,350 and $364,424,280 for the first quarters of 2013 and 2012, respectively. This represented a decrease of $81,709,930, or 22.42%. Total interest paid on deposits for first quarters of 2013 and 2012 was $678,374 and $1,207,192, respectively. The annualized average cost of deposits was 0.97% and 1.33% for the three months ended March 31, 2013 and 2012, respectively. As our loan demand declined, we concurrently lowered our rates paid for deposits, especially for time deposits, which is the primary reason why the amounts of our average time deposits were 31.91% lower during the first quarter of 2013 than during 2012.

The average balance of other interest-bearing liabilities was $25,695,556 and $23,782,070 for the first quarters of 2013 and 2012, respectively. This represented an increase of $1,913,486, or 8.05%. The increase is attributable to the increase of $3,913,486 in our average volume of securities sold under agreements to repurchase, while the average volume of borrowings from the Federal Home Loan Bank was $2,000,000 lower. With the diminished loan demand we experienced during the past year, we utilized fewer borrowings from the Federal Home Loan Bank and replaced them with securities sold under agreements to repurchase, which has a lower cost, to meet our funding needs. For the first quarter of 2013 the annualized average cost borrowings from the Federal Home Land Bank and securities sold under agreements to repurchase was 2.37% and 0.10%, respectively.

The following table sets forth, for the periods indicated, certain information related to our average balance sheet and our average yields on assets and average costs of liabilities. Such yields are derived by dividing income or expense by the average balance of the corresponding assets or liabilities. Average balances have been derived from the daily balances throughout the periods indicated.

	Average Balances, Income and Expenses, and Rates								
Three Months Ended March 31,	2013			2012			2011		
(Dollars in thousands)	Average Balance	**Income/** Expense	Yield/ **Rate**	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Assets									
Earning assets:									
Loans [(1)]	$262,024	$3,471	5.37 %	$303,831	$4,400	5.82 %	$347,550	$5,070	5.92 %
Securities, taxable	57,969	348	2.43	66,157	465	2.82	34,822	305	3.55
Securities, nontaxable	-	-	0.00	20,155	197	3.93	47,973	534	4.51
Other earning assets	36,970	27	0.30	39,732	27	0.28	32,900	24	0.30
Total earning assets	356,963	3,846	4.37	429,875	5,089	4.76	463,245	5,933	5.19
Non-earning assets	55,168			58,599			63,166		
Total assets	$412,131			$488,474			$526,411		
Liabilities and Shareholders' Equity									
Interest-bearing deposits:									
Transaction accounts	$43,956	$14	0.13 %	$42,449	$32	0.31 %	$38,350	$52	0.55 %
Savings and money market accounts	101,728	60	0.24	120,732	122	0.41	110,685	213	0.78
Time deposits	137,030	605	1.79	201,244	1,052	2.10	252,248	1,512	2.43
Total interest-bearing deposits	282,714	679		364,425	1,206	1.33	401,283	1,777	1.80
Other interest-bearing liabilities:									
Federal Home Loan Bank borrowing	11,000	64	2.36 %	13,000	66	2.04 %	18,522	68	1.49 %
Junior subordinated debentures	10,310	56	0.54	10,310	63	0.61	10,310	11	0.11
Other	4,386	1	0.09	470	-	0.10	376	-	
Total other interest-bearing Liabilities	25,696	121	1.91	23,780	129	2.18	29,208	79	1.10
Total interest-bearing liabilities	308,410	800	1.05	388,205	1,335	1.38	430,491	1,856	1.75
Noninterest-bearing deposits	60,799			55,929			45,109		
Other liabilities	1,901			2,695			2,473		

Shareholders' equity	41,021			41,645			48,338		
Total liabilities and equity	$412,131			$488,474			$526,411		
Net interest income/interest spread		$3,046	3.32 %		$3,754	3.38 %		$4,077	3.44 %
Net yield on earning assets			3.46 %			3.51 %			3.57 %

(1) Includes mortgage loans held for sale and nonaccruing loans

Net interest income can be analyzed in terms of the impact of changing interest rates and changing volume. The following tables set forth the effect which the varying levels of interest-earning assets and interest-bearing liabilities and the applicable rates have had on changes in net interest income for the periods presented.

Three Months Ended March 31,	2013 Compared to 2012			2012 Compared to 2011		
	Due to increase (decrease) in			Due to increase (decrease) in		
(Dollars in thousands)	Volume	Rate	Total	Volume	Rate	Total
Interest income:						
Loans	$(595)	$(334)	$(929)	$(584)	$(86)	$(670)
Securities, taxable	(55)	(62)	(117)	233	(73)	160
Securities, tax exempt	(98)	(98)	(196)	(275)	(63)	(338)
Other earning assets	(3)	1	(2)	5	(2)	3
Total interest income	(751)	(493)	(1,244)	(621)	(224)	(845)

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Three Months Ended March 31,	2013 Compared to 2012			2012 Compared to 2011		
	Due to increase (decrease) in			Due to increase (decrease) in		
(Dollars in thousands)	Volume	Rate	Total	Volume	Rate	Total
Interest expense:						
Interest-bearing deposits						
Interest-bearing transaction accounts	1	(20)	(19)	6	(26)	(20)
Savings and money market accounts	(17)	(45)	(62)	19	(110)	(91)
Time deposits	(306)	(142)	(448)	(274)	(185)	(459)
Total interest-bearing deposits	(322)	(207)	(529)	(249)	(321)	(570)
Other interest-bearing liabilities:						
Federal Home Loan Bank borrowings	(11)	9	(2)	(24)	22	(2)
Junior subordinated debentures	-	(6)	(6)		52	52
Other	1	-	1	-	-	-
Total other interest-bearing liabilities	(10)	3	(7)	(24)	74	50
Total interest expense	(332)	(204)	(536)	(273)	(247)	(520)
Net interest income	$(419)	$(289)	$(708)	$(348)	$23	$(325)

Provision and Allowance for Loan Losses

We have developed policies and procedures for evaluating the overall quality of our credit portfolio and the timely identification of potential problem credits. On a quarterly basis, our Board of Directors reviews and approves the appropriate level for the allowance for loan losses based upon management's recommendations, the results of our internal monitoring and reporting system, and an analysis of economic conditions in our market. The objective of management has been to fund the allowance for loan losses at a level greater than or equal to our internal risk measurement system for loan risk.

Additions to the allowance for loan losses, which are expensed as the provision for loan losses on our statement of operations, are made periodically to maintain the allowance at an appropriate level based on management's analysis of the potential risk in the loan portfolio. Loan losses and recoveries are charged or credited directly to the allowance. The amount of the provision is a function of the level of loans outstanding, the level of nonperforming loans, historical loan loss experience, the amount of loan losses actually charged against the reserve during a given period, and current and anticipated economic conditions.

The allowance represents an amount which management believes will be adequate to absorb inherent losses on existing loans that may become uncollectible. Our judgment as to the adequacy of the allowance for loan losses is based on a number of assumptions about future events, which we believe to be reasonable, but which may or may not

prove to be accurate. Our determination of the allowance for loan losses is based on regular evaluations of the collectability of loans, including consideration of factors such as the balance of impaired loans, the quality, mix, and size of our overall loan portfolio, economic conditions that may affect the borrower's ability to repay, the amount and quality of collateral securing the loans, our historical loan loss experience, and a review of specific problem loans. We also consider subjective issues such as changes in our lending policies and procedures, changes in the local and national economy, changes in volume or type of credits, changes in the volume or severity of problem loans, quality of loan review and board of director oversight, concentrations of credit, and peer group comparisons.

More specifically, in determining our allowance for loan losses, we regularly review loans for specific and impaired reserves based on the appropriate impairment assessment methodology. Pooled reserves are determined using historical loss trends measured over a four-quarter average applied to risk rated loans grouped by Federal Financial Institutions Examination Council ("FFIEC") call code and segmented by impairment status. The pooled reserves are calculated by applying the appropriate historical loss ratio to the loan categories. Impaired loans greater than a minimum threshold established by management are excluded from this analysis. The sum of all such amounts determines our pooled reserves. We have shortened the period over which we review historical losses from eight quarters to four in response to industry trends and conditions; the shorter loss history window is more in line with our peer group and tracks more closely the unusual market volatility of the past several years, making the provision estimate more responsive to current economic conditions. The historical loss factors utilized in our model have been updated as of the end of the first quarter 2013 to reflect losses realized through the end of fourth quarter 2012.

As we mention above, we track our portfolio and analyze loans grouped by FFIEC call code categories. The first step in this process is to risk grade each loan in the portfolio based on one common set of parameters. These parameters include items like debt-to-worth ratio, liquidity of the borrower, net worth, experience in a particular field and other factors such as underwriting exceptions. Weight is also given to the relative strength of any guarantors on the loan.

After risk grading each loan, we then segment the portfolio by FFIEC call code groupings, separating out substandard and impaired loans. The remaining loans are grouped into "performing loan pools." The loss history for each performing loan pool is measured over a specific period of time to create a loss factor. The relevant look back period is determined by management, regulatory guidance, and current market events. The loss factor is then applied to the pool balance and the reserve per pool calculated. Loans deemed to be substandard but not impaired are segregated and a loss factor is applied to this pool as well. Loans are segmented based upon sizes as smaller impaired loans are pooled and a loss factor applied, while larger impaired loans are assessed individually using the appropriate impairment measuring methodology. Finally, five qualitative factors are utilized to assess economic and other trends not currently reflected in the loss history. These factors include concentration of credit across the portfolio, the experience level of management and staff, effects of changes in risk selection and underwriting practice, industry conditions and the current economic and business environment. A quantitative value is assigned to each of the five factors, which is then applied to the performing loan pools. Negative trends in the loan portfolio increase the quantitative values assigned to each of the qualitative factors and, therefore, increase the reserve. For example, as general economic and business conditions decline, this qualitative factor's quantitative value will increase, which will increase the reserve requirement for this factor. Similarly, positive trends in the loan portfolio, such as improvement in general economic and business conditions, will decrease the quantitative value assigned to this qualitative factor, thereby decreasing the reserve requirement for this factor. These factors are reviewed and updated by our management committee on a regular basis to arrive at a consensus for our qualitative adjustments.

Periodically, we adjust the amount of the allowance based on changing circumstances. We recognize loan losses to the allowance and add subsequent recoveries back to the allowance for loan losses. In addition, on a quarterly basis, we informally compare our allowance for loan losses to various peer institutions; however, we recognize that allowances will vary, as financial institutions are unique in the make-up of their loan portfolios and customers, which necessarily creates different risk profiles and risk weighting of qualitative factors for the institutions. We would only consider further adjustments to our allowance for loan losses based on this peer review if our allowance was significantly different from our peer group. To date, we have not made any such adjustment. There can be no assurance that charge-offs of loans in future periods will not exceed the allowance for loan losses as estimated at any point in time or that provisions for loan losses will not be significant to a particular accounting period, especially considering the overall economic weakness in many of our market areas due to a slow recovery from the recent downturn.

Various regulatory agencies review our allowance for loan losses through their periodic examinations, and they may require additions to the allowance for loan losses based on their judgment and assumptions about the economic condition of our market and the loan portfolio at the time of their examinations. Our losses will undoubtedly vary from our estimates, and it is possible that charge-offs in future periods will exceed the allowance for loan losses as estimated at any point in time.

As of March 31, 2013 and 2012, the allowance for loan losses was $4,198,520 and $5,749,117, respectively, a decrease of $1,550,597, or 26.97%, from the 2012 allowance. The decrease is partly due to the charge-off of certain borrowers against previously established allowances, which did not require the allowance to be replenished. As a percentage of total loans, the allowance for loan losses was 1.64% and 1.99% at March 31, 2013 and 2012, respectively. See the discussion regarding the provision expense and "Activity in the Allowance for Loan Losses" below for additional information regarding our asset quality and loan portfolio.

For the first quarters of 2013 and 2012, the provision for loan losses was $0 and $600,000, respectively. Our analysis of the allowance for loan losses as of March 31, 2013 showed that our overall loss rates have been stabilizing over the past several allowance calculations and that our credit exposure in the Myrtle Beach market and the Charleston market, which were particularly hard-hit by the downturn in the real estate markets, is phasing out. The decline in our provision expense in the first quarter of 2013 is reflective of our efforts to aggressively reduce our exposure to these markets, and a reduction in our amount of construction loans on our books.

We believe the allowance for loan losses at March 31, 2013, is adequate to meet potential loan losses inherent in the loan portfolio and, as described earlier, to maintain the flexibility to adjust the allowance should our local economy and loan portfolio either improve or decline in the future.

Noninterest Income

For the first quarter of 2013 compared to first quarter 2012, noninterest income decreased $136,943, or 10.92%. The decrease is due primarily to the following items:

1. During the first quarter 2012, we realized a gain of $160,777 on sale of available-for-sale securities, whereas we did not sell any securities during the first quarter of 2013.

2. In the first quarter 2012, we realized a one-time gain of $119,328 on the sale of a participation loan.

The above negative factors were offset by the following positive items:

1. Because of historically low mortgage rates in effect during the past year, we experienced an increase in the volume of homeowners refinancing their existing mortgages, which is the chief reason why the gain on the sale of mortgage loans increased $83,414.

2. Other service charges, commissions and fees increased $30,452. During 2012 we introduced a debit card rewards program that accounted for most of this increase.

Noninterest Expenses

For the quarters ended March 31, 2013 and 2012, noninterest expense totaled $4,149,697 and $4,029,456, respectively, an increase of $120,241, or 2.98%.

The expense for salaries and benefits was $1,928,709 and $1,748,895 for the first quarters of 2013 and 2012, respectively, a decrease of $179,814, or 10.28%. During the first quarter of 2012, we recognized a $337,153 reduction in this expense category as the result of canceling all stock appreciation rights outstanding at December 31, 2011. This reduction was offset by customary salaries and benefits increases.

Furniture and equipment expense for the first quarters of 2013 and 2012 was $295,515 and $359,659, respectively, which represents a decrease of $64,144. The decrease is due to the outsourcing of our data processing and servers to a vendor during the latter part of 2012.

Other operating expenses increased $4,251 from $1,563,135 for the first quarter of 2012 to $1,567,386 for the first quarter of 2013. While this is a minimal increase, we note the changes in the following expense items that are included in other operating expenses.

1. For the first quarter of 2013, debit and credit card expenses increased $80,084 with the introduction of a debit card rewards program during 2012. We anticipate that this program will generate sufficient fee income to cover its related cost.

2. Professional fees were $77,774 higher for the first quarter of 2013 because of increased legal fees relating to the collection of problem loans, the increased use of consultants to assist us with compliance matters, and to the timing of having compliance audits performed.

3. During the first quarter of 2013, we recorded a $70,000 impairment loss on our equity security that was purchased for $100,000. At March 31, 2013, this security, with a carrying value of $30,000, is included in available-for-sale securities. While we believe there will be no further impairment, there is no assurance that the carrying value of this security will be realized in the future.

4. OREO expenses for the first quarter of 2013 were $133,210 lower than the first quarter 2012. Expenses related to OREO include maintenance costs, marketing costs, property taxes, and other professional services. The decrease is partially attributable to the 36.69% reduction in the volume of our OREO. At March 31, 2013 and 2012, our OREO totaled $15,075,027 and $23,812,698, respectively.

5. The remaining categories of other operating expenses declined $90,397 during the first quarter of 2013 as a result of operational changes that were implemented during the latter part of 2012.

Income Taxes

The income tax expense related to our pretax income for the first quarters of 2013 and 2012 was offset by a reversal of an equal amount of our valuation allowance related to our deferred tax assets. Therefore no income tax provision was required for the first quarters of 2013 and 2012.

Balance Sheet Review

General

At March 31, 2013, we had total assets of $404.5 million, consisting principally of $256.7 million in loans, $56.1 million in investments, and $36.2 million in cash and due from banks. Our liabilities at March 31, 2013, totaled $363.4 million, which consisted principally of $335.2 million in deposits, $11.0 million in FHLB advances, and $14.9 million in other borrowings. At March 31, 2013, our shareholders' equity was $41.0 million.

At December 31, 2012, we had total assets of $418.3 million, consisting principally of $260.3 million in loans, $61.4 million in investments, and $38.1 million in cash and due from banks. Our liabilities at December 31, 2012 totaled $377.1 million, consisting principally of $349.3 million in deposits, $11.0 million in FHLB advances, and $14.7 million in other borrowings. At December 31, 2012, our shareholders' equity was $41.2 million.

Investment Securities

The investment securities portfolio, which is also a component of our total earning assets, consists of securities available-for-sale and nonmarketable equity securities.

***Securities available-for-sale* -** At March 31, 2013 our investment in available-for-sale securities was $55,072,513. This is $4,998,499, or 8.32%, lower than our investment of $60,071,012 in available-for-sale securities at December 31, 2012.

The amortized costs and the fair value of our securities available-for-sale at March 31, 2013 and December 31, 2012 are shown in the following table.

	March 31, 2013		December 31, 2012	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Government sponsored enterprises	$7,453,595	$7,916,599	$7,591,892	$8,109,028
Mortgage-backed securities	45,589,732	47,125,914	50,197,908	51,956,484
Equity security	30,000	30,000	100,000	5,500
Total	$53,073,327	$55,072,513	$57,889,800	$60,071,012

At March 31, 2013, there were no securities in a loss position; however, at that date management determined that our equity investment of $100,000 in a local community bank was other-than-temporary impaired. Based on industry analyst reports and market trading prices, it was determined that the estimated fair market value of this investment was $30,000. Consequently, an impairment loss of $70,000 was recognized. While we do not intend to sell this security in the near future, and it is more likely than not that we will not be required sell it, there is no assurance that the carrying value of this security will be realized in the future.

Securities Available-for-Sale Maturity Distribution and Yields (1)

Contractual maturities and yields on our available for sale securities at March 31, 2013 are shown in the following table. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities are presented separately, maturities of which are based on expected maturities since paydowns are expected to occur before contractual maturity dates.

	U.S Government Sponsored Enterprises	
(Dollars in thousands)	Amount	Yield
Due after ten years	$7,917	3.24 %

(1) Excludes mortgage-backed securities totaling $47,125,914 with a yield of 3.15% and an equity security in the amount $30,000.

Nonmarketable Equity Securities – Nonmarketable equity securities are recorded at their original cost since no ready market exists for these securities. At March 31, 2013 and December 31, 2012, nonmarketable equity securities consisted of Federal Home Loan Bank and Community Bankers Bank stock, which are recorded at their original cost of $996,900 and $58,100, respectively and $1,239,300 and $58,100, respectively. These securities are held primarily as a pre-requisite for accessing liquidity sources provided by the issuers of these securities.

Loans

Loans, including loans held for sale, are the largest category of earning assets and typically provide higher yields than the other types of earning assets. Associated with the higher loan yields are the inherent credit and liquidity risks, which we attempt to control and counterbalance. Loans averaged $262,024,318 during the first quarter of 2013 compared to $303,831,074 during the first quarter of 2012, a decrease of $41,806,756, or 13.76%. At March 31, 2013, total loans were $259,595,075 compared to $265,879,194 at December 31, 2012, a decrease of $6,284,119, or 2.36%. Excluding loans held for sale, loans were $256,710,111 at March 31, 2013, compared to $260,257,334 at December 31, 2012, which equated to a decrease of $3,547,223, or 1.36%. During first quarter of 2012 we charged off loans totaling $167,400 and foreclosed on loans totaling $444,910, whereby the loan balances were transferred to other real estate owned. The remainder of this decrease is the result of the economic downturn in our markets and worldwide deleveraging that caused the volume of new loan customers and average loan balances carried by current customers to decrease.

The following table summarizes the composition of our loan portfolio at March 31, 2013 and December 31, 2012.

	March 31, 2013	% of Total	December 31, 2012	% of Total
Mortgage loans on real estate				
Construction	$29,721,876	11.58 %	$31,985,532	12.29 %
Residential 1-4 family	32,936,638	12.83	35,091,846	13.48
Multifamily	5,432,935	2.12	5,563,043	2.14
Second mortgages	4,192,313	1.63	4,077,692	1.56
Equity lines of credit	21,960,882	8.55	22,502,339	8.65
Total residential	64,522,768	25.13	67,234,920	25.83
Nonresidential	122,445,341	47.70	122,309,917	47.00
Total real estate loans	216,689,985	84.41	221,530,369	85.12
Commercial and industrial	30,237,533	11.78	29,255,564	11.24
Consumer	9,651,923	3.76	9,304,913	3.58
Other, net	130,670	0.05	166,488	0.06
Total loans	$256,710,111	100.00%	$260,257,334	100.00%

In the context of this discussion, a “real estate mortgage loan” is defined as any loan, other than a loan for construction purposes, secured by real estate, regardless of the purpose of the loan. It is common practice for financial institutions in our market area to obtain a mortgage on the Borrower’s real estate when possible, in addition to any other available collateral. This real estate collateral is taken as security to reinforce the likelihood of the ultimate repayment of the loan and tends to increase management’s willingness to make real estate loans and, to that extent, also tends to increase the magnitude of the real estate loan portfolio component.

The largest component of our loan portfolio is real estate mortgage loans. At March 31, 2013, real estate mortgage loans totaled $216,689,985 and represented 84.41% of the total loan portfolio, compared to $221,530,369, or 85.12%, at December 31, 2012. This represents a decrease of $4,840,384, or 2.18%, from the December 31, 2012 balance.

Residential mortgage loans totaled $64,522,768 at March 31, 2013 and represented 25.13% of the total loan portfolio, compared to $67,234,920 and 25.83%, respectively, at December 31, 2012. Residential real estate loans consist of first and second mortgages on single or multi-family residential dwellings.

Nonresidential mortgage loans, which include commercial loans and other loans secured by multi-family properties and farmland, totaled $122,445,341 at March 31, 2013 compared to $122,309,917 at December 31, 2012. This represents a slight increase of $135,424, or 0.11%, from the December 31, 2012 balance. These loans represented 47.70% and 47.00% of the total loans at March 31, 2013 and December 31, 2012, respectively.

Real estate construction loans were $29,721,876 and $31,985,532 at March 31, 2013 and December 31, 2012, respectively, and represented 11.58% and 12.29% of the total loan portfolio, respectively. From December 31, 2012 to March 31, 2013, these loans declined $2,263,656, or 7.08%.

Currently, the demand for all types of real estate loans in our market area is weak, largely because of a slow recovery from the recent recession that affected many businesses and individuals in our market area.

Commercial and industrial loans increased $981,969, or 3.36%, to $30,237,533 at March 31, 2013, from $29,255,564 at December 31, 2012. At March 31, 2013 and December 31, 2012, commercial and industrial loans represented 11.78% and 11.24%, respectively, of the total loan portfolio.

Our loan portfolio is also comprised of consumer and other loans that totaled $9,782,593 and $9,471,401 at March 31, 2013 and December 31, 2012, respectively. At March 31, 2013 and December 31, 2012, these loans represented 3.81% and 3.64%, respectively, of the total loan portfolio.

Our loan portfolio reflects the diversity of our markets. The economies of our markets contain elements of medium and light manufacturing, higher education, regional health care, and distribution facilities. We expect our local economy to remain stable; however, due to the slow economic recovery in some of our markets, we do not expect any material growth in our loan portfolio in the near future. We do not engage in foreign lending.

Maturities and Sensitivity of Loans to Changes in Interest Rates

The information in the following tables is based on the contractual maturities of individual loans, including loans which may be subject to renewal at their contractual maturity. Renewal of such loans is subject to review and credit approval, as well as modification of terms upon maturity. Actual repayments of loans may differ from the maturities reflected below because borrowers have the right to prepay obligations with or without prepayment penalties.

The following table summarizes loan maturity distribution by type and related interest rate characteristics at March 31, 2013.

(***Dollars in thousands***)	One Year or Less	Over One Year Through Five Years	Over Five Years	Total
Real estate	$ 79,323	$ 113,991	$ 23,376	$ 216,690
Commercial and industrial	11,770	18,467	-	30,237
Consumer and other	1,884	6,687	1,212	9,783
	$ 92,977	$ 139,145	$ 24,588	$ 256,710
Loans maturing after one year with:				
Fixed interest rates				$ 111,675
Floating interest rates				52,058
				$ 163,733

Allowance for Loan Losses

The following table summarizes the allocation of the allowance for loan losses at March 31, 2013 and December 31, 2012.

(Dollars in thousands)	March 31, 2013	% of Total	December 31, 2012	% of Total
Real estate loans				
Construction	$ 485	11.55 %	$ 1,441	34.58 %
Residential	1,105	26.32	951	22.82
Nonresidential	1,910	45.48	1,129	27.10
Total real estate loans	3,500	83.35	3,521	84.50
Commercial and industrial	660	15.72	616	14.78
Consumer and other	39	0.93	30	0.72
Total loans	$ 4,199	100.00 %	$ 4,167	100.00 %

Activity in the Allowance for Loan Losses

The following table summarizes the activity related to our allowance for loan losses for the three months ended March 31, 2013 and 2012.

	Three Months Ended March 31,	
(Dollars in thousands)	2013	2012
Balance, January 1,	$4,167	$7,743
Loans charged off:		
Real estate – Construction	7	1,476
Real estate – Residential	95	223
Real estate – Nonresidential	48	412
Commercial and industrial	3	539
Consumer and other	13	1
Total loan losses	166	2,651
Recoveries of previous loan losses:		
Real estate – Construction	78	4
Real estate – Residential	90	24
Real estate – Nonresidential	-	1
Commercial and industrial	28	28
Consumer and other	2	-
Total recoveries	198	57
Net charge-offs (recoveries)	(32)	2,594
Provision for loan losses	-	600
Balance, March 31,	$4,199	$5,749
Total loans outstanding, end of period	$256,710	$289,328
Allowance for loan losses to loans outstanding	1.64 %	1.99 %

Risk Elements in the Loan Portfolio

The following table shows the nonperforming assets, percentages of net charge-offs, and the related percentage of allowance for loan losses for the three months ended March 31, 2013 and 2012.

	March 31,	
(Dollars in thousands)	2013	2012
Loans over 90 days past due and still accruing	$544	$-

Loans on nonaccrual:				
Real Estate Construction	2,288		7,639	
Real Estate Residential	3,454		4,068	
Real Estate Nonresidential	11,908		9,610	
Commercial	1,808		1,452	
Consumer	83		23	
Total nonaccrual loans	19,541		22,792	
Total of nonperforming loans	20,085		22,792	
Other nonperforming assets	15,075		23,813	
Total nonperforming assets	$35,160		$46,605	
Percentage of nonperforming assets to total assets	8.70	%	9.59	%
Percentage of nonperforming loans to total loans	7.82	%	7.88	%
Allowance for loan losses as a percentage of non-performing loans	20.91	%	25.22	%

Loans over 90 days past due and still accruing – At March 31, 2013, loans over 90 days past due and still accruing were secured by real estate and were, with the exception of one loan for $270,373, included in our impaired loan classification.

Nonaccruing loans – At March 31, 2013 and 2012, loans totaling $19,539,884 and $22,792,145, respectively, were in nonaccrual status. Generally, loans are placed on nonaccrual status if principal or interest payments become 90 days past due and/or we deem the collectibility of the principal and/or interest to be doubtful. Once a loan is placed in nonaccrual status, all previously accrued and uncollected interest is reversed against interest income. Interest income on nonaccrual loans is recognized on a cash basis when the ultimate collectability is no longer considered doubtful. Loans are returned to accrual status when the principal and interest amounts contractually due are brought current and future payments are reasonably assured. For the first quarters of 2013 and 2012, interest income recognized on nonaccrual loans was $148,728 and $97,949, respectively. If the nonaccrual loans had been accruing interest at their original contracted rates, related income would have been $289,706 and $246,643 for quarter ended March 31, 2013 and 2012, respectively. All nonaccruing loans at March 31, 2013 and 2012 were included in our classification of impaired loans at those dates.

Restructured loans - In situations where, for economic or legal reasons related to a borrower's financial difficulties, a concession to the borrower is granted that we would not otherwise consider, the related loan is classified as a troubled debt restructuring ("TDR"). The restructuring of a loan may include the transfer of real estate collateral, either through the pledge of additional properties by the borrower or through a transfer to the Bank in lieu of foreclosures. Restructured loans may also include the borrower transferring to the Bank receivables from third parties, other assets, or an equity interest in the borrower in full or partial satisfaction of the loan, a modification of the loan terms, or a combination of the above.

At March 31, 2013 there were 51 loans classified as a TDR totaling $13,062,003. Of the 51 loans, 17 loans totaling $5,533,207 were performing while 34 loans totaling $7,528,795 were not performing. At March 31, 2012, there were 42 loans classified as a TDR totaling $8,859,571. Of the 42 loans, 11 loans totaling $2,434,618 were performing while 31 loans totaling $6,424,953 were not performing. All restructured loans resulted in either extended maturity or lowered rates and were included in the impaired loan balance.

Impaired loans - At March 31, 2013, we had impaired loans totaling $26,613,230, as compared to $26,637,786 at March 31, 2012. Included in the impaired loans at March 31, 2013 were 12 borrowers that accounted for approximately 79% of the total amount of the impaired loans at that date. These loans were primarily commercial real estate loans located in the following South Carolina areas: 27% in the Coastal area, 15% in the Columbia area and 58% in the Florence area. Impaired loans, as a percentage of total loans, were 9.98% at March 31, 2013 as compared to 9.21% at March 31, 2012.

During the quarter ended March 31, 2013, the average investment in impaired loans was approximately $26,739,000 as compared to $26,572,000 during the quarter ended March 31, 2012. Impaired loans with a specific allocation of the allowance for loan losses totaled $7,729,196 and $6,852,508 at March 31, 2013 and 2012, respectively. The amount of the specific allocation at March 31, 2013 and 2012 was $405,265 and $1,318,877, respectively.

The downturn in the real estate market that began in 2008 and continued into 2012 has resulted in an increase in loan delinquencies, defaults and foreclosures; however, we believe these trends are stabilizing as the liquidation prices for our OREO have stabilized for vertical construction, indicating some stabilization of demand in the real estate market in our market area. In some cases, the current economic downturn has resulted in a significant impairment to the value of our collateral and limits our ability to sell the collateral upon foreclosure at its appraised value. There is also risk that downward trends could continue at a higher pace. If real estate values further decline, it is also more likely that we would be required to increase our allowance for loan losses.

On a quarterly basis, we analyze each loan that is classified as impaired during the period to determine the potential for possible loan losses. This analysis is focused upon determining the then current estimated value of the collateral, local market condition, and estimated costs to foreclose, repair and resell the property. The net realizable value of the property is then computed and compared to the loan balance to determine the appropriate amount of specific reserve

for each loan.

Other nonperforming assets – Other nonperforming assets consist of other real estate owned (“OREO”) that was acquired through foreclosure. OREO is carried at fair market value minus estimated costs to sell. Current appraisals are obtained at time of foreclosure and write-downs, if any, charged to the allowance for loan losses as of the date of foreclosure. On a regular basis, we reevaluate our OREO properties for impairment. Along with gains and losses on disposal, expenses to maintain such assets and subsequent changes in the valuation allowance are included in other noninterest expense.

As of March 31, 2013, we had OREO properties totaling $15,075,027, geographically located in the following South Carolina areas – 67.38% in the Coastal area, 15.46% in the Columbia area and 17.16% in the Florence area. The combined nature of these properties is 75.87% commercial and 24.13% residential and other. While we are diligently trying to dispose of our OREO properties, the current low demand in our local real estate market affects our ability to do so in a timely manner without experiencing additional losses. Additionally, there can be no assurance that these properties can be sold for their carrying values.

From March 31, 2012 to March 31, 2013, due primarily to sales, OREO decreased $8,737,671, or 36.69%. While OREO properties that consist of raw land continue to be difficult to sell, the majority of our OREO inventory with improvements is income producing, either through sale or interim leasing. This cash flow helps offset direct costs such as taxes and insurance, while offsetting opportunity cost during marketing. During first quarters of 2013 and 2012, income earned on OREO was $14,016 and $58,999, respectively. OREO expense, net of income earned, for the quarters ended March 31, 2013 and 2012, was $216,265 and $349,475.

Deposits and Other Interest-Bearing Liabilities

Average interest-bearing liabilities decreased $79,796,444, or 20.56%, to $308,409,906 for the first quarter of 2013, from $388,206,350 for the comparable 2012 period.

Deposits - For the quarter ended March 31, 2013 and 2012, average total deposits were $343,513,855 and $420,353,115, respectively, which is a decrease of $76,839,260, or 18.28%. At March 31, 2013 and December 31, 2012, total deposits were $335,166,051 and $349,314,134, respectively, a decrease of $14,148,083, or 4.05%.

Average interest-bearing deposits decreased $81,709,930, or 22.42%, to $282,714,350 for the quarter ended March 31, 2013, from $364,424,280 for the quarter ended March 31, 2012.

The average balance of non-interest bearing deposits increased $4,870,670, or 8.71%, to $60,799,505 for the three months ended March 31, 2013, from $55,928,835 for the three months ended March 31, 2012.

The following table shows the average balance amounts and the average rates paid on deposits held by us for the three months ended March 31, 2013 and 2012.

	2013 Average Amount	Average Rate		2012 Average Amount	Average Rate	
Non-interest bearing demand deposits	$60,799,505	0.00	%	$55,928,835	0.00	%
Interest bearing demand deposits	43,955,905	0.13		42,448,843	0.31	
Savings accounts	101,727,853	0.24		120,731,757	0.41	
Time deposits	137,030,592	1.79		201,243,680	2.10	
Total	$343,513,855	0.80	%	$420,353,115	1.15	%

Core deposits, which exclude time deposits of $100,000 or more, provide a relatively stable funding source for our loan portfolio and other earning assets. Our core deposits were $261,058,457 and $265,610,288 at March 31, 2013 and December 31, 2012, respectively. As of March 31, 2013 and December 31, 2012, our core deposits were 77.89% and 76.04% of total deposits, respectively. Overall, we have placed a high priority on securing low-cost local deposits over other, more costly, funding sources in the current low-rate environment.

Included in time deposits of $100,000 and over, at March 31, 2013 and December 31, 2012, are brokered time deposits of $50,935,000 and $57,885,000, respectively, equating to a decrease of $6,950,000. In accordance with our asset/liability management strategy, we do not intend to renew or replace the brokered deposits outstanding at March 31, 2013, when they mature.

Deposits, and particularly core deposits, have been our primary source of funding and have enabled us to meet successfully both our short-term and long-term liquidity needs. We anticipate that such deposits will continue to be our primary source of funding in the future. Our loan-to-deposit ratio was 76.59% and 74.51% on March 31, 2013 and December 31, 2012, respectively.

The maturity distribution of our time deposits of $100,000 or more at March 31, 2013 is set forth in the following table:

	March 31, 2013
Three months or less	$23,046,073
Over three through twelve months	28,366,785
Over one year through three years	22,289,137
Over three years	405,599
Total	$74,107,594

Approximately 31.10% of our time deposits of $100,000 or more had scheduled maturities within one year. Large certificate of deposit customers tend to be extremely sensitive to interest rate levels, making these deposits less reliable sources of funding for liquidity planning purposes than core deposits. We expect most certificates of deposit with maturities less than one year to be renewed upon maturity. However, there is the possibility that some certificates may not be renewed. We believe that, should these certificates of deposit not be renewed, the impact would be minimal on our operations and liquidity due to the availability of other funding sources.

Other Borrowings - Other borrowings at March 31, 2013 and December 31, 2012, consist of the following:

	March 31, 2013	December 31, 2012
Securities sold under agreements to repurchase	$4,578,154	$4,377,978
Advances from Federal Home Loan Bank	11,000,000	11,000,000
Junior subordinated debentures	10,310,000	10,310,000

Securities sold under agreements to repurchase mature on a one to seven day basis. These agreements are secured by U.S. government agency securities. Advances from the Federal Home Loan Bank mature at different periods, as discussed in the footnotes to the financial statements, and are secured by our one to four family residential mortgage loans and our investment in the Federal Home Loan Bank stock. The junior subordinated debentures mature on November 23, 2035 and have an interest rate of LIBOR plus 1.83%.

Capital Resources

Total shareholders' equity at March 31, 2013 and December 31, 2012 was $41.1 million and $41.2 million, respectively. The $0.1 million decrease during the first three months of 2013 resulted mainly from our other comprehensive loss of $0.2 million.

The following table shows the return on average assets (net income divided by average total assets), return on average equity (net income divided by average equity), and equity to assets ratio (average equity divided by average total assets) for the three months ended March 31, 2013 and 2012. While we have not paid a cash dividend on our common stock since our inception, the Company has declared and paid dividends on its outstanding shares of preferred stock, and made quarterly interest payments on its trust-preferred securities as agreed. Under the terms of the Company MOU, the terms of which are more fully described as part of "Management's Discussion and Analysis of Financial Condition and Results of Operation – Regulatory Matters," the Company must request prior approval from the Federal Reserve prior to declaring or paying dividends on our common stock or preferred stock, or making scheduled interest payments on our trust-preferred securities. Such approval was not granted by the Federal Reserve for payment of the Company's dividends and interest payments due and payable in the six consecutive quarters ended March 31, 2013. Also, such approval was not granted for payments due in the second quarter of 2013.

	Three Months Ended March 31,			
	2013		2012	
Return on average assets	0.01	%	0.31	%
Return on average equity	0.13		3.66	

Average equity to average assets ratio	9.95	8.53

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Currently, the Bank MOU requires that the Bank maintain a Tier 1 leverage ratio of 8%, and our other regulatory capital ratios at such levels so as to be considered well capitalized for regulatory purposes. We continue to be in full compliance with this requirement of the Bank MOU. Additional discussion of the Bank MOU is included above as part of "Management's Discussion and Analysis of Financial Condition and Results of Operation – Regulatory Matters."

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum ratios of Tier 1 and total capital as a percentage of assets and off-balance-sheet exposures, adjusted for risk weights ranging from 0% to 100%. Tier 1 capital of the Company consists of common shareholders' equity, excluding the unrealized gain or loss on securities available-for-sale, minus certain intangible assets. The Company's Tier 2 capital consists of the allowance for loan losses subject to certain limitations. Total capital for purposes of computing the capital ratios consists of the sum of Tier 1 and Tier 2 capital. The regulatory minimum requirements are 4% for Tier 1 capital and 8% for total risk-based capital; under the provisions of the Bank MOU, the Bank will be required to maintain a Tier 1 leverage ratio of 8% and a total risk-based capital ratio of 10%.

The Company and the Bank are also required to maintain capital at a minimum level based on quarterly average assets, which is known as the leverage ratio. Only the strongest banks are allowed to maintain capital at the minimum requirement of 3%. All others are subject to maintaining ratios 1% to 2% above the minimum.

The Company and the Bank were each considered to be “well capitalized” for regulatory purposes at March 31, 2013 and December 31, 2012. The following table shows the regulatory capital ratios for the Company and the Bank at March 31, 2013 and December 31, 2012.

	March 31, 2013		December 31, 2012	
	Holding Company	Bank	**Holding** Company	Bank
Total capital (to risk-weighted assets)	17.21%	15.80%	17.16 %	15.72 %
Tier 1 capital (to risk-weighted assets)	15.97%	14.55%	15.91 %	14.47 %
Leverage or Tier 1 capital (to total average assets)	12.13%	11.02%	11.48 %	10.40 %

Effect of Inflation and Changing Prices

The effect of relative purchasing power over time due to inflation has not been taken into account in our consolidated financial statements. Rather, our financial statements have been prepared on a historical cost basis in accordance with generally accepted accounting principles.

Unlike most industrial companies, the assets and liabilities of financial institutions such as our bank subsidiary are primarily monetary in nature. Therefore, interest rates have a more significant effect on our performance than do the general rate of inflation and of goods and services. In addition, interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services. As discussed previously in "Management’s Discussion and Analysis - Rate/Volume Analysis," we seek to manage the relationships between interest sensitive-assets and liabilities in order to protect against wide interest rate fluctuations, including those resulting from inflation.

Off-Balance Sheet Risk

Through our operations, we have made contractual commitments to extend credit in the ordinary course of business activities. These commitments are legally binding agreements to lend money to our customers at predetermined interest rates for a specified period of time. At March 31, 2013, we had issued commitments to extend credit of $35.9 million and standby letters of credit of $0.1 million through various types of commercial lending arrangements. Approximately $32.3 million of these commitments to extend credit had variable rates.

The following table sets forth the length of time until maturity for unused commitments to extend credit and standby letters of credit at March 31, 2013.

(*Dollars in Thousands*)	Within One Month	After One Through Three Months	After Three Through Twelve Months	Within One Year	Greater Than One Year	Total
Unused commitments to extend credit	$1,852	$ 1,071	$11,615	$14,538	$ 21,369	$35,907
Standby letters of credit	-	-	83	83	-	83
Totals	$1,852	$ 1,071	$11,698	$14,621	$ 21,369	$35,990

Market Risk

Market risk is the risk of loss from adverse changes in market prices and rates and principally arises from interest rate risk inherent in our lending, investing, deposit gathering, and borrowing activities. Other types of market risks, such as foreign currency exchange rate risk and commodity price risk, do not generally arise in the normal course of our business. Our finance committee monitors and considers methods of managing exposure to interest rate risk. We have both an internal finance committee consisting of senior management and directors that meets at various times during each quarter and a management finance committee that meets weekly as needed. The finance committees are responsible for maintaining the level of interest rate sensitivity of our interest sensitive assets and liabilities within board-approved limits.

We actively monitor and manage our interest rate risk exposure principally by measuring our interest sensitivity "gap," which is the positive or negative dollar difference between assets and liabilities that are subject to interest rate repricing within a given period of time. Interest rate sensitivity can be managed by repricing assets or liabilities, selling securities available for sale, replacing an asset or liability at maturity, or adjusting the interest rate during the life of an asset or liability. Managing the amount of assets and liabilities repricing in this same time interval helps to hedge the risk and minimize the impact on net interest income of rising or falling interest rates. We generally would benefit from increasing market rates of interest when we have an asset-sensitive gap position and generally would benefit from decreasing market rates of interest when we are liability-sensitive.

We were liability sensitive during the year ended December 31, 2012 and during the three months ended March 31, 2013. As of March 31, 2013, we expect to be liability sensitive for the next nine months because a majority of our deposits reprice over a 12-month period. Approximately 35% of our loans were variable rate loans at March 31, 2013. The ratio of cumulative gap to total earning assets after 12 months was a negative 20.49% because $71.4 million more liabilities will reprice in a 12-month period than assets. However, our gap analysis is not a precise indicator of our interest sensitivity position. The analysis presents only a static view of the timing of maturities and repricing opportunities, without taking into consideration that changes in interest rates do not affect all assets and liabilities equally. For example, rates paid on a substantial portion of core deposits may change contractually within a relatively short time frame, but those rates are viewed by us as significantly less interest-sensitive than market-based rates such as those paid on noncore deposits. Net interest income may be affected by other significant factors in a given interest rate environment, including changes in the volume and mix of interest-earning assets and interest-bearing liabilities.

Liquidity and Interest Rate Sensitivity

Liquidity represents the ability of a company to convert assets into cash or cash equivalents without significant loss and the ability to raise additional funds by increasing liabilities. Liquidity management involves monitoring our sources and use of funds in order to meet our day-to-day cash flow requirements while maximizing profits. Liquidity management is made more complicated because different balance sheet components are subject to varying degrees of management control. For example, the timing of maturities of securities in our investment portfolio is fairly predictable and is subject to a high degree of control at the time investment decisions are made. However, net deposit inflows and outflows are far less predictable and are not subject to the same degree of control.

At March 31, 2013, our liquid assets, consisting of cash and cash equivalents amounted to $36.2 million, or 8.95% of total assets. Our investment securities, excluding nonmarketable securities, at March 31, 2013, amounted to $55.1 million, or 13.62% of total assets. Investment securities traditionally provide a secondary source of liquidity since they can be converted into cash in a timely manner. However, $14.3 million of these securities were pledged as collateral to secure public deposits and borrowings as of March 31, 2013. At December 31, 2012, our liquid assets, consisting of cash and cash equivalents, amounted to $38.1 million, or 9.10% of total assets. Our investment securities, excluding nonmarketable securities, at December 31, 2012 amounted to $60.1 million, or 14.36% of total assets. Investment securities traditionally provide a secondary source of liquidity since they can be converted into cash in a timely manner. However, $14.9 million of these securities were pledged as collateral to secure public deposits and borrowings as of December 31, 2012.

Our ability to maintain and expand our deposit base and borrowing capabilities serves as our primary source of liquidity. For the near future, it is our intention to reduce the use of wholesale funding to fund loan demand. We plan to meet our future cash needs through the liquidation of temporary investments, the generation of deposits, and from additional borrowings. In addition, we will receive cash upon the maturity and sale of loans and the maturity of investment securities. At March 31, 2013, we had a $5.0 million unused line of credit with the Federal Reserve Bank and had sufficient unpledged securities that would have allowed us to borrow an additional $40.8 million from the Federal Reserve Bank. Also, as member of the Federal Home Loan Bank of Atlanta, (the "FHLB") we can make

applications for borrowings that can be made for leverage purposes. The FHLB requires that securities, qualifying mortgage loans, and stock of the FHLB owned by the bank be pledged to secure any advances from them. We have an available line to borrow funds from the FHLB up to 30% of the Bank's total assets, which provide additional available funds of $125.4 million at March 31, 2013. At that date the bank had drawn $11.0 million on this line. We believe that the sources described above will be sufficient to meet our future liquidity needs.

The Company is largely dependent upon dividends from the Bank as a source of cash. The Bank MOU restricts the ability of the Bank to declare and pay dividends to the Company. The Company MOU requires the Company to obtain approval of the Federal Reserve Bank prior to declaring dividends. The Federal Reserve did not approve the Company's request to pay dividends and interest payments relating to its outstanding classes of preferred stock and trust preferred securities due and payable in the six consecutive quarters ended March 31, 2013, nor did Federal Reserve approve the Company's request to make the payments due in the second quarter of 2013. See "Management's Discussion and Analysis of Financial Condition and Results of Operation—Regulatory Matters" for additional information relating to the Company MOU.

Asset/liability management is the process by which we monitor and control the mix and maturities of our assets and liabilities. The essential purposes of asset/liability management are to ensure adequate liquidity and to maintain an appropriate balance between interest sensitive assets and liabilities in order to minimize potentially adverse impacts on earnings from changes in market interest rates. We have both an internal finance committee consisting of senior management that meets at various times during each quarter and a management finance committee that meets weekly as needed. The finance committees are responsible for maintaining the level of interest rate sensitivity of our interest-sensitive assets and liabilities within board-approved limits.

Interest Sensitivity Analysis

The following table sets forth information regarding our rate sensitivity as of March 31, 2013, for each of the time intervals indicated. The information in the table may not be indicative of our rate sensitivity position at other points in time. In addition, the maturity distribution indicated in the table may differ from the contractual maturities of the earning assets and interest-bearing liabilities presented due to consideration of prepayment speeds under various interest rate change scenarios in the application of the interest rate sensitivity methods described above.

The following table sets forth our interest rate sensitivity March 31, 2013.

(Dollars in Thousands)	Within One Month	After One Through Three Months	After Three Through Twelve Months	Within One Year	Greater Than One Year or Non-Sensitive	Total
Assets						
Interest-earning assets						
Interest-bearing deposits in other banks	$32,588	$-	$-	$32,588	$-	$32,588
Time Deposits in other banks	-	-	201	201	-	201
Loans (1)	48,383	25,250	74,287	147,920	111,675	259,595
Securities, taxable	-	-	-	-	55,073	55,073
Nonmarketable securities	1,055	-	-	1,055	-	1,055
Total earning assets	82,026	25,250	74,488	181,764	166,748	348,512
Liabilities						
Interest-bearing liabilities						
Interest-bearing deposits:						
Demand deposits	43,787	-	-	43,787	-	43,787
Savings deposits	100,259	-	-	100,259	-	100,259
Time deposits	13,206	29,581	51,788	94,565	33,780	128,345
Total interest-bearing deposits	157,252	29,581	51,788	238,611	33,780	272,391
Federal Home Loan Bank advances	-	-	10,000	10,000	1,000	11,000
Junior subordinated debentures	-	-	-	-	10,310	10,310
Repurchase agreements	4,578	-	-	4,578	-	4,578
Total interest-bearing liabilities	161,830	29,581	61,788	253,189	45,090	298,279
Period gap	$(79,804)	$(4,331)	$12,710	$(71,425)	$121,658	
Cumulative gap	$(79,804)	$(84,135)	$(71,425)	$(71,425)	$50,233	
	(22.90)%	(24,14)%	(20.49)%	(20.49)%	14.41 %	

Ratio of cumulative gap to total earning assets

(1) Including mortgage loans held for sale

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See "Market Risk" and "Liquidity and Interest Rate Sensitivity" in Item 2, Management’s Discussion and Analysis of Financial Condition and Results of Operations, for quantitative and qualitative disclosures about market risk, which information is incorporated herein by reference.

Item 4. Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, our chief executive officer and chief financial officer have evaluated the effectiveness of our “disclosure controls and procedures” (“Disclosure Controls”). Disclosure Controls, as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), are procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Exchange Act, such as this quarterly Report on Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure Controls are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Our management, including the CEO and CFO, does not expect that our Disclosure Controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based upon their controls evaluation, our CEO and CFO have concluded that our Disclosure Controls are effective at a reasonable assurance level.

There have been no changes in our internal controls over financial reporting during our first fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II - Other Information

Item 1. Legal Proceedings

There are no material, pending legal proceedings to which the Company or its subsidiary is a party or of which any of their property is the subject.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2012, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Not applicable.

(b) The following stock repurchases were made during the period covered by this report in connection with administration of the Company's employee stock ownership plan.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1, 2013– January 31, 2013	502	$ 2.08	-	-
February 1, 2013 - February 29, 2013	-	$ -	-	-
March 1, 2013 – March 31, 2013	-	$ -	-	-
	502	$ 2.08	-	-

Item 6. Exhibits

Exhibit Number	Exhibit
31.1	Certification pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended.
31.2	Certification pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive Data Files providing financial information from the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 in XBRL. Pursuant to Regulation 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended, and are otherwise not subject to liability.

SIGNATURE

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FIRST RELIANCE BANCSHARES, INC.

Date: May 9, 2013 By:/s/ F.R. SAUNDERS, JR.
F. R. Saunders, Jr.
President & Chief Executive Officer

Date: May 9, 2013 By:/s/ JEFFERY A. PAOLUCCI
Jeffery A. Paolucci
Senior Vice President and Chief Financial Officer