CIBER INC
Form 10-Q
August 09, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

ý **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

o **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**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

ý Yes o No

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

ý Yes o No

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

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, 2004	Three months ended June 30, 2005	Six months ended June 30, 2004	Six months ended June 30, 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

Consolidated Balance Sheets

(Unaudited)

	December 31, 2004	June 30, 2005
	(In thousands, except per share amounts)	
Assets		
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
Liabilities and Shareholders Equity		
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.

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CIBER, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited)

	Six months ended June 30, 2004	Six months ended June 30, 2005
	(In thousands)	
Operating activities:		
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
Investing activities:		
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)
Financing activities:		
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
Non-cash activities:		
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)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders Equity
				(In thousands)			
Balances at January 1, 2005	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)
Balances at June 30, 2005	64,705	$ 647	$ 267,681	$ 120,902	$ 3,351	$ (18,391)	$ 374,190

See accompanying notes to unaudited consolidated financial statements.

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See accompanying notes to unaudited consolidated financial statements.

CIBER, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

(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, 2004	Three months ended June 30, 2005	Six months ended June 30, 2004	Six months ended June 30, 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.

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.

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.

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

	Three months ended June 30, 2004		Three months ended June 30, 2005		Six months ended June 30, 2004		Six months ended June 30, 2005
Numerator:							
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
Denominator (shares in thousands):								
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, 2004		Three months ended June 30, 2005		Six months ended June 30, 2004		Six months ended June 30, 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.

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
Balance at December 31, 2004	$ 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)
Balance at June 30, 2005	$ 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:

Balance at January 1, 2005	$ 5,972
Cash payments	(2,575)
Benefit to cost and expense	(82)
Effect of foreign exchange rate changes	(150)
Balance at June 30, 2005	$ 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 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 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.

The following presents financial information about our reportable segments:

	Three months ended June 30, 2004	Three months ended June 30, 2005	Six months ended June 30, 2004	Six months ended June 30, 2005
Total revenue:				
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)
Total revenue	$ 208,278	$ 240,955	$ 388,333	$ 480,520
Income from operations:				
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)
Total	14,938	14,779	25,262	30,561
Amortization of intangibles	(1,007)	(1,479)	(1,616)	(3,059)
Operating income	$ 13,931	$ 13,300	$ 23,646	$ 27,502

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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, m opportunity, plan, potential, project, should, and will and similar expressions are intended to identify forward-looking statements and co 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

Net income	3.8%	2.7%	3.6%	3.0%

The following table sets forth certain operating data for our reportable segments:

	Three months ended June 30, 2004	Three months ended June 30, 2005	Six months ended June 30, 2004	Six months ended June 30, 2005
	(In thousands)			
Total revenue:				
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)
Total revenue	208,278	240,955	388,333	480,520
Income from operations:				
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)
Total	14,938	14,779	25,262	30,561
Amortization of intangibles	(1,007)	(1,479)	(1,616)	(3,059)
Operating income	13,931	13,300	23,646	27,502
Net interest and other income (expense)	(933)	(2,501)	(869)	(3,922)
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

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.

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.

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%

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.

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, 2004	Three months ended June 30, 2005	Six months ended June 30, 2004	Six months ended June 30, 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								