

CIBER INC  
Form 10-Q  
August 09, 2005

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

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**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2005

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-23488

**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.)

**5251 DTC Parkway, Suite 1400, Greenwood Village, Colorado**

(Address of Principal Executive Offices)

**80111**

(Zip Code)

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

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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.

Yes  No

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Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes  No

As of June 30, 2005, there were 62,557,944 shares of the Registrant's common stock (\$0.01 par value) outstanding.

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**CIBER, Inc. and Subsidiaries**

**Form 10-Q**

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## CIBER, Inc. and Subsidiaries

## Consolidated Statements of Operations

*(Unaudited)*

	Three months ended June 30,		Six months ended June 30,	
	2004	2005	2004	2005
	(In thousands, except per share amounts)			
Consulting services	\$ 199,933	\$ 231,658	\$ 373,222	\$ 462,731
Other revenue	8,345	9,297	15,111	17,789
Total revenue	208,278	240,955	388,333	480,520
Cost of consulting services	144,356	169,372	269,971	337,285
Cost of other revenue	6,176	5,185	11,193	9,947
Selling, general and administrative expenses	42,808	51,619	81,907	102,727
Amortization of intangible assets	1,007	1,479	1,616	3,059
Operating income	13,931	13,300	23,646	27,502
Interest income	182	269	416	586
Interest expense	(1,668)	(2,235)	(3,221)	(4,441)
Other income (expense), net	553	(535)	1,936	(67)
Income before income taxes	12,998	10,799	22,777	23,580
Income tax expense	5,068	4,207	8,882	9,191
Net income	\$ 7,930	\$ 6,592	\$ 13,895	\$ 14,389
Earnings per share basic	\$ 0.13	\$ 0.11	\$ 0.23	\$ 0.23
Earnings per share diluted	\$ 0.12	\$ 0.10	\$ 0.21	\$ 0.22
Weighted average shares basic	60,279	62,556	59,760	62,602
Weighted average shares diluted	74,297	72,447	73,874	72,497

See accompanying notes to unaudited consolidated financial statements.

**CIBER, Inc. and Subsidiaries**

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Consolidated Balance Sheets

(Unaudited)

	December 31, 2004		June 30, 2005
	(In thousands, except per share amounts)		
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 44,446	\$	28,207
Accounts receivable, net of allowances of \$2,070 and \$1,219	206,108		209,074
Prepaid expenses and other current assets	18,163		16,646
Income taxes refundable	743		1,145
Deferred income taxes	5,421		4,823
Total current assets	274,881		259,895
Property and equipment, at cost	61,308		64,437
Less accumulated depreciation and amortization	(34,563)		(38,960)
Net property and equipment	26,745		25,477
Goodwill	417,663		410,954
Other intangible assets, net	31,982		28,028
Deferred income taxes	879		1,002
Other assets	6,522		6,796
Total assets	\$ 758,672	\$	732,152
<u>Liabilities and Shareholders' Equity</u>			
Current liabilities:			
Accounts payable	\$ 28,200	\$	26,984
Accrued compensation and related liabilities	46,491		53,666
Other accrued expenses and liabilities	35,570		29,413
Deferred revenue	12,435		12,251
Bank term loan - current portion	2,400		2,400
Income taxes payable	10,914		8,424
Total current liabilities	136,010		133,138
Bank line of credit	48,704		29,334
Bank term loan - long-term portion	1,800		600
Other long-term liabilities	2,500		1,149
Deferred income taxes	13,118		15,873
Long-term debentures	175,000		175,000
Total liabilities	377,132		355,094
Minority interest	3,877		2,868
Commitments and contingencies			
Shareholders' equity:			
Preferred stock, \$0.01 par value, 5,000 shares authorized, no shares issued			
Common stock, \$0.01 par value, 100,000 shares authorized, 64,705 issued	647		647
Additional paid-in capital	267,549		267,681
Retained earnings	107,808		120,902
Accumulated other comprehensive income	20,647		3,351
Treasury stock, 2,163 and 2,147 shares at cost	(18,988)		(18,391)
Total shareholders' equity	377,663		374,190
Total liabilities and shareholders' equity	\$ 758,672	\$	732,152

See accompanying notes to unaudited consolidated financial statements.





**CIBER, Inc. and Subsidiaries**

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Consolidated Statements of Cash Flows

(Unaudited)

	Six months ended June 30,	
	2004	2005
	(In thousands)	
<b>Operating activities:</b>		
Net income	\$ 13,895	\$ 14,389
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,544	5,706
Amortization of intangible assets	1,616	3,059
Deferred income tax expense	4,414	1,840
Provision for doubtful receivables	124	303
Other, net	1,661	1,930
Changes in operating assets and liabilities, net of the effect of acquisitions:		
Accounts receivable	(11,737)	(7,407)
Other current and long-term assets	712	(103)
Accounts payable	(758)	(304)
Accrued compensation and related liabilities	(4,605)	8,539
Other accrued expenses and liabilities	(7,725)	(7,368)
Income taxes payable/refundable	4,473	(1,737)
Net cash provided by operating activities	6,614	18,847
<b>Investing activities:</b>		
Acquisitions, net of cash acquired	(73,547)	(6,559)
Purchases of property and equipment, net	(3,149)	(4,197)
Net cash used in investing activities	(76,696)	(10,756)
<b>Financing activities:</b>		
Employee stock purchases and options exercised	4,947	3,145
Purchases of treasury stock	(5,958)	(4,120)
Repayment of debt of acquired companies	(52,628)	
Borrowings on long-term bank line of credit	51,916	169,663
Payments on long-term bank line of credit	(51,916)	(189,033)
Minority shareholder capital contribution		271
Borrowings on term note	6,000	
Payments on term note	(600)	(1,200)
Net cash used in financing activities	(48,239)	(21,274)
Effect of foreign exchange rate changes on cash	(1,337)	(3,056)
Net decrease in cash and cash equivalents	(119,658)	(16,239)
Cash and cash equivalents, beginning of period	132,537	44,446
Cash and cash equivalents, end of period	\$ 12,879	\$ 28,207
<b>Non-cash activities:</b>		
Value of shares and options issued for acquisitions	\$ 14,448	\$ 186
Note forgiveness as acquisition consideration	1,174	

See accompanying notes to unaudited consolidated financial statements.

**CIBER, Inc. and Subsidiaries**

**Consolidated Statement of Shareholders' Equity**

*(Unaudited)*



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	Common Stock		Additional	Retained	Accumulated	Treasury	Total
	Shares	Amount	Paid-in	Earnings	Other	Stock	Shareholders
			Capital	(In thousands)	Comprehensive		Equity
					Income (Loss)		
<b>Balances at</b>							
<b>January 1, 2005</b>	64,705	\$ 647	\$ 267,549	\$ 107,808	\$ 20,647	\$ (18,988)	\$ 377,663
Net income				14,389			14,389
Foreign currency translation					(17,296)		(17,296)
Comprehensive loss							(2,907)
Acquisition consideration				12		174	186
Employee stock purchases and options exercised				(1,300)		4,445	3,145
Tax benefit from exercise of stock options			132				132
Stock compensation expense				(7)		98	91
Purchases of treasury stock						(4,120)	(4,120)
<b>Balances at</b>							
<b>June 30, 2005</b>	64,705	\$ 647	\$ 267,681	\$ 120,902	\$ 3,351	\$ (18,391)	\$ 374,190

See accompanying notes to unaudited consolidated financial statements.



**CIBER, Inc. and Subsidiaries**



**Notes to Unaudited Consolidated Financial Statements**

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(Dollar amounts in thousands, except per share amounts)

## (1) Summary of Significant Accounting Policies

The accompanying unaudited interim consolidated financial statements of CIBER, Inc. and subsidiaries (together, CIBER, the Company, we, our, or us) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission and do not include certain information and note disclosures required by U.S. generally accepted accounting principles for complete financial statements. These consolidated financial statements should therefore be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2004. The accompanying unaudited interim consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles and include all adjustments of a normal, recurring nature that, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the periods presented. Interim results of operations for the three and six month periods ended June 30, 2005 are not necessarily indicative of operating results to be expected for the fiscal year ending December 31, 2005.

*Stock-based Compensation.* As permitted by Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123), we account for stock-based employee compensation in accordance with the provisions of Accounting Principles Board Opinion 25, Accounting for Stock Issued to Employees (APB 25), and related interpretations, including FASB Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation (an Interpretation of APB 25). We measure stock-based compensation cost as the excess, if any, of the quoted market price of CIBER common stock at the grant date over the amount the employee must pay for the stock. We recorded compensation expense of \$29 and \$91 for the six months ended June 30, 2004 and 2005, respectively, for grants of common stock. No compensation expense has been recorded for stock options as all options had an exercise price equal to the market value of our common stock on the date of issuance. The following table illustrates the effect on net income and earnings per share had we determined compensation cost for our stock-based compensation plans based on the fair value method of SFAS 123.

		Three months ended June 30,		Six months ended June 30,	
		2004	2005	2004	2005
Net income, as reported		\$ 7,930	\$ 6,592	\$ 13,895	\$ 14,389
Stock-based compensation expense determined under the fair value-based method, net of related tax effects		(1,301)	(1,056)	(2,394)	(4,348)
Pro forma net income		\$ 6,629	\$ 5,536	\$ 11,501	\$ 10,041
Earnings per share basic:	As reported	\$ 0.13	\$ 0.11	\$ 0.23	\$ 0.23
	Pro forma	\$ 0.11	\$ 0.09	\$ 0.19	\$ 0.16
Earnings per share diluted:	As reported	\$ 0.12	\$ 0.10	\$ 0.21	\$ 0.22
	Pro forma	\$ 0.10	\$ 0.09	\$ 0.18	\$ 0.16

During the first quarter of 2005, we accelerated the vesting on approximately 914,000 employee stock options, the exercise prices for which were greater than the market price of our stock on the days that the accelerations occurred. The impact of the accelerations is reflected in the 2005 stock-based compensation expense under the fair value method presented above. We accelerated the vesting on these stock options to avoid future expense related to these options when we are required to adopt Statement of Financial Accounting Standards No. 123R,

Share-Based Payment (SFAS 123R), on January 1, 2006. We have taken this action because, as a result of the issuance of SFAS 123R, we have changed our practices surrounding the issuance of equity-based instruments to employees. Had the provisions of SFAS 123R been in effect previously, we believe our prior practices surrounding employee equity instruments would have been different.

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In December 2004, the FASB issued SFAS 123R, which is a revision of SFAS 123. SFAS 123R also supersedes APB 25 and its related implementation guidance and amends Statement No. 95, Statement of Cash Flows. SFAS 123R requires companies to recognize expense in the income statement for the grant-date fair value of all awards of equity instruments, including stock options, to employees. Expense is to be recognized over the period during which employees are required to provide service. Under the modified prospective transition method we

expect to apply, compensation cost will be recognized after the date of adoption for: 1) the portion of outstanding awards granted prior to the adoption of SFAS 123R for which service has not yet been rendered, and 2) all subsequent share-based awards. The implementation of the provisions of SFAS 123R will reduce our reported net income and earnings per share. We estimate that the adoption of SFAS 123R will reduce our 2006 net income by approximately \$900 to \$1,200.

*Minority Interest.* At June 30, 2005, we owned 95% of the net outstanding shares of Novasoft AG ( Novasoft ). In addition, we have two international subsidiaries that have minority ownership interests. The minority shareholders proportionate share of the equity of these subsidiaries is reflected as minority interest in the consolidated balance sheet. The minority shareholders proportionate share of the net income or loss of these subsidiaries is included in other income, net in the consolidated statement of operations. For the six months ended June 30, 2004 and 2005, we recognized income from minority shareholders of \$286 and expense from minority shareholders of \$128, respectively.

*Foreign Exchange Instruments.* From time to time, we enter into foreign exchange forward contracts to protect against the foreign exchange risk associated with the expected income of our European Operations segment. These derivative financial instruments generally have maturities of less than one year and are subject to fluctuations in foreign exchange rates and credit risk. We manage credit risk through careful selection of the financial institution utilized as the counterparty. We have not entered into any derivatives designated as hedges as defined by SFAS No. 133,

Accounting for Derivative Instruments and Hedging Activities. Gains and losses from settlement of such contracts, as well as changes in fair value of any open contracts, are included in other income, net in the consolidated statement of operations. Net gains of \$734 and \$830 were recognized during the six months ended June 30, 2004 and 2005, respectively.

## **(2) Earnings Per Share**

Pursuant to the terms of our Convertible Senior Subordinated Debentures ( Debentures ), the Debentures may be converted to shares of CIBER common stock under certain conditions. Prior to December 31, 2004, we did not include shares related to the Debentures in the calculation of diluted weighted average shares outstanding, as the conversion triggers were substantive and had not been met. In accordance with Emerging Issues Task Force Issue 04-8, The Effect of Contingently Convertible Instruments on Diluted Earnings per Share ( EITF 04-8 ), which was effective for periods ending after December 15, 2004, the dilutive effect of our Debentures are now included in our diluted earnings per share calculation. As required by EITF 04-8 effective December 31, 2004, we retroactively restated our diluted earnings per share for the first three quarters of 2004. Such restatement is reflected in our computation of earnings per share in the table below. Prior to the restatement for EITF 04-8, diluted weighted average shares outstanding and diluted earnings per share were 61,467,000 and \$0.13 for the three months ended June 30, 2004, and were 61,044,000 and \$0.23 for the six months ended June 30, 2004.

For purposes of our 2004 diluted earnings per share calculations, we assumed that the Debentures had been fully converted to shares, the result of which would require us to issue approximately 12,830,000 shares of our common stock. On January 4, 2005, we made an irrevocable election to settle not less than 30% of the principal amount of the Debentures in cash and not in shares. As a result, our calculations of diluted earnings per share after that date have assumed conversion of only 70% of the Debentures, which would require us to issue approximately 8,981,000 shares of our common stock. When assuming conversion of the Debentures for purposes of calculating diluted earnings per share, we also adjust net income to exclude the net of tax costs for interest and debt fee amortization expense on the Debentures.

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On July 20, 2005, we amended our irrevocable election to settle 100% of the principal amount of the Debentures in cash and not in shares. As a result, our calculation of diluted earnings per share for the three months ending September 30, 2005 will include a significantly smaller number of dilutive shares related to the Debentures, or approximately 1,952,000 shares, which represents the 8,981,000 shares prorated for the period prior to our amended election. Subsequent calculations of diluted earnings per share will not include any shares related to the conversion of the Debentures.

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Our computation of earnings per share basic and diluted is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2004	2005	2004	2005
<b>Numerator:</b>				
Net income, as reported	\$ 7,930	\$ 6,592	\$ 13,895	\$ 14,389
Interest and amortization expense related to the Debentures, net of related tax effects	958	661	1,915	1,321
Net income assuming dilution	\$ 8,888	\$ 7,253	\$ 15,810	\$ 15,710
<i>Denominator (shares in thousands):</i>				
Basic weighted average shares outstanding	60,279	62,556	59,760	62,602
Dilutive effect of Debentures	12,830	8,981	12,830	8,981
Dilutive effect of employee stock options	1,188	910	1,284	914
Diluted weighted average shares outstanding	74,297	72,447	73,874	72,497
Earnings per share basic	\$ 0.13	\$ 0.11	\$ 0.23	\$ 0.23
Earnings per share diluted	\$ 0.12	\$ 0.10	\$ 0.21	\$ 0.22

Dilutive securities are excluded from the computation in periods in which they have an antidilutive effect. The average number of antidilutive stock options (options whose exercise price is greater than the average CIBER stock price during the period) omitted from the computation of diluted weighted average shares outstanding was 2,006,000 and 3,592,000 for the three months ended June 30, 2004 and 2005, respectively, and 1,855,000 and 3,559,000 for the six months ended June 30, 2004 and 2005, respectively.

### (3) Comprehensive Income

The components of comprehensive income are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2004	2005	2004	2005
Net income	\$ 7,930	\$ 6,592	\$ 13,895	\$ 14,389
Foreign currency translation adjustments	79	(9,172)	(440)	(17,296)
Comprehensive income (loss)	\$ 8,009	\$ (2,580)	\$ 13,455	\$ (2,907)

### (4) Acquisitions

On January 1, 2005, we acquired certain assets and liabilities comprising an office of another entity for consideration of \$3,716. The results of the acquired office's operations have been included in our consolidated financial statements since that date and have been combined with our Package Solutions segment. The purchase price was allocated as follows: \$561 to net tangible assets acquired, \$400 to customer relationships and \$2,755 to goodwill.

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During the first quarter of 2005, we acquired approximately another 1% of the net outstanding shares of Novasoft for consideration of \$1,200, bringing our total ownership percentage to 95%.

Also during the first quarter of 2005, we acquired the interest held by a minority shareholder in one of our foreign subsidiaries for total consideration of approximately \$1,664, which included approximately 20,000 shares of CIBER common stock valued at approximately \$186.

On July 6, 2005, we acquired an India-based professional services firm specializing in custom application development. The results of the acquired operation will be included in our consolidated financial statements during the upcoming third quarter of 2005. The purchase price paid on July 6, 2005 was \$2,450 and the purchase agreement includes the possibility of future earn-out payments totaling \$600 to be paid over the next two years.

**(5) Goodwill**

Our goodwill is assigned to individual segments and is reviewed for possible impairment at least annually, or more frequently upon the occurrence of an event or when circumstances indicate that a segment's carrying amount is greater than its fair value. As of June 30, 2005, we performed our annual impairment review by business segment and determined that there was no impairment.

The changes in the carrying amount of goodwill for the six months ended June 30, 2005 are as follows:

	Commercial Solutions	Federal Solutions	State & Local Gov t. Solutions	Package Solutions	European Operations	Total
<b>Balance at December 31, 2004</b>	\$ 131,822	\$ 74,616	\$ 42,282	\$ 38,171	\$ 130,772	\$ 417,663
Acquisitions				3,185	2,735	5,920
Effect of foreign exchange rate changes					(12,629)	(12,629)
<b>Balance at June 30, 2005</b>	\$ 131,822	\$ 74,616	\$ 42,282	\$ 41,356	\$ 120,878	\$ 410,954

**(6) Accrued lease costs**

We have a lease costs reserve for certain office space that is vacant or has been subleased at a loss. The activity in this reserve during the six months ended June 30, 2005, consists of the following:

<b>Balance at January 1, 2005</b>	\$ 5,972
Cash payments	(2,575)
Benefit to cost and expense	(82)
Effect of foreign exchange rate changes	(150)
<b>Balance at June 30, 2005</b>	\$ 3,165

**(7) Convertible Senior Subordinated Debentures**

On December 2, 2003, in a private placement, we issued \$175 million of 2.875% Convertible Senior Subordinated Debentures ( "Debentures" ) due to mature in December 2023. The Debentures are general unsecured obligations and are subordinated in right of payment to all of our indebtedness and other liabilities. The Debentures accrue interest at a rate of 2.875% per year. Interest is payable semi-annually in arrears on June 15 and December 15 of each year, beginning June 15, 2004.

The Debentures are convertible at the option of the holder into shares of our common stock at an initial conversion rate of 73.3138 shares per thousand dollars principal amount of Debentures, which is equivalent to an initial conversion price of approximately \$13.64 per share, subject to adjustments, prior to the close of business on the final maturity date only under the following circumstances: (1) during any fiscal quarter if the closing sale price of our common stock exceeds 120% of the conversion price for at least 20 trading days in the 30 consecutive trading day



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period ending on the last trading day of the preceding fiscal quarter; (2) during the five business days after any ten consecutive trading day period in which the trading price per one thousand dollars principal amount of Debentures for each day of such period was less than 98% of the product of the closing sale price of our common stock and the number of shares issuable upon conversion of one thousand dollars principal amount of the Debentures; (3) if the Debentures have been called for redemption; or (4) upon the occurrence of certain specified corporate transactions. The conversion price is subject to adjustment in certain circumstances. On January 4, 2005, we made an irrevocable election to settle not less than 30% of the principal amount of the Debentures in cash and not in shares. On July 20, 2005, we amended our irrevocable election to settle 100% of the principal amount of the Debentures in cash and not in shares. As a result, upon conversion we will deliver cash in lieu of our common stock.

From December 20, 2008, to but not including December 15, 2010, we may redeem any of the Debentures if the closing price of our common stock exceeds 130% of the conversion price for at least 20 trading days in any 30 consecutive trading day period. Beginning December 15, 2010, we may, by providing at least 30-days notice to the

holders, redeem any of the Debentures at a redemption price of 100% of their principal amount, plus accrued interest. Debenture holders may require us to repurchase their Debentures on December 15, 2008, 2010, 2013 and 2018 or at any time prior to their maturity in the case of certain events, at a repurchase price of 100% of their principal amount plus accrued interest.

**(8) Bank Line of Credit**

*Bank Line of Credit* We have a revolving line of credit with Wells Fargo Bank, N.A that expires on September 30, 2007. On July 11, 2005 we amended the line of credit to provide for a maximum borrowing amount of \$70 million which will reduce to \$60 million on December 31, 2005. The line of credit will remain unsecured, unless borrowings exceed \$40 million for two consecutive fiscal quarters, or, if certain financial covenant thresholds are exceeded, in which case, substantially all of CIBER's assets would secure the line of credit. The interest rate charged on borrowings under the agreement ranges from the prime rate of interest (prime) less 100 basis points to prime less 30 basis points depending on CIBER's Pricing Ratio and changes, as required, on the first day of each quarter. CIBER's Pricing Ratio is defined as the ratio of CIBER's Senior Funded Indebtedness at the end of each quarter, divided by CIBER's earnings before interest, taxes, depreciation and amortization (EBITDA) for the prior four fiscal quarters then ended. On July 1, 2005, the bank's prime rate was 6.25% and our rate for borrowing was 5.45%. We are also required to pay a fee per annum on the unused portion of the line of credit. This fee ranges from 0.25% to 0.50% depending on CIBER's Pricing Ratio and changes, as required, on the first day of each quarter. The line of credit agreement contains certain financial covenants including: a maximum senior leverage ratio, a minimum fixed charge coverage ratio, a maximum leverage ratio and a maximum asset coverage ratio. We were in compliance with these financial covenants as of June 30, 2005. The terms of the credit agreement also contain, among other provisions, specific limitations on additional indebtedness, liens and acquisitions, purchases of treasury stock, investment activity and the terms prohibit the payment of any dividends. The line of credit provides for the issuance of up to \$15 million in letters of credit. Any outstanding letters of credit reduce the maximum available borrowings under the line of credit. At June 30, 2005, we had \$6,623 of outstanding letters of credit securing certain financial performance obligations.

**(9) Shareholder's Equity**

*Share Repurchase Program* During the six months ended June 30, 2005, we repurchased 525,000 shares of our common stock at a cost of \$4,120. At June 30, 2005, there were approximately 854,000 shares authorized by the board of directors for future repurchase under the plan.

**(10) Segment Information**

Our operating segments are organized internally primarily by the nature of their services, client base and geography. Effective December 31, 2004, we reorganized our domestic custom solution operations and have expanded our reportable segments to five: Commercial Solutions, Federal Government Solutions, State & Local Government Solutions, Package Solutions and European Operations. The Commercial Solutions, Federal Government Solutions and State & Local Government Solutions, collectively, were formerly known as our Custom Solutions segment. These groups comprise our U.S. based CIBER branch offices that provide IT services and products in custom-developed software

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environments. These offices report to a segment based on their primary client focus category (Commercial, Federal or State & Local); however, they also may have clients that fall into another category. For example, a Commercial office may also provide services to a government client. Our India operations are considered part of our Commercial Solutions segment. Our Package Solutions segment is comprised of our U.S based CIBER Enterprise Solutions division that primarily provides enterprise software implementation services, including enterprise resource planning ( ERP ) and supply chain management software from software vendors such as Oracle/PeopleSoft, Lawson and SAP. Our European Operations segment represents our offices in Europe and Eastern Asia that provide a broad range of IT consulting services that include package software implementation, application development, systems integration and support services.

We evaluate our segments' results of operations based on operating income before amortization of intangible assets. We do not account for or report to our chief executive officer any information on assets or capital expenditures by segment as such information is only prepared on a consolidated basis. The accounting policies of our reportable segments are the same as those disclosed in the Summary of Significant Accounting Policies.

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The following presents financial information about our reportable segments:

	Three months ended June 30,		Six months ended June 30,	
	2004	2005	2004	2005
<b>Total revenue:</b>				
Commercial Solutions	\$ 89,644	\$ 88,604	\$ 173,821	\$ 176,995
Federal Government Solutions	39,161	41,733	65,673	83,932
State & Local Government Solutions	31,824	30,787	56,907	61,957
Package Solutions	22,442	26,350	43,734	51,251
European Operations	25,901	54,059	49,822	107,502
Inter-segment	(694)	(578)	(1,624)	(1,117)
<b>Total revenue</b>	<b>\$ 208,278</b>	<b>\$ 240,955</b>	<b>\$ 388,333</b>	<b>\$ 480,520</b>
<b>Income from operations:</b>				
Commercial Solutions	\$ 7,594	\$ 7,156	\$ 13,985	\$ 14,236
Federal Government Solutions	5,346	5,179	8,921	10,902
State & Local Government Solutions	2,943	1,622	4,955	3,940
Package Solutions	2,011	2,843	3,021	5,397
European Operations	2,215	2,274	3,729	4,540
Corporate expenses	(5,171)	(4,295)	(9,349)	(8,454)
<b>Total</b>	<b>14,938</b>	<b>14,779</b>	<b>25,262</b>	<b>30,561</b>
Amortization of intangibles	(1,007)	(1,479)	(1,616)	(3,059)
<b>Operating income</b>	<b>\$ 13,931</b>	<b>\$ 13,300</b>	<b>\$ 23,646</b>	<b>\$ 27,502</b>

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Disclosure Regarding Forward-Looking Statements**

*Included in this Quarterly Report and elsewhere from time to time in other written and oral statements, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on current expectations, estimates, forecasts and projections about our company, the industry in which we operate and other matters, as well as management's beliefs and assumptions and other statements that are not historical facts. Words, such as anticipate, believe, could, expect, estimate, intend, may, opportunity, plan, potential, project, should, and will and similar expressions are intended to identify forward-looking statements and convey uncertainty of future events or outcomes. These statements are not guarantees and involve risks, uncertainties and assumptions that are difficult to predict. Actual outcomes and results may differ materially from such forward-looking statements due to a number of factors, including, without limitation, the factors set forth in this Quarterly Report under the caption FACTORS THAT MAY AFFECT FUTURE RESULTS OR THE MARKET PRICE OF OUR STOCK. As a result of these and other factors, our past financial performance should not be relied on as an indication of future performance. Additionally, we caution investors not to place undue reliance on any forward-looking statement as these statements speak only as of the date when made. We undertake no obligation to publicly update or revise any forward-looking statements, whether resulting from new information, future events or otherwise.*

**Results of Operations**

Consolidated

The following table sets forth certain consolidated statement of operations data, expressed as a percentage of revenue:

	Three months ended June 30,		Six months ended June 30,	
	2004	2005	2004	2005
Consulting services	96.0%	96.1%	96.1%	96.3%
Other revenue	4.0	3.9	3.9	3.7
Total revenue	100.0	100.0	100.0	100.0
Gross profit consulting services	27.8	26.9	27.7	27.1
Gross profit other revenue	26.0	44.2	25.9	44.1
Gross profit total	27.7	27.5	27.6	27.7
Selling, general and administrative expenses	20.5	21.4	21.1	21.3
Operating income before amortization	7.2	6.1	6.5	6.4
Amortization of intangible assets	0.5	0.6	0.4	0.7
Operating income	6.7	5.5	6.1	5.7
Interest and other income (expense), net	(0.5)	(1.0)	(0.2)	(0.8)
Income before income taxes	6.2	4.5	5.9	4.9
Income tax expense	2.4	1.8	2.3	1.9

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Net income	3.8%	2.7%	3.6%	3.0%
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The following table sets forth certain operating data for our reportable segments:

	Three months ended June 30,		Six months ended June 30,	
	2004	2005	2004	2005
(In thousands)				
<b>Total revenue:</b>				
Commercial Solutions	\$ 89,644	\$ 88,604	\$ 173,821	\$ 176,995
Federal Government Solutions	39,161	41,733	65,673	83,932
State & Local Government Solutions	31,824	30,787	56,907	61,957
Package Solutions	22,442	26,350	43,734	51,251
European Operations	25,901	54,059	49,822	107,502
Inter-segment	(694)	(578)	(1,624)	(1,117)
<b>Total revenue</b>	<b>208,278</b>	<b>240,955</b>	<b>388,333</b>	<b>480,520</b>
<b>Income from operations:</b>				
Commercial Solutions	7,594	7,156	13,985	14,236
Federal Government Solutions	5,346	5,179	8,921	10,902
State & Local Government Solutions	2,943	1,622	4,955	3,940
Package Solutions	2,011	2,843	3,021	5,397
European Operations	2,215	2,274	3,729	4,540
Corporate expenses	(5,171)	(4,295)	(9,349)	(8,454)
<b>Total</b>	<b>14,938</b>	<b>14,779</b>	<b>25,262</b>	<b>30,561</b>
Amortization of intangibles	(1,007)	(1,479)	(1,616)	(3,059)
<b>Operating income</b>	<b>13,931</b>	<b>13,300</b>	<b>23,646</b>	<b>27,502</b>
Net interest and other income (expense)	(933)	(2,501)	(869)	(3,922)
<b>Income before income taxes</b>	<b>12,998</b>	<b>10,799</b>	<b>22,777</b>	<b>23,580</b>
Income tax expense	5,068	4,207	8,882	9,191
<b>Net income</b>	<b>\$ 7,930</b>	<b>\$ 6,592</b>	<b>\$ 13,895</b>	<b>\$ 14,389</b>

**Three Months Ended June 30, 2005 as compared to Three Months Ended June 30, 2004**

Total revenue for the three months ended June 30, 2005 increased 16% to \$241.0 million from \$208.3 million for the quarter ended June 30, 2004. The 2005 revenue growth primarily resulted from our 2004 acquisitions of Ascent and Novasoft which added approximately \$26 million in incremental revenue to the second quarter of 2005. Excluding the incremental revenue contributed by our Ascent and Novasoft acquisitions, revenue for the second quarter of 2005 would have increased by approximately 3% compared to the same period of the prior year. 2005 revenue was positively impacted by strong organic revenue growth in our Federal Government and Package segments, modest organic growth in our Commercial and European segments and offset slightly by decreased sales in our State & Local Government segment. Our average number of billable consultants working during the quarter increased 9% to approximately 7,150 for the three months ended June 30, 2005 from approximately 6,575 for the three months ended June 30, 2004. Other revenue increased to \$9.3 million for the three months ended June 30, 2005 from \$8.3 million for the three months ended June 30, 2004 due to our acquisition of Ascent and sales of their proprietary software product. The Ascent increase was partially offset by an approximate \$1.5 million decrease in domestic hardware and software sales. Our average billing rate increased to approximately \$75 per hour for the three months ended June 30, 2005 compared to approximately \$70 per hour for the three months ended June 30, 2004. Higher billing rates in our European segment, now a larger percentage of the overall revenue total, plus slightly higher billing rates in our Commercial and Federal segments, accounted for the majority of the increase.

In total, our gross profit percentage decreased slightly to 27.5% of revenue for the three months ended June 30, 2005 from 27.7% of revenue for the same period of 2004. Gross profit on services revenue declined to 26.9% for the three months ended June 30, 2005 compared to 27.8% for the same period in 2004. The decline in gross profit on services revenue was primarily due to lower margins in our European segment that experienced losses on two projects in our Denmark office. Losses on that project negatively impacted overall gross profit on services by approximately 60 basis points in the June 2005 quarter.





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Selling, general and administrative expenses ( SG&A ) increased to \$51.6 million for the three months ended June 30, 2005 from \$42.8 million for the three months ended June 30, 2004 due to the incremental costs associated with our 2004 acquisitions. In addition to the incremental SG&A associated with our 2004 acquisitions, we also made investments in our domestic low-cost development center known as CIBERsites, as well as increased investments in our offshore operations delivered by CIBER India Private Limited. Combined, these two areas of investment added approximately \$1.2 million of incremental cost to our overall June 2005 SG&A expense. As a percentage of sales, SG&A increased to 21.4% for the three months ended June 30, 2005 from 20.5% for the same period in 2004.

Amortization of intangible assets increased to \$1.5 million for the three months ended June 30, 2005 from \$1.0 million for the same period last year due to additional amortizable intangible assets, primarily customer relationships, resulting from our 2004 acquisitions.

Interest income and expense fluctuates based on our average amounts borrowed. In addition to our outstanding Debentures, our average line of credit balance was approximately \$44 million for the three months ended June 30, 2005 as compared to \$4 million for the same period of 2004. Interest income is primarily from cash held in our European subsidiaries. Net interest expense totaled approximately \$2.0 million for the three months ended June 30, 2005 compared to \$1.5 million for the same period of the prior year.

Other expense, net was \$535,000 during the three months ended June 30, 2005 as compared to other income, net of \$553,000 during the three months ended June 30, 2004. Other expense in the second quarter of 2005 consisted primarily of losses due to foreign exchange rate fluctuations of \$456,000 and minority interest expense of \$66,000. Other income in 2004 consisted primarily of minority interest income of \$286,000 and foreign currency gains of \$185,000.

Our effective tax rate was 39.0% for both the three months ended June 30, 2005 and 2004.

### **Six Months Ended June 30, 2005 as compared to Six Months Ended June 30, 2004**

Total revenue for the six months ended June 30, 2005 increased 24% to \$480.5 million from \$388.3 million for the six months ended June 30, 2004. The 2005 revenue growth primarily resulted from our 2004 acquisitions of SCB, Ascent and Novasoft along with the 2005 acquisition of a small single office SAP practice. Collectively, these acquisitions added approximately \$80 million in incremental revenue to the first six months of 2005 compared to the same period in 2004. Excluding the incremental revenue contributed by the 2004 acquisitions, revenue for the six months ended June 30, 2005 would have increased by approximately 3% compared to the same period of the prior year. 2005 revenue was positively impacted by strong organic revenue growth in our Federal Government, Package and European segments, modest organic growth in our Commercial and European segments, and offset by slightly decreased sales in our State & Local Government segment. Our average number of billable consultants increased 18% to approximately 7,175 for the six months ended June 30, 2005 from approximately 6,100 for the six months ended June 30, 2004. Other revenue increased to \$17.8 million for the six months ended June 30, 2005 from \$15.1 million for the six months ended June 30, 2004 due to our acquisition of Ascent and sales of their proprietary software product. The Ascent increase was partially offset by an approximate \$2.3 million decrease in domestic hardware and software sales, due to a decrease in sales to a large State & Local client. Our average billing rate increased to approximately \$75 per hour for the six months ended June 30, 2005 compared to approximately \$72 per hour for the six months ended June 30, 2004. Higher billing rates in our European segment, now a larger percentage of the overall revenue total, plus higher billing rates in our Commercial and Package segments, accounted for the majority of the increase.

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In total, our gross profit percentage increased slightly to 27.7% of revenue for the six months ended June 30, 2005 from 27.6% of revenue for the same period of 2004. This increase is due to greatly improved gross profit on other revenue associated with incremental revenue contributed by Ascent and sales of their proprietary software product.

Gross profit on services revenue declined to 27.1% for the six months ended June 30, 2005 compared to 27.7% for the same period in 2004. The decline in gross profit on services revenue was primarily due to lower margins on incremental revenue contributed by SCB within our State & Local segment, lower margins in our European segment due to losses on a project in our Denmark office, offset by higher margins in our Package segment due to improved productivity.

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Selling, general and administrative expenses ( SG&A ) increased to \$102.7 million for the six months ended June 30, 2005 from \$81.9 million for the six months ended June 30, 2004 primarily due to our 2004 acquisitions. As a percentage of sales, SG&A increased slightly to 21.3% for the six months ended June 30, 2005 compared to 21.1% for the first six months of 2004. The increase is due primarily to expected higher SG&A costs in our European segment, now a larger percentage of our overall business due to our acquisitions of Ascent and Novasoft, and to a lesser extent, due to investments we are making in our low-cost domestic delivery center, CIBERsites.

Amortization of intangible assets increased to \$3.1 million for the six months ended June 30, 2005 from \$1.6 million for the same period last year, due to additional amortizable intangible assets, primarily customer relationships, resulting from our 2004 acquisitions.

Interest income and expense fluctuates based on our average amounts borrowed. In addition to our outstanding Debentures, our average line of credit balance was approximately \$46 million for the six months ended June 30, 2005 as compared to \$2 million for the same period of 2004. Interest income is primarily from cash held in our European subsidiaries. Net interest expense totaled approximately \$3.9 million for the six months ended June 30, 2005 compared to \$2.8 million for the same period of the prior year.

Other expense, net of \$67,000 was recorded during the six months ended June 30, 2005 as compared to other income, net of \$1.9 million during the same period of 2004. The 2005 amount was primarily comprised of gains on foreign currency forward contracts of \$830,000, offset by foreign currency losses of \$576,000, minority interest expense of \$128,000 and investment losses of \$150,000. The 2004 income resulted from foreign currency gains of \$822,000, as well as gains on foreign currency forward contracts of \$734,000 and minority interest income of \$286,000.

Our effective tax rate was 39.0% for both the six months ended June 30, 2005 and 2004.

### Segments

#### Commercial Solutions

	Three months ended June 30,		Six months ended June 30,	
	2004	2005	2004	2005
	(Dollars in thousands)			
Consulting services	\$ 87,608	\$ 87,123	\$ 170,322	\$ 174,256
Other revenue	2,036	1,481	3,499	2,739
Total revenue	89,644	88,604	173,821	176,995
Gross profit-consulting services	23,376	23,270	45,301	46,639
Gross profit-other revenue	187	217	337	403
Gross profit-total	23,563	23,487	45,638	47,042
Operating income	7,594	7,156	13,985	14,236
Gross profit percentage-consulting services	26.7%	26.7%	26.6%	26.8%
Gross profit percentage-other revenue	9.2%	14.7%	9.6%	14.7%
Gross profit percentage-total	26.3%	26.5%	26.3%	26.6%
Operating income percentage	8.5%	8.1%	8.0%	8.0%

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Average hourly billing rate	\$	63	\$	63	\$	64	\$	63
Consultant utilization		91%		93%		91%		93%
Average billable headcount		3,025		2,875		2,950		2,925

Commercial Solutions ( Commercial ) revenue decreased by approximately 1% for the three months ended June 30, 2005 compared to the same period in the prior year and was negatively impacted by lower services revenue from our IBM relationship, which incrementally decreased by approximately \$2 million for the period. Excluding the impact of IBM, Commercial revenue increased by approximately 1% for the three months ended June 30, 2005 compared to the same period of the prior year. Due to a new procurement program at IBM that does not include CIBER as a vendor, we expect certain IBM related staffing revenue within our Commercial segment to continue to decline. Other revenue in the Commercial segment decreased by approximately \$550,000 for the three months ended June 30, 2005 compared to the same period of 2004 due to a decrease in low margin, high dollar value hardware sales. Revenue for the six months ended June 30, 2005 increased by approximately 2% compared to the same period in 2004. Incremental revenue contributed by our January 2004 acquisition of FullTilt and our March 2004 acquisition of SCB accounted for approximately half of the increase, while organic growth contributed the remainder of the increase.

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Gross profit percentage on services revenue was stable at approximately 26.7% for both the three and six month periods ended June 30, 2005 and 2004. Our gross profit percentage on other revenue, which represents resale of third-party hardware and software products, increased by over 500 basis points for both the three and six month periods ended June 30, 2005 compared to the same periods in 2004. The 2005 increase was due to the mix of business sold and our focus on the sale of higher margin products.

Despite an increase in gross profit percentage, operating income as a percentage of revenue decreased by approximately 40 basis points for the three months ended June 30, 2005 compared to the same period in 2004 and remained constant at 8% for the six month periods ended June 30, 2005 and 2004. Higher SG&A expenses associated with the investment we are making in CIBERsites, our low-cost, domestic application development and support centers, accounted for the negative impact on operating margins.

Federal Government Solutions

	Three months ended June 30,		Six months ended June 30,	
	2004	2005	2004	2005
	(Dollars in thousands)			
Consulting services	\$ 39,161	\$ 41,733	\$ 65,673	\$ 83,932
Other revenue				
Total revenue	39,161	41,733	65,673	83,932
Gross profit-consulting services	9,632	9,795	16,157	19,891
Gross profit-other revenue				
Gross profit-total	9,632	9,795	16,157	19,891
Operating income	5,346	5,179	8,921	10,902
Gross profit percentage-consulting services	24.6%	23.5%	24.6%	23.7%
Gross profit percentage-other revenue	%	%	%	%
Gross profit percentage-total	24.6%	23.5%	24.6%	23.7%
Operating income percentage	13.7%	12.4%	13.6%	13.0%
Average hourly billing rate	\$ 49	\$ 49	\$ 50	\$ 50
Consultant utilization	95%	93%	95%	93%
Average billable headcount	1,650	1,800	1,375	1,800

Federal Government Solutions ( Federal ) revenue increased by approximately 7% during the three months ended June 30, 2005 compared to the same period of 2004. The revenue increase is primarily due to increased spending, particularly in the areas of defense and homeland security within existing government agency clients, as well as the successful penetration of new agency accounts resulting in new contract wins. Revenue for the six months ended June 30, 2005 increased by approximately 28% compared to the same period in 2004. Organic revenue growth for the comparative six month periods was approximately 16%, while incremental revenue contributed by our March 2004 acquisition of SCB accounted for the remainder of the increase.

Gross profit percentage in the Federal segment decreased by 110 basis points for the three months ended June 30, 2005 compared to the three months ended June 30, 2004 and decreased by 90 basis points for the same six month ending periods. Lower consultant utilization for both the three month and six month periods of 2005 accounted for the decrease. The decrease in gross margin accounted for the majority of the decrease in the operating income percentage of this segment, which fell by 130 basis points for the three months ended June 30, 2005 and fell by 60 basis points for the six months ended June 30, 2005, compared to the same periods in 2004.



State & Local Government Solutions

	Three months ended June 30,		Six months ended June 30,	
	2004	2005	2004	2005
	(Dollars in thousands)			
Consulting services	\$ 29,456	\$ 30,060	\$ 52,018	\$ 60,174
Other revenue	2,368	727	4,889	1,783
Total revenue	31,824	30,787	56,907	61,957
Gross profit-consulting services	8,706	7,896	15,077	16,232
Gross profit-other revenue	300	40	648	153
Gross profit-total	9,006	7,936	15,725	16,385
Operating income	2,943	1,622	4,955	3,940
Gross profit percentage-consulting services	29.6%	26.3%	29.0%	27.0%
Gross profit percentage-other revenue	12.7%	5.5%	13.3%	8.6%
Gross profit percentage-total	28.3%	25.8%	27.6%	26.4%
Operating income percentage	9.2%	5.3%	8.7%	6.4%
Average hourly billing rate	\$ 73	\$ 71	\$ 73	\$ 71
Consultant utilization	92%	90%	93%	91%
Average billable headcount	875	950	800	925

State & Local Government Solutions ( State & Local ) revenue decreased by approximately 3% for the three months ended June 30, 2005 compared to the same period in 2004. The entire decrease is attributed to a drop in low margin third-party hardware and software product sales classified as other revenue, resulting from a decline in hardware purchases from a large State & Local client. Consulting services revenue in this segment grew by approximately 2% for the three month period, despite the deferral of approximately \$1 million in application development revenue associated with a multi-element arrangement. The deferred revenue will be recognized over the 36 month life of the outsourcing arrangement related to the application development work. The increase in services revenue is due primarily to modestly improving IT budgets in the state and local government marketplace. Revenue for the six months ended June 30, 2005 increased by approximately 9% compared to the same period in 2004. Incremental revenue contributed by our March 2004 acquisition of SCB accounted for the entire six month increase. Absent the SCB contribution, total revenue for the six month period declined on an organic basis by approximately 4%. The entire six month decrease is attributed to a drop in low margin third-party hardware and software product sales classified as other revenue. Consulting services revenue grew organically by 3% for the six months ended June 30, 2005, due to improving State budgets and our ability to leverage our expertise in certain State & Local verticals.

The consulting services gross profit percentage in our State & Local segment for the three months ended June 30, 2005 decreased by 330 basis points and for the six months ended June 30, 2005 decreased by 200 basis points compared to the same periods in 2004. A project that contributed lower than normal gross profit for the six month period ended June 30, 2005, that was nearing completion at the end of that period, plus slightly lower consultant utilization elsewhere in the segment accounted for the decrease in both periods.

Operating income as a percentage of revenue decreased by 390 basis points for the three months ended June 30, 2005 and decreased by 230 basis points for the six months ended June 30, 2005, compared to the same periods in 2004. Lower gross profit percentages, explained above, combined with higher SG&A costs accounted for the majority of the operating income percentage decrease.

Package Solutions

	Three months ended June 30,		Six months ended June 30,	
	2004	2005	2004	2005
	(Dollars in thousands)			
Consulting services	\$ 20,214	\$ 23,481	\$ 39,611	\$ 45,509
Other revenue	2,228	2,869	4,123	5,742
Total revenue	22,442	26,350	43,734	51,251
Gross profit-consulting services	6,026	6,963	11,362	13,587
Gross profit-other revenue	1,236	1,751	2,298	3,548
Gross profit-total	7,262	8,714	13,660	17,135
Operating income	2,011	2,843	3,021	5,397
Gross profit percentage-consulting services	29.8%	29.7%	28.7%	29.9%
Gross profit percentage-other revenue	55.5%	61.0%	55.7%	61.8%
Gross profit percentage-total	32.4%	33.1%	31.2%	33.4%
Operating income percentage	9.0%	10.8%	6.9%	10.5%
Average hourly billing rate	\$ 145	\$ 144	\$ 145	\$ 147
Consultant utilization	75%	79%	72%	77%
Average billable headcount	375	425	375	425

Package Solutions ( Package ) revenue for the three and six month periods ended June 30, 2005 increased by approximately 17% compared to the same periods in 2004. The 2005 revenue increase was due to organic growth of approximately 9% in both periods resulting from improved demand following the acquisition of PeopleSoft by Oracle. The market for PeopleSoft implementation services was hindered in 2004 due to the uncertainty around Oracle's bid to acquire PeopleSoft. Firms that had purchased PeopleSoft software licenses were reluctant to engage firms like CIBER to implement that software until there was clarity around the outcome of Oracle's takeover attempt. Now that the acquisition is complete, it appears that demand is improving for PeopleSoft implementation services. In addition to organic growth in the Package segment, the three and six month periods ended June 30, 2005 also benefited from our first quarter acquisition of a single office operation specializing in SAP implementations. This acquisition closed at the beginning of January 2005 and contributed revenue of approximately \$1.9 million and \$3.7 million to the three and six month periods ended June 30, 2005.

Gross profit as a percentage of services revenue in the Package segment was relatively flat for the three months ended June 30, 2005 at 29.7% compared to 29.8% for the three months ended June 30, 2004 and improved by 120 basis points for the six month period ended June 30, 2005 as compared to the six month period of 2004. Improved utilization in the three month period was offset by slightly lower billing rates due to a temporary discount to a large client, while for the comparative six month periods, average billing rates and consultant utilization both improved. Gross profit on other revenue, which consists of commissions earned on the resale of certain hardware products, improved by 550 or more basis points for both the three and six month periods ended June 30, 2005 compared to the same periods in 2004. Higher commission rates on higher revenue volumes in both periods primarily accounted for the gross margin improvement. Overall gross profit improved by 70 basis points to 33.1% for the three months ended June 30, 2005 compared to 32.4% for the same period of 2004.

The revenue increase and gross profit percentage improvement had a positive impact on operating income margins, which improved by 180 basis points for the three months ended June 30, 2005 and improved by 360 basis points for the six months ended June 30, 2005, compared to the same periods in 2004.



European Operations

	Three months ended June 30,		Six months ended June 30,	
	2004	2005	2004	2005
	(Dollars in thousands)			
Consulting services	\$ 24,189	\$ 49,838	\$ 47,222	\$ 99,978
Other revenue	1,712	4,221	2,600	7,524
Total revenue	25,901	54,059	49,822	107,502
Gross profit-consulting services	8,061	14,362	15,084	29,273
Gross profit-other revenue	445	2,102	635	3,735
Gross profit-total	8,506	16,464	15,719	33,008
Operating income	2,215	2,274	3,729	4,540
Gross profit percentage-consulting services	33.3%	28.8%	31.9%	29.3%
Gross profit percentage-other revenue	26.0%	49.8%	24.4%	49.6%
Gross profit percentage-total	32.8%	30.5%	31.6%	30.7%
Operating income percentage	8.6%	4.2%	7.5%	4.2%
Average hourly billing rate	\$ 117	\$ 127	\$ 120	\$ 126
Consultant utilization	69%	69%	70%	70%
Average billable headcount	650	1,100	600	1,100

Our European Operations ( European ) segment revenue increased significantly for the three and six month periods ended June 30, 2005. Our acquisitions of Ascent in May 2004 and Novasoft in September 2004 contributed much of the increase to both periods. Combined, Ascent and Novasoft contributed incremental revenue of approximately \$26 million for the three months ended June 30, 2005 and approximately \$55 million to the six months ended June 30, 2005. Excluding the impact of acquisitions, overall European revenue increased 8% for the three months ended June 30, 2005 and increased 5% for the six months ended June 30, 2005, compared to the same periods in 2004. Other revenue in 2005 and 2004 consists primarily of Ascent's sales of proprietary and third-party software products.

Gross profit percentage on services decreased 450 basis points for the three months ended June 30, 2005 and decreased 260 basis points for the six months ended June 30, 2005, compared to the same periods in 2004. The majority of the decreases are due to losses incurred on two projects in our Denmark operation as well as unusually low gross profit in one of our offices located in the United Kingdom. Gross margins in the United Kingdom office have been improving, and we expect the negative gross margin impact of the two Danish projects to come to an end during the third quarter of 2005. The gross profit percentage on other revenue improved to 49.8% for the three months ended June 30, 2005 and 49.6% for the six months ended June 30, 2005, compared to 26.0% and 24.4% for the respective periods of 2004. The improvement is the result of having a full three and six months of revenue associated with Ascent's proprietary and third-party software in 2005 compared to only five weeks of Ascent's revenue in 2004.

Operating income as a percentage of revenue decreased by 440 basis points for the three months ended June 30, 2005 and by 330 basis points for the six months ended June 30, 2005, compared to the same periods in 2004. Lower gross profit percentages, explained above, combined with expected higher SG&A costs associated with Ascent and Novasoft accounted for the majority of the operating income percentage decrease.

**Liquidity and Capital Resources**

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At June 30, 2005, we had \$126.8 million of working capital and a current ratio of 2.0:1. Historically, we have used our operating cash flow plus the periodic sales of stock and borrowings under our line of credit to finance our operations and business combinations. In December 2003 we sold \$175 million of Convertible Senior Subordinated Debentures. We believe that our cash and cash equivalents, our operating cash flow and our available line of credit will be sufficient to finance our working capital needs through at least the next year.

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	Six months ended June 30,	
	2004	2005
	(In thousands)	
Net cash provided by (used in):		
Operating activities	\$ 6,614	\$ 18,847
Investing activities	(76,696)	(10,756)
Financing activities	(48,239)	(21,274)
Effect of foreign exchange rates on cash	(1,337)	(3,056)
Net decrease in cash and equivalents	\$ (119,658)	\$ (16,239)

Our balance of cash and cash equivalents was \$28.2 million at June 30, 2005 as compared to a balance of \$44.4 million at December 31, 2004. At both June 30, 2005 and December 31, 2004, substantially all of our cash balance was maintained by our European subsidiaries, of which approximately \$16.9 million at June 30, 2005 was held by our Novasoft subsidiary. Until we acquire 100% ownership of Novasoft, our use of their cash, outside of their business opportunities or needs, is limited.

Total accounts receivable increased slightly to \$209.1 million at June 30, 2005 from \$206.1 million at December 31, 2004. Total accounts receivable days sales outstanding ( DSO ) was 79 days at June 30, 2005 as compared to 80 days at December 31, 2004. Although our accounts receivable balance has been fairly consistent on a consolidated basis between the two periods, changes in accounts receivable DSO have a significant effect on our cash flow. Items that can affect our accounts receivable DSO 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 DSO to fluctuate from period to period affecting our liquidity.

Investing activities are primarily comprised of cash paid for acquisitions and purchases of property and equipment. We used cash of \$73.5 million for acquisitions in the first half of 2004 as compared to only \$6.6 million used for acquisitions during the same period in 2005. Spending on property and equipment increased slightly to \$4.2 million in 2005 from \$3.1 million in 2004 as we made investments in our CIBERsites locations, as well as client project-related assets.

In 2005, our financing activities are primarily comprised of cash used for the repayment of our line of credit and the purchase of treasury stock and cash provided by sales of stock under our employee stock purchase plan and the exercise of employee stock options. However, during the six months ended June 30, 2004, we also used our cash to repay \$52.6 million of debt acquired in connection with our SCB and Ascent acquisitions. We purchased \$4.1 million of treasury stock during the six months ended June 30, 2005 as compared to \$6.0 million for the same period of the prior year. The cash provided by sales of stock under our employee stock purchase plan and options exercised decreased to \$3.1 million during the six months ended June 30, 2005 compared to \$4.9 million during the six months ended June 30, 2004.

Accounts payable and other accrued liabilities typically fluctuate based on when we receive actual vendor invoices and when payment is made. The largest of such items typically relates to vendor payments for IT hardware and software products that we resell and payments to services-related contractors. The timing of our normal bi-weekly U.S. payroll cycle can cause significant changes in accrued compensation and related liabilities. At June 30, 2005, there were 14 days of unpaid wages as compared to only 5 days at December 31, 2004.

In 2005, we continued the repurchase of our common stock under our share repurchase program. At June 30, 2005, we had authorization for the repurchase of approximately 854,000 shares remaining. We may continue to use cash to repurchase our common stock.

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In early 2005, we increased our ownership in Novasoft to 95% and we announced our intentions to attempt to acquire all of the remaining Novasoft minority interest shares. We expect the cost to acquire all of the minority interest shares would be approximately \$6-\$7 million.

*Convertible Senior Subordinated Debentures* - In a private placement on December 2, 2003, we issued \$175 million of 2.875% Convertible Senior Subordinated Debentures ( Debentures ) due to mature in December 2023. The Debentures are general unsecured obligations and are subordinated in right of payment to all of our indebtedness and other liabilities. Interest is payable semi-annually in arrears on June 15 and December 15 of each year.

The Debentures are convertible at the option of the holder into shares of our common stock at an initial conversion rate of 73.3138 shares per \$1,000 principal amount of Debentures, which is equivalent to an initial conversion price of approximately \$13.64 per share, subject to adjustments, prior to the close of business on the final maturity date only under the following circumstances: (1) during any fiscal quarter commencing after December 31, 2003, if the closing sale price of our common stock exceeds 120% of the conversion price for at least 20 trading days in the 30 consecutive trading day period ending on the last trading day of the preceding fiscal quarter; (2) during the five business days after any ten consecutive trading day period in which the trading price per \$1,000 principal amount of Debentures for each day of such period was less than 98% of the product of the closing sale price of our common stock and the number of shares issuable upon conversion of \$1,000 principal amount of the Debentures; (3) if the Debentures have been called for redemption; or (4) upon the occurrence of certain specified corporate transactions. The conversion price is subject to adjustment in certain circumstances. On January 4, 2005, CIBER made an irrevocable election to settle not less than 30% of the principal amount of the Debentures in cash and not in shares. On July 20, 2005, we amended our irrevocable election to settle 100% of the principal amount of the Debentures in cash and not in shares. As a result, upon conversion we will deliver cash in lieu of our common stock.

From December 20, 2008 to, but not including December 15, 2010, we may redeem any of the Debentures if the closing price of our common stock exceeds 130% of the conversion price for at least 20 trading days in any 30 consecutive trading day period. Beginning December 15, 2010, we may, by providing at least 30-day notice to the holders, redeem any of the Debentures at a redemption price of 100% of their principal amount, plus accrued interest. Debenture holders may require us to repurchase their Debentures on December 15, 2008, 2010, 2013 and 2018 or at any time prior to their maturity in the case of certain events, at a repurchase price of 100% of their principal amount plus accrued interest.

*Bank Line of Credit* We have a revolving line of credit with Wells Fargo Bank, N.A. that expires on September 30, 2007. On July 11, 2005 we amended the line of credit to provide for a maximum borrowing amount of \$70 million which will reduce to \$60 million on December 31, 2005. The line of credit will remain unsecured, unless borrowings exceed \$40 million for two consecutive fiscal quarters, or, if certain financial covenant thresholds are exceeded, in which case, substantially all of CIBER's assets would secure the line of credit. The interest rate charged on borrowings under the agreement ranges from the prime rate of interest ( prime ) less 100 basis points to prime less 30 basis points depending on CIBER's Pricing Ratio and changes, as required, on the first day of each quarter. CIBER's Pricing Ratio is defined as the ratio of CIBER's Senior Funded Indebtedness at the end of each quarter divided by CIBER's earnings before interest, taxes, depreciation and amortization ( EBITDA ) for the prior four fiscal quarters then ended. On July 1, 2005, the bank's prime rate was 6.25% and our rate for borrowing was 5.45%. We are also required to pay a fee per annum on the unused portion of the line of credit. This fee ranges from 0.25% to 0.50% depending on CIBER's Pricing Ratio and changes, as required, on the first day of each quarter.

The terms of the credit agreement contain, among other provisions, specific limitations on additional indebtedness, liens and merger activity and the terms prohibit the payment of any dividends. The line of credit agreement also contains certain financial covenants including a maximum asset coverage ratio (Senior Funded Indebtedness, excluding amounts due to IBM credit under the wholesale financing agreement, divided by net accounts receivable, excluding foreign accounts and accounts securing our wholesale finance agreement with IBM Credit) of 50%; a maximum leverage ratio (ratio of Total Funded Indebtedness divided by EBITDA) of 4.0 to 1.0; a maximum senior leverage ratio (the ratio of Senior Funded Indebtedness divided by EBITDA) of 1.5 to 1.0; and a minimum fixed charges coverage ratio (the ratio of EBITDAR to Total Fixed Charges) of 1.75 to 1.0. We are required to satisfy the financial covenants at the end of each quarter. We were in compliance with these

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financial covenants as of June 30, 2005. Certain elements of these ratios are defined below.

Senior Funded Indebtedness includes borrowings under our line of credit and our term loan with Wells Fargo plus the face amount of any outstanding Letter of Credit and any liabilities under our Wholesale Financing Agreement with IBM Credit. It does not include our Debentures.

Total Funded Indebtedness includes all Senior Funded Indebtedness plus all subordinated indebtedness. This includes our Debentures.

EBITDA represents net income from continuing operations plus: interest expense, income tax expense, depreciation expense and amortization expense, measured over the prior four quarters.

EBITDAR represents net income plus: interest expense, income tax expense, depreciation expense, amortization expense and rent payments, measured over the prior four quarters.

Total Fixed Charges represents the sum of capital expenditures, plus interest expense and rent payments, measured over the prior four quarters.

### **Recently Issued Accounting Standard**

In December 2004, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment ( SFAS 123R ), which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation. SFAS 123R supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees and its related implementation guidance and amends SFAS No. 95, Statement of Cash Flows. The Company must adopt SFAS 123R effective January 1, 2006, at which time the Company must calculate and record in the income statement the cost of equity instruments, such as stock options, awarded to employees for services received. The cost of the equity instruments is to be measured based on the grant-date fair value of the instruments and is required to be recognized over the period during which employees are required to provide services. Under the modified prospective transition method that we expect to apply upon adoption, compensation cost will be recognized for all awards granted subsequent to the effective date of SFAS 123R, as well as for the unvested portion of the awards outstanding as of the effective date. The implementation of the provisions of SFAS 123R will reduce our reported net income and earnings per share. We estimate that the adoption of SFAS 123R will reduce our 2006 net income by approximately \$0.9 million to \$1.2 million.

### **Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities and the reported amounts of revenue and expenses. On an on-going basis we evaluate our estimates, including those related to revenue earned but not yet billed, costs to complete fixed-price projects, collectibility of accounts receivable, valuation of goodwill, valuation of other intangible assets, certain accrued liabilities and other reserves, amounts related to income taxes and others. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ materially from those estimates. We believe the following accounting policies and estimates are most critical to our consolidated financial statements.

*Revenue recognition* - We recognize revenue as services are performed or products are delivered in accordance with contractual agreements and U.S. generally accepted accounting principles. We primarily provide consulting services under time-and-materials or fixed-price contracts. We estimate that approximately 85%-90% of our service revenue is recognized under time-and-materials contracts as hours and costs are incurred. 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 estimate and accrue revenue for services performed since the last billing cycle. When billed in the following month, we compare the actual bills to our accruals and any differences are adjusted to revenue

at this time. Differences are commonly the result of adjustments made as time sheets are approved, late time sheets are received and rates are changed. For fixed-price contracts for system design, development and implementation, which we estimate represents approximately 10%-15% of our total revenue, we recognize revenue based on the estimated percentage of completion based on costs incurred relative to total estimated costs. Each contract has different terms, scope, deliverables and engagement complexities that require significant judgment. The cumulative impact of any revisions in estimated revenue and cost is recognized in the period in which the facts that give rise to the revision become known. Our ability to accurately predict personnel requirements and other costs, as well as to effectively manage a project or achieve a certain level of performance can have a significant impact on the gross margins related to our engagements. Also, with fixed-price contracts, we are subject to the risk of cost overruns. Losses, if any, on fixed-price contracts are recognized when the loss is determined.

*Collectibility of 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 June 30, 2005, we had gross accounts receivable of \$210.3 million and our allowance for doubtful accounts was \$1.2 million. Our allowance for



doubtful accounts is based upon specific identification of probable losses. We review our accounts receivable and reassess our estimates of collectibility each month. 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 Fortune 500 companies and governments. 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.

*Valuation of goodwill* At June 30, 2005, we had \$411.0 million of goodwill resulting from acquisitions. Goodwill is not amortized, but is subject to annual impairment testing. The impairment test involves the use of estimates related to the fair value of the business operations with which the goodwill is associated. The estimation of fair value requires significant judgment. Any loss resulting from an impairment test would be reflected in operating income in our statement of operations.

*Valuation of other intangible assets* - In connection with our acquisitions, we are required to recognize other intangible assets separate and apart from goodwill if such assets arise from contractual or other legal rights or if such assets are separable from the acquired business. Other intangible assets include, among other things, customer-related assets such as order backlog, customer contracts and customer relationships. Determining a fair value for such items requires a high degree of judgment, assumptions and estimates. We often use third parties to assist us with such valuations. At June 30, 2005, we had \$28.0 million of other intangible assets. In addition, these intangible assets are amortized over our best estimate of their useful life.

*Accrued compensation and other liabilities* - Employee compensation costs are our largest expense category. We have a number of different variable compensation programs, which 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. We also 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 actual amounts may vary. In addition, with respect to our potential exposure to losses from litigation, claims and other assessments, we record a liability when such amounts are believed to be probable and can be estimated.

*Income taxes* - To record income tax expense, we are required to estimate our income taxes in each of the jurisdictions in which we operate. In addition, income tax expense at interim reporting dates requires us to estimate our expected effective tax rate for the entire year. This involves estimating our actual current tax liability together with assessing temporary differences that result in deferred tax assets and liabilities and expected future tax rates. We record a valuation allowance to reduce our deferred tax assets to an amount we believe is more likely than not to be realized. We consider future taxable income and prudent and feasible tax planning strategies in assessing the need for a valuation allowance. If we subsequently determine that we will realize more or less of our net deferred tax assets in the future, such adjustment would be recorded as an increase or reduction of income tax expense in the period such determination is made. Circumstances that could cause our estimates of income tax expense to change include: the impact of information that subsequently becomes available as we prepare our tax returns; revision to tax positions taken as a result of further analysis and consultation; changes in the geographic mix of our business; the actual level of

pre-tax income; changes in tax rules, regulations and rates; and changes mandated as a result of audits by taxing authorities.

We also establish tax reserves when, despite our belief that our tax return positions are fully supportable, we believe that certain positions are subject to challenge and that we may not fully succeed. We adjust these reserves in light of changing facts, such as the progress of a tax audit, new case law, or expiration of a statute of limitations.

**FACTORS THAT MAY AFFECT FUTURE RESULTS OR THE MARKET PRICE OF OUR STOCK**



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We operate in a dynamic and rapidly changing environment that involves numerous risks and uncertainties. The following section describes some, but not all, of the risks and uncertainties that may have a material adverse affect on our business, financial condition, results of operations and the market price of our common stock and could cause our actual results to differ materially from those expressed or implied in our forward-looking statements.

### **Our quarterly revenues, operating results and profitability will vary from quarter to quarter, which may result in increased volatility of our share price.**

Our quarterly revenues, operating results and profitability have varied in the past and are likely to vary significantly from quarter to quarter, making them difficult to predict. This may lead to volatility in our share price. Some of the factors that are likely to cause these variations are:

the business decisions of our clients regarding the use of our services;

the stage of completion of existing projects and/or their termination;

our ability to maintain our profit margins and manage costs, including those for personnel, support services and severance;

acquisition and integration costs related to possible acquisitions of other businesses;

changes in, or the application of changes in, accounting principles or pronouncements under U.S. generally accepted accounting principles;

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 largely 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

general economic conditions.

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

seasonality, including number of workdays and holiday and summer 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.

**Our results of operations are materially affected by economic conditions and levels of client spending.**

Our results of operations are affected by the level of business activity of our clients, which in turn is affected by regional and global economic conditions. We continue to operate in a challenging economic environment in the United States and abroad, particularly in Europe. Due to the current economic environment, some clients have cancelled, reduced or deferred expenditures for IT products and services. We have implemented cost management programs to manage our expenses as a percentage of revenue. Current and future cost management efforts may not be sufficient, however, to maintain our margins if the current economic environment continues. In addition, our business tends to lag behind economic cycles and, consequently, the benefits of any economic recovery to our business may take longer to realize.

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

Our market is characterized by rapidly changing technologies, such as the evolution of the Internet, frequent new product and service introductions and evolving industry standards. Our success depends, in part, 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 offerings may not be successful in the marketplace. In addition, services, solutions and technologies developed by our competitors may make our service or solution offerings uncompetitive or obsolete. Any one of these circumstances could have a material adverse effect on our ability to obtain and successfully complete client engagements.

**We may face damage to our professional reputation and/or legal liability if our clients are not satisfied with our services.**

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 and employees. Additionally, many of our engagements involve projects that are critical to the operations of our clients' businesses. If a client is not satisfied with our services and/or we do not meet our contractual obligations to a client, it could subject us to legal liability and may be very damaging to our reputation, business, operating results and financial condition. 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. It is possible, due to the nature of our business, that we will be sued in the future. Although we maintain professional liability insurance, the policy limits may not be adequate to provide protection against all potential liabilities.

**Termination of a contract by a significant client and/or cancellation with short notice could reduce our revenue and profitability and adversely affect our financial condition.**

Our five largest clients accounted for 30% of our revenue in 2004. The various agencies of the U.S. Federal Government represent our largest client, accounting for 16% of total revenue in 2004, while no other customer accounted for more than 6% of our total revenue. In 2005, we expect that the U.S. Federal Government will represent approximately 15-20% of our total revenues. Our clients typically retain us on a non-exclusive, engagement-by-engagement basis. Most individual client assignments are from three to twelve months; however, many of our client relationships have continued for many years. Although they may be subject to penalty provisions, clients may generally cancel a contract at any time 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, but could be related to business or financial conditions of the client, changes in client strategies or the economy generally. When contracts are terminated, we lose the associated revenues and we may not be able to eliminate associated costs in a timely manner. Consequently our profit margins may be adversely affected.

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

We estimate that approximately 10-15% of our total revenue is from engagements performed in accordance with fixed-price contracts. Revenue for these types of engagements is recognized based on the estimated percentage of completion determined generally by costs incurred relative to total estimated costs. When making a proposal or managing a fixed-price engagement, we rely on our estimates of costs and timing for completing the project. These estimates reflect our best judgment regarding the efficiencies of our methodologies and consultants as we plan to apply them to the project. The cumulative impact of any adjustments in estimated revenue and cost are recognized as necessary in the period

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during which the facts causing the adjustment become known. 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.



**Financial and operational risks of our international operations could result in a decline in revenue and profitability.**

We have continued to expand our international operations and estimate that our foreign operations currently represent approximately 22% of our total revenue. We presently have offices in 17 foreign countries. Due to our international operations, we are subject to a number of financial and operational risks that may adversely affect our revenue and profitability, including:

the costs and difficulties relating to managing geographically diverse operations;

foreign currency exchange rate fluctuations (discussed in more detail below);

differences in, and uncertainties arising from changes in, foreign business culture and practices;

restrictions on the movement of cash and the repatriation of earnings;

multiple and possibly overlapping or conflicting tax laws;

the costs of complying with a wide variety of national and local laws;

operating losses incurred in certain countries and the non-deductibility of those losses for tax purposes; and

differences in, and uncertainties arising from changes in legal, labor, political and economic conditions, as well as international trade regulations and restrictions, and tariffs.

The revenues and expenses of our international operations generally are denominated in local currencies. Accordingly, we are subject to exchange rate fluctuations between such local currencies and the U.S. dollar. These exchange rate fluctuations subject us to currency translation risk with respect to the reported results of our international operations and the cost of potential acquisitions. 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, through the use of 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 depend on contracts with various federal, state and local government 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 2004, approximately 32% of our revenue was from public sector clients, including federal, state, local and foreign governments and agencies. In 2005, we expect our public sector clients to comprise 35-40% of our total revenues. The market for our services depends largely on federal and state 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 federal and state governments. Many government budgets have been adversely impacted by the economic slowdown. All but one state must operate under a balanced budget. In addition, changes in federal initiatives or in the level of federal spending due to budgetary or deficit considerations may have a significant impact on our future financial performance, as may curtailment of the federal government's use of consulting and technology services firms, the adoption of new laws or regulations that affect companies providing services to the federal government and potential delays in the government appropriation process.

Additionally, federal 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 cancel multi-year contracts if funds become unavailable.

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

The government agencies we contract 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. 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.

**We may have difficulty integrating or managing those businesses we have acquired or may acquire in the future, which may have a material adverse impact on our financial results.**

Since January 1, 2002, we have acquired six different organizations, three of which are European companies. These acquisitions included Decision Consultants, Inc., ECsoft Group, plc, SCB Computer Technology, Ascent Technology Group Limited, Novasoft AG and Knowledge Systems Private Ltd. Each of these acquisitions involves the integration of separate companies that have previously operated independently and have different corporate cultures. As a result, we may not succeed at integrating or managing acquired businesses or in managing the larger company that results from these acquisitions. The process of combining these companies may be disruptive to their business and our business and could have an adverse impact on the reputation and/or financial results of our Company as a result of the following difficulties, among others:

loss of key clients or management and technical personnel;

additional costs and delays from difficulties in the integration of the acquired business with our existing business activities;

assumption of unanticipated legal or other financial liabilities;

impairment charges for acquired intangible assets, including goodwill, that decline in value;

inconsistencies in standards, controls, procedures and policies among the companies being combined, making it more difficult to implement and harmonize company-wide financial, accounting, billing, information and other systems;

coordination of geographically diverse organizations;

diversion of management's attention from the day-to-day business of our Company;

becoming significantly leveraged as a result of debt incurred to finance acquisitions; and

dilution to our earnings per share as a result of issuing shares of our stock to finance acquisitions.

Difficulties with integration or management may also affect client satisfaction or create problems with the quality of client service, which could have an adverse impact on the reputation of our Company.

If we are unable to integrate our acquisitions in a timely manner, or at all, or if we experience difficulty integrating or managing the acquired businesses, we may not achieve the desired level of benefits in connection with the transactions. Also, the costs of achieving those benefits may

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be greater than we anticipate. In the course of acquiring companies, we have recorded a significant amount of goodwill. Historically, we have not always achieved the level of benefits that we expected from our acquisitions, nor have the acquired businesses always achieved the revenue and profitability we anticipated. Such experiences could lead to a subsequent goodwill impairment charge.

We will continue to evaluate from time to time, on a selective basis, other strategic acquisitions if we believe they will help us obtain well-trained, high-quality consultants, new service offerings, additional industry expertise, a broader client base or an expanded geographic presence. There can be no assurance that we will be successful in identifying candidates or consummating acquisitions on terms that are acceptable or favorable to us. In addition, there can be no assurance that financing for acquisitions will be available on terms that are acceptable or favorable to us, if at all. We may issue shares of our common stock as part of the purchase price for some or all of these acquisitions. Future issuances of our common stock in connection with acquisitions also may dilute our earnings per share.

### **Our future success depends on our ability to continue to retain and attract qualified 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, as a result, employee turnover is generally high. From time to time, we have trouble locating enough highly qualified candidates in desired geographic locations or with required specific expertise. 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.

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 our stock price and result in further turnover of our employees.

**Our current indebtedness, and any future indebtedness, could adversely affect our business, our operating flexibility and our ability to make full payment on the Debentures.**

Our aggregate level of indebtedness increased in December 2003 in connection with our issuance of \$175 million of Convertible Senior Subordinated Debentures ( Debentures ) due 2023. The terms of the Debentures permit us to incur additional debt, including secured debt, and to repurchase our common stock. Additionally, the limited covenants applicable to the Debentures do not require us to achieve or maintain any minimum financial results relating to our financial position or results of operations. We also have a \$70 million bank revolving line of credit that expires on September 30, 2007. We have used borrowings under our line of credit to finance some of our acquisitions. This credit facility contains specific limitations on additional indebtedness, liens and merger activity and prohibits the payment of dividends. Additionally, it requires CIBER to maintain specified financial covenants, including an asset coverage ratio, a leverage ratio, a senior leverage ratio, and a fixed charges coverage ratio. We have experienced, from time to time, instances of covenant non-compliance under our line of credit that have been waived by our lender. If we fail to comply with any covenants in the future, however, we may not be able to obtain a waiver and could be in default under our credit agreement.

In the past, we have been successful in generating cash flow from operations to reduce our indebtedness. As of June 30, 2005, we had approximately \$207.3 million of outstanding indebtedness and had the ability to incur approximately \$24 million of additional debt under our revolving credit facility. We may obtain additional long-term debt and working capital lines of credit to meet our future financing needs, which would have the effect of increasing our total leverage.

An increase in our leverage could have significant negative consequences, including:

- limiting our cash flow available for general corporate purposes, such as acquisitions, due to the ongoing cash flow requirements for debt service;

- limiting our ability to obtain, or obtain on favorable terms, future additional debt financing for working capital or acquisitions;

- limiting our flexibility to react to competitive and other changes in our industry and economic conditions generally;

- exposing us to a risk that a substantial decrease in net operating cash flows due to economic or adverse developments in our business could make it difficult to meet debt service requirements;

increasing our vulnerability to adverse economic and industry conditions; and

exposing us to risks inherent in interest rate fluctuations due to variable interest rates, which could result in higher interest expense.

Our ability to repay or to refinance our indebtedness will depend upon our future operating performance and on economic, financial, competitive, regulatory, business and other factors beyond our control. If we are unable to service our indebtedness or maintain covenant compliance, whether in the ordinary course of business or upon acceleration of such indebtedness, we may be forced to pursue one or more alternative strategies, such as restructuring or refinancing our indebtedness, selling assets, reducing or delaying capital expenditures or seeking additional equity capital. Any additional capital raised through the sale of equity may dilute shareholders' ownership interest. There can be no assurances that any of these strategies could be undertaken on satisfactory terms, if at all.

**We may be unable to repurchase our outstanding Debentures for cash on specific dates or following a designated event.**

Debenture holders have a right to require us to repurchase the Debentures on specified dates or upon the occurrence of a designated event prior to maturity as described in the indenture. Additionally, the Debentures are convertible at the option of the holder into shares of our common stock under certain circumstances. CIBER has made an irrevocable election to settle 100% of the principal amount of the Debentures in cash and not in shares, under these circumstances. We may not have sufficient funds to pay the repurchase or conversion price for all tendered Debentures in cash at such time or the ability to arrange necessary financing on acceptable terms. We may be subject to limitations under our bank line of credit related to the repurchase or conversion of our indebtedness. We may be prohibited under future indebtedness from repurchasing any Debentures prior to their stated maturity. In addition, if we fail to repurchase the Debentures as required by the indenture, it would constitute an event of default under the indenture, which, in turn, would be expected to constitute an event of default under any agreement relating to indebtedness, including our bank line of credit. Important corporate events, such as takeovers, recapitalizations or similar transactions, may not constitute a designated event under the indenture governing the Debentures and thus not permit the Debenture holders to require us to repurchase or redeem the Debentures.

**We may be unable to obtain surety bonds or letters of credit in support of client engagements on acceptable terms, if available, which could affect our ability to obtain additional client engagements that require them.**

Some of our government clients, largely in the state and local market, may require us to provide surety bonds or letters of credit as a condition of being awarded a new engagement. We cannot be certain that surety bonds or letters of credit will be available to us on acceptable terms, if at all. If we cannot obtain surety bonds or letters of credit on acceptable terms, we may be unable to obtain additional client engagements that require them, which could negatively impact our ability to grow our business and adversely affect our business, financial condition and results of operations. As of June 30, 2005, we had approximately \$15.1 million of outstanding surety bonds and approximately \$6.6 million of outstanding letters of credit supporting client engagements for which we may be required to make future payment. The issuer of our outstanding surety bonds requires that we post a letter of credit as collateral to support these possible obligations. We have a \$6 million letter of credit outstanding to support our current surety program. The surety company may, at its discretion, require us to provide additional collateral as a condition for future surety bond issuances. We cannot be certain that such collateral will be available if needed.

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

We operate in a highly competitive industry that includes a large number of participants. We believe that we currently compete principally with other IT professional services firms, technology vendors and the internal information systems groups of our clients. Many of the companies that provide services in our industry have significantly greater financial, technical and marketing resources than we do. 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 with better-capitalized partners. Larger and better-capitalized competitors have enhanced abilities to compete for market share generally and our clients specifically, in some cases, through significant economic incentives to clients to secure contracts. These competitors may also be better able to compete for skilled professionals by offering them large compensation incentives.

One or more of our competitors may develop and implement methodologies that result in superior productivity and price reductions without adversely affecting their profit margins. In addition, there are relatively few barriers to entry into our industry. As a result, we have faced and expect to continue to face, competition from new entrants into our market. We may be unable to compete successfully with current or future competitors and our revenue and profitability may be adversely affected.

**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 stock.**

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. These provisions include adoption of a Preferred Stock Purchase Rights Agreement, commonly known as a poison pill 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 stockholder 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 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 shares of our common stock, and as a result, the price of our common stock could decline.

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; this could adversely affect transactions in which our shareholders might otherwise receive a premium over the then-current market price for their shares of CIBER common stock.

#### **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**



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During the six months ended June 30, 2005, there were no material changes in our market risk exposure. For a discussion of our market risk associated with foreign currency risk and interest rate risk as of December 31, 2004, see Quantitative and Qualitative Disclosures about Market Risk in Part II, Item 7A, of our Annual Report on Form 10-K for the year ended December 31, 2004.

### CONTROLS AND PROCEDURES

**Evaluation of Disclosure Controls and Procedures** We have established disclosure controls and procedures to ensure that material information related to the Company, including its consolidated subsidiaries, is made known to the officers who certify the Company's financial reports and to other members of senior management and the Board of Directors. Based on their evaluation as of June 30, 2005, the principal executive officer and principal financial officer of the Company have concluded that the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) are effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, summarized and reported within the time periods specified in SEC rules and forms.

**Changes in Internal Controls** - There were no changes in our internal control over financial reporting that occurred during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### PART II - OTHER INFORMATION

#### ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

Recent sales of unregistered securities: None

**Purchases of equity securities by the issuer** The following table sets forth the information required regarding repurchases of our common stock made during the three months ended June 30, 2005.

Period (1)	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Number of Shares that May Yet Be Purchased Under the Programs (2)
April 2005	120,000	\$ 7.30	120,000	979,437
May 2005	105,000	7.88	105,000	874,437
June 2005	20,000	8.11	20,000	854,437
Total	245,000	\$ 7.62	245,000	

(1) Calendar month

(2) As of end of month indicated

On June 22, 1999, CIBER announced its common stock share repurchase program. The program has been amended from time to time by our Board of Directors to increase the authorized shares available for repurchase. In total, 11,388,591 shares have been authorized under this program since its inception.

ITEM 4. Submission of Matters to a Vote of Security Holders

At the Annual Meeting of Shareholders of CIBER, Inc. held on May 3, 2005, the following matters were voted upon with the results indicated below.

Election of two Class II Directors to serve as members of the Board of Directors for a term of three years, or until their successors have been duly elected and qualified.

	<b>In Favor</b>	<b>Withheld</b>
Mac J. Slingerlend	55,506,813	493,799
James C. Wetherbe	55,624,942	375,670

Ratification of the appointment of Ernst & Young LLP as the Company's independent auditors.

<b>In Favor</b>	<b>Withheld</b>	<b>Abstain</b>
54,473,152	1,488,096	39,363

ITEM 6. Exhibits

- 4.5 Notice to Well Fargo Bank Minnesota, N.A., trustee regarding rights of Debenture holders
- 31.1 Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Principal Executive Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Principal Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

**SIGNATURES**

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

**CIBER, INC.**

(Registrant)

Date: August 5, 2005

By /s/ Mac J. Slingerlend  
Mac J. Slingerlend  
Chief Executive Officer, President and Secretary

Date: August 5, 2005

By /s/ David G. Durham  
David G. Durham  
Chief Financial Officer, Senior Vice President and Treasurer