

CIBER INC
Form 10-Q
July 29, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

**Quarterly Report Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934 for the quarterly period ended
June 30, 2004**

Commission file number 0-23488

CIBER, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State of Incorporation)

38-2046833
(I.R.S. Employer Identification No.)

5251 DTC Parkway
Suite 1400
Greenwood Village, CO 80111
(Address of principal executive offices)

Telephone Number: **(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 and (2) has been subject to such filing requirements for the past 90 days.

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Yes No

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, 2004, there were 60,280,183 shares of the Registrant's common stock (\$0.01 par value) outstanding.

CIBER, Inc.

Form 10-Q

Table of Contents

| | |
|------------------------|--|
| PART I. | FINANCIAL INFORMATION |
| Item 1. | Financial Statements (unaudited): <u>Consolidated Statements of Operations - Three and six months ended June 30, 2004 and 2003</u> <u>Consolidated Balance Sheets - June 30, 2004 and December 31, 2003</u> <u>Consolidated Statements of Cash Flows - Six months ended June 30, 2004 and 2003</u> <u>Consolidated Statement of Shareholders' Equity - Six months ended June 30, 2004</u> <u>Notes to Consolidated Financial Statements</u> |
| <u>Item 2.</u> | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> |
| <u>Item 3.</u> | <u>Quantitative and Qualitative Disclosures About Market Risk</u> |
| <u>Item 4.</u> | <u>Controls and Procedures</u> |
| <u>PART II.</u> | <u>OTHER INFORMATION</u> |
| | <u>SIGNATURES</u> |

CIBER, Inc. and Subsidiaries
Consolidated Statements of Operations
(Unaudited)

| In thousands, except per share data | Three months ended June 30, | | Six months ended June 30, | |
|--|--------------------------------|------------|------------------------------|------------|
| | 2004 | 2003 | 2004 | 2003 |
| Consulting services | \$ 199,933 | \$ 168,950 | \$ 373,222 | \$ 333,814 |
| Other revenue | 8,345 | 8,193 | 15,111 | 12,884 |
| Total revenue | 208,278 | 177,143 | 388,333 | 346,698 |
| Cost of consulting services | 144,356 | 119,472 | 269,971 | 237,803 |
| Cost of other revenue | 6,176 | 5,558 | 11,193 | 9,191 |
| Selling, general and administrative expenses | 42,808 | 39,938 | 81,907 | 79,161 |
| Amortization of intangible assets | 1,007 | 784 | 1,616 | 1,313 |
| Operating income | 13,931 | 11,391 | 23,646 | 19,230 |
| Interest income | 182 | 156 | 416 | 447 |
| Interest expense | (1,668) | (440) | (3,221) | (1,108) |
| Other income, net | 553 | 158 | 1,936 | 142 |
| Income before income taxes | 12,998 | 11,265 | 22,777 | 18,711 |
| Income tax expense | 5,068 | 4,419 | 8,882 | 7,297 |
| Net income | \$ 7,930 | \$ 6,846 | \$ 13,895 | \$ 11,414 |
| Earnings per share - basic | \$ 0.13 | \$ 0.11 | \$ 0.23 | \$ 0.18 |
| Earnings per share - diluted | \$ 0.13 | \$ 0.11 | \$ 0.23 | \$ 0.18 |
| Weighted average shares - basic | 60,279 | 63,851 | 59,760 | 64,026 |
| Weighted average shares - diluted | 61,467 | 64,307 | 61,044 | 64,524 |

See accompanying notes to unaudited consolidated financial statements.

CIBER, Inc. and Subsidiaries

Consolidated Balance Sheets

(Unaudited)

| In thousands, except per share data | June 30, 2004 | December 31, 2003 |
|---|------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 12,879 | \$ 132,537 |
| Accounts receivable, net | 181,447 | 140,037 |
| Prepaid expenses and other current assets | 14,160 | 10,521 |
| Income taxes refundable | 3,253 | 4,616 |
| Deferred income taxes | 5,857 | 4,931 |
| Total current assets | 217,596 | 292,642 |
| Property and equipment, at cost | 51,849 | 46,023 |
| Less accumulated depreciation and amortization | (28,907) | (30,646) |
| Net property and equipment | 22,942 | 15,377 |
| Goodwill | 354,361 | 249,992 |
| Other intangible assets, net | 28,660 | 8,231 |
| Other assets | 6,289 | 7,081 |
| Total assets | \$ 629,848 | \$ 573,323 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 20,985 | \$ 17,236 |
| Accrued compensation and related liabilities | 44,084 | 37,954 |
| Other accrued expenses and liabilities | 27,421 | 23,652 |
| Deferred revenue | 10,915 | 747 |
| Bank term loan - current portion | 2,400 | |
| Income taxes payable | 2,857 | 501 |
| Total current liabilities | 108,662 | 80,090 |
| Bank term loan - long term | 3,000 | |
| Deferred income taxes | 6,402 | 8,650 |
| Other long term liabilities | 4,499 | 4,951 |
| Long term debentures | 175,000 | 175,000 |
| Total liabilities | 297,563 | 268,691 |
| Minority interest | 203 | |
| 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 and 64,705 issued | 647 | 647 |
| Additional paid-in capital | 268,283 | 266,777 |
| Retained earnings | 97,173 | 85,366 |
| Accumulated other comprehensive income | 5,611 | 6,051 |
| Treasury stock, 4,425 and 6,106 shares at cost | (39,632) | (54,209) |
| Total shareholders' equity | 332,082 | 304,632 |
| Total liabilities and shareholders' equity | \$ 629,848 | \$ 573,323 |

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See accompanying notes to unaudited consolidated financial statements.

CIBER, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)

| In thousands | Six months ended June 30, | |
|---|------------------------------|-----------|
| | 2004 | 2003 |
| Operating activities: | \$ 13,895 | \$ 11,414 |
| Net income | | |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation | 4,544 | 4,595 |
| Amortization of intangible assets | 1,616 | 1,313 |
| Deferred income taxes | 4,414 | 3,100 |
| Provision for doubtful receivables | 124 | 1,227 |
| Provision for office lease and closure costs | | 940 |
| Other, net | 1,661 | (582) |
| Changes in operating assets and liabilities, net of the effects of acquisitions: | | |
| Accounts receivable | (11,737) | (15,107) |
| Other current and long-term assets | 712 | 892 |
| Accounts payable | (758) | 4,935 |
| Accrued compensation and related liabilities | (4,605) | (2,825) |
| Deferred revenue | 1,348 | 1,712 |
| Other current and long-term liabilities | (9,073) | (6,673) |
| Income taxes payable/refundable | 4,473 | 4,753 |
| Net cash provided by operating activities | 6,614 | 9,694 |
| Investing activities: | | |
| Acquisitions, net of cash acquired | (73,547) | (18,089) |
| Proceeds from the sale of DigiTerra Broadband, net of expenses | | 2,059 |
| Purchases of property and equipment, net | (3,149) | (2,076) |
| Purchases of investments | | (108) |
| Sales of investments | | 241 |
| Net cash used in investing activities | (76,696) | (17,973) |
| Financing activities: | | |
| Employee stock purchases and options exercised | 4,947 | 2,507 |
| Purchases of treasury stock | (5,958) | (3,120) |
| Cash settlement of put option | | (5,832) |
| Repayment of debt of acquired companies | (52,628) | |
| Borrowings on long term bank line of credit | 51,916 | 225,938 |
| Payments on long term bank line of credit | (51,916) | (205,552) |
| Line of credit origination fees paid | | (250) |
| Borrowings on term note | 6,000 | |
| Payments on term note | (600) | |
| Net cash provided by (used in) financing activities | (48,239) | 13,691 |
| Effect of foreign exchange rate changes on cash | (1,337) | 1,063 |
| Net increase (decrease) in cash and cash equivalents | (119,658) | 6,475 |
| Cash and cash equivalents, beginning of period | 132,537 | 14,899 |
| Cash and cash equivalents, end of period | \$ 12,879 | \$ 21,374 |
| Non-cash activities: | | |

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| | | |
|---|----|--------|
| Note forgiveness as acquisition consideration | \$ | 1,174 |
| Value of shares and options issued for acquisitions | \$ | 14,448 |

See accompanying notes to unaudited consolidated financial statements.

CIBER, Inc. and Subsidiaries
Consolidated Statement of Shareholders Equity

(Unaudited)

| In thousands | Common stock | | Additional paid-in capital | Retained earnings | Accumulated other comprehensive income (loss) | Treasury stock | Total shareholders equity |
|---|--------------|--------|----------------------------------|----------------------|--|-------------------|---------------------------------|
| | Shares | Amount | | | | | |
| Balances at January 1, 2004 | 64,705 | \$ 647 | \$ 266,777 | \$ 85,366 | \$ 6,051 | \$ (54,209) | \$ 304,632 |
| Net income | | | | 13,895 | | | 13,895 |
| Foreign currency translation | | | | | (440) | | (440) |
| Acquisition consideration | | | 948 | (110) | | 13,610 | 14,448 |
| Employee stock purchases and options exercised | | | 29 | (1,978) | | 6,896 | 4,947 |
| Tax benefit from exercise of stock options | | | 529 | | | | 529 |
| Stock compensation expense | | | | | | 29 | 29 |
| Purchases of treasury stock | | | | | | (5,958) | (5,958) |
| Balances at June 30, 2004 | 64,705 | \$ 647 | \$ 268,283 | \$ 97,173 | \$ 5,611 | \$ (39,632) | \$ 332,082 |

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 consolidated financial statements of CIBER, Inc. and subsidiaries have been prepared without audit. Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to the Securities and Exchange Commission rules and regulations. In the opinion of management, these unaudited consolidated financial statements include all adjustments 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 period ended June 30, 2004 are not necessarily indicative of operating results for the full year. These consolidated financial statements should 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, 2003.

Stock-based Compensation. As permitted by Statement of Financial Accounting Standards No. 123 (SFAS 123), we account for stock-based employee compensation in accordance with the provisions of Accounting Principles Board Opinion 25, and related interpretations, including FASB Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation (an Interpretation of APB Opinion No. 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 upon exercise. We generally grant stock options at the market price at the date of grant.

For all of our stock-based plans, we have recorded expense of \$29 and \$27 for the six months ended June 30, 2004 and 2003, respectively. No compensation expense has been recorded for stock options. 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 approach of SFAS 123.

| | | Three months ended June 30, | | Six months ended June 30, | |
|---|-------------|-----------------------------|----------|---------------------------|-----------|
| | | 2004 | 2003 | 2004 | 2003 |
| Net income, as reported | | \$ 7,930 | \$ 6,846 | \$ 13,895 | \$ 11,414 |
| Deduct: Stock based compensation expense determined under fair value based method, net of related tax effects | | (1,301) | (1,227) | (2,394) | (2,400) |
| Pro forma net income | | \$ 6,629 | \$ 5,619 | \$ 11,501 | \$ 9,014 |
| Earnings per share basic: | As reported | \$ 0.13 | \$ 0.11 | \$ 0.23 | \$ 0.18 |
| | Pro forma | \$ 0.11 | \$ 0.09 | \$ 0.19 | \$ 0.14 |
| Earnings per share diluted: | As reported | \$ 0.13 | \$ 0.11 | \$ 0.23 | \$ 0.18 |
| | Pro forma | \$ 0.11 | \$ 0.09 | \$ 0.19 | \$ 0.14 |

(2) Earnings Per Share

The computation of earnings per share basic and diluted is as follows (shares in thousands):

| | Three months ended June 30, | | Six months ended June 30, | |
|---|--------------------------------|----------|------------------------------|-----------|
| | 2004 | 2003 | 2004 | 2003 |
| Numerator: | | | | |
| Net income | \$ 7,930 | \$ 6,846 | \$ 13,895 | \$ 11,414 |
| Denominator: | | | | |
| Basic weighted average shares outstanding | 60,279 | 63,851 | 59,760 | 64,026 |
| Dilutive effect of employee stock options | 1,188 | 337 | 1,284 | 259 |
| Dilutive effect of put option | | 119 | | 239 |
| Diluted weighted average shares outstanding | 61,467 | 64,307 | 61,044 | 64,524 |
| Earnings per share basic | \$ 0.13 | \$ 0.11 | \$ 0.23 | \$ 0.18 |
| Earnings per share diluted | \$ 0.13 | \$ 0.11 | \$ 0.23 | \$ 0.18 |

Dilutive securities are excluded from the computation in periods in which they have an antidilutive effect. The 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 weighted average shares diluted was 2,006,000 and 6,158,000 for the three months ended June 30, 2004 and 2003, respectively and 1,855,000 and 4,773,000 for the six months ended June 30, 2004 and 2003. There were 12,830,000 shares excluded from the calculation of diluted weighted average shares outstanding related to our Convertible Senior Subordinated Debentures, as the conversion triggers are substantive and have not been met as of June 30, 2004.

(3) Comprehensive Income

The components of comprehensive income are as follows:

| | Three months ended June 30, | | Six months ended June 30, | |
|--|--------------------------------|----------|------------------------------|-----------|
| | 2004 | 2003 | 2004 | 2003 |
| Net income | \$ 7,930 | \$ 6,846 | \$ 13,895 | \$ 11,414 |
| Change in net unrealized gain (loss) on available for sale investments | | 85 | | (1,265) |
| Foreign currency translation adjustments | 79 | 2,765 | (440) | 1,412 |
| Comprehensive income | \$ 8,009 | \$ 9,696 | \$ 13,455 | \$ 11,561 |

(4) Acquisitions

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Ascent Technology Group Limited (Ascent) On May 24, 2004, we acquired Ascent Technology Group Limited and Subsidiaries. The results of Ascent's operations have been included in our consolidated financial statements since that date. Ascent, based in, Leicestershire, U.K., provides IT services to medium-size enterprises, with a particular focus on software implementation and sales, including, both SAP and Sage ERP solution, as well as, their own proprietary customer relationship management software. At the time of the acquisition, Ascent had approximately 130 consultants. This acquisition expands our existing UK presence and allows us to achieve economies of scale resulting in reduced overhead costs as a percentage of revenue. The total consideration paid by CIBER for all of Ascent's outstanding shares was approximately \$21,664 consisting of \$20,191 in cash, and approximately 177,000 shares of CIBER common stock valued at \$1,473. The value of the CIBER shares issued was based on the average closing price of CIBER stock for the ten trading days ended May 19, 2004.

We have recorded preliminary goodwill of \$36,319 related to the acquisition of Ascent. The Ascent goodwill has been assigned to our European Operations segment. We expect that approximately \$500 of this goodwill will be deductible for income tax purposes. We have preliminarily assigned \$8,000 to other intangible assets for

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the estimated fair value of customer relationships, which is being amortized, on a straight-line basis over 8 years. We are in the process of completing the review and determination of the fair values of these other intangible assets, as well as certain other assets and liabilities, and therefore our preliminary estimates are subject to adjustment. Thus, the allocation of purchase price is subject to revision. The accrued exit costs are accounted for as additional costs of the acquisition and reflect our best estimates and actual amounts may vary. Ascent's exit costs consist of an accrued liability of \$537 for estimated severance of Ascent personnel.

SCB Computer Technology, Inc. (*SCB*) On March 1, 2004, we acquired SCB Computer Technology, Inc. and Subsidiaries (*SCB*). The results of SCB's operations have been included in our consolidated financial statements since that date. SCB, based in Memphis, Tennessee, provided IT services similar to CIBER, including consulting, outsourcing and professional staffing, with a particular focus on federal and state government clients and has been combined with our existing Custom Solutions operations. At the date of the acquisition, SCB had approximately 1,250 consultants. This acquisition expands our Federal Government and State & Local Government Practices and also adds beneficial customer relationships to our commercial sector business. We expect that a combined CIBER and SCB will be able to compete more effectively for larger public sector contracts. In addition we believe that the acquisition will provide an opportunity to realize operational efficiencies in the form of lower combined selling, general and administrative costs, primarily by reducing SCB's corporate administrative costs. The total consideration paid by CIBER for all of SCB's outstanding shares, options and warrants was approximately \$57,299 consisting of \$44,324 in cash, 1,353,000 shares of CIBER common stock valued at approximately \$12,704 and replacement employee stock options valued at \$271. The value of the CIBER shares issued was based on the average closing price of CIBER stock for the five trading days ended three days prior to the closing date.

We have recorded preliminary goodwill of \$59,327 related to the acquisition of SCB, which has been assigned to our Custom Solutions segment. We expect that approximately \$2.5 million of the total SCB goodwill will be deductible for income tax purposes. We have assigned \$12,165 to other intangible assets for the estimated fair value of customer relationships, which is being amortized, on a straight-line basis over 7 years. We are in the process of completing the review and determination of the fair values of certain tax assets and liabilities, and therefore our preliminary estimates are subject to adjustment. Thus, the allocation of purchase price is subject to revision. SCB's exit costs consists of an accrued liability of \$2,140 to terminate an office lease and an accrued liability, of \$327 for severance of SCB personnel, all of which was paid as of June 30, 2004.

The components of the preliminary purchase price allocation for Ascent and SCB are as follows:

| | Ascent | SCB |
|--------------------------------------|------------------|------------------|
| Cash paid | \$ 20,191 | \$ 44,324 |
| CIBER shares issued | 1,473 | 12,704 |
| CIBER options issued | | 271 |
| Transaction costs | 1,020 | 1,342 |
| Severance costs and other exit costs | 537 | 2,467 |
| Total | \$ 23,221 | \$ 61,108 |
| Allocation of purchase price: | | |
| Net asset (liability) value acquired | \$ (13,098) | \$ 1,781 |
| Goodwill | 36,319 | 59,327 |
| Total | \$ 23,221 | \$ 61,108 |

The following table summarizes the estimated fair values of the acquired assets and assumed liabilities of Ascent and SCB at the date of acquisition:

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| | Ascent | SCB |
|--|-------------|----------|
| Cash and cash equivalents | \$ 1,452 | \$ 1,714 |
| Accounts receivable, net | 5,483 | 21,863 |
| Property and equipment | 2,581 | 5,811 |
| Prepaid expenses and other current assets | 3,633 | 1,156 |
| Income taxes refundable | 64 | 295 |
| Deferred income taxes | 169 | 9,956 |
| Other intangible assets | 8,000 | 12,165 |
| Total assets acquired | 21,382 | 52,960 |
| Accounts payable | (2,220) | (1,198) |
| Accrued compensation and related liabilities | (1,445) | (5,302) |
| Deferred revenue | (7,870) | (632) |
| Other liabilities | (993) | (10,953) |
| Long-term debt | (19,534) | (33,094) |
| Deferred income taxes | (2,418) | |
| Total liabilities assumed | (34,480) | (51,179) |
| Net assets (liabilities) | \$ (13,098) | \$ 1,781 |

The following pro forma information presents the combined results of operations of CIBER, SCB and Ascent as if the acquisitions had occurred as of the beginning of each of the periods presented, after including the impact of certain adjustments such as, the elimination of SCB's expenses related to their acquisition by CIBER, the elimination of SCB and Ascent's historical intangible asset amortization and the addition of amortization of intangible assets resulting from CIBER's acquisition of SCB and Ascent as well as interest expense on the cash portion of the purchase price. The pro forma financial information is not necessarily indicative of the results of operations that would have occurred had CIBER, SCB and Ascent constituted a single entity during such periods, nor are they necessarily indicative of future operating results.

| | Pro Forma Three months ended June 30, | | Pro Forma Six months ended June 30, | |
|--------------------------|---|------------|---|------------|
| | 2004 | 2003 | 2004 | 2003 |
| Total revenue | \$ 212,848 | \$ 213,750 | \$ 420,938 | \$ 417,752 |
| Net income | \$ 7,382 | \$ 8,657 | \$ 11,553 | \$ 13,478 |
| Income per share basic | \$ 0.12 | \$ 0.13 | \$ 0.19 | \$ 0.21 |
| Income per share diluted | \$ 0.12 | \$ 0.13 | \$ 0.19 | \$ 0.20 |

Services Division of FullTilt Solutions, Inc. On January 23, 2004, we acquired certain assets and liabilities comprising the Services Division of FullTilt Solutions, Inc. (FullTilt) for \$9,751, plus transaction-related costs of \$26. The results of the Services Divisions operations have been included in our consolidated financial statements since that date. The Services Division has operations similar to CIBER, located in Philadelphia and Pittsburgh and has been combined with CIBER's existing Custom Solutions operations in those areas. The addition will enhance our business model, expand our customer base and strengthen our project delivery capability. This acquisition added approximately 80 consultants. The purchase price was allocated to \$1,308 in net tangible assets acquired, \$1,592 to customer relationships and \$6,936 to goodwill.

(5) Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the six months ended June 30, 2004 are as follows:

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| | Custom Solutions Segment | Package Solutions Segment | European Operations Segment | Total |
|---|--------------------------------|---------------------------------|-----------------------------------|------------|
| Balance at January 1, 2004 | \$ 177,175 | \$ 38,171 | \$ 34,646 | \$ 249,992 |
| SCB goodwill | 59,327 | | | 59,327 |
| FullTilt goodwill | 6,936 | | | 6,936 |
| Ascent goodwill | | | 36,319 | 36,319 |
| Other acquisitions | 1,229 | | | 1,229 |
| Effect of foreign exchange rate changes | | | 558 | 558 |
| Balance at June 30, 2004 | \$ 244,667 | \$ 38,171 | \$ 71,523 | \$ 354,361 |

Amortized other intangible assets are comprised of the following:

| | As of June 30, 2004 | | | As of December 31, 2003 | | |
|------------------------|---------------------|-----------------------------|---------------------------|-------------------------|-----------------------------|---------------------------|
| | Cost | Accumulated Amortization | Intangible Assets, net | Cost | Accumulated Amortization | Intangible Assets, net |
| Customer relationships | \$ 31,989 | \$ (3,329) | \$ 28,660 | \$ 11,467 | \$ (3,286) | \$ 8,181 |
| Noncompete agreements | | | | 100 | (50) | 50 |
| | \$ 31,989 | \$ (3,329) | \$ 28,660 | \$ 11,567 | \$ (3,336) | \$ 8,231 |

The estimated amortization expense for the years ending December 31, 2004, 2005, 2006, 2007 and 2008 is \$3,918, \$4,603, \$4,502, \$4,107 and \$4,107.

(6) Accrued lease costs

We have a lease reserve, included in other liabilities, for certain office space that is vacant or has been subleased at a loss. The activity in the accrued lease costs reserve during the six months ended June 30, 2004, consists of the following:

| | |
|---|----------|
| Balance at January 1, 2004 | \$ 8,557 |
| Additions due to acquisitions | 2,635 |
| Cash payments | (3,891) |
| Effect of foreign exchange rate changes | 77 |
| Balance at June 30, 2004 | \$ 7,378 |

(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 \$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 (approximately \$16.37 per share) 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. Upon conversion, we will have the right to deliver, in lieu of our common stock, cash or a combination of cash and common stock. The conversion price is subject to adjustment in certain circumstances.

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.

(8) Bank Line of Credit and Term Loan

Bank Line of Credit We have a \$50 million Line of Credit with Wells Fargo Bank, N.A that expires on September 30, 2007. The line of credit is unsecured, unless borrowings exceed \$40 million 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 80 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, 2004, the bank's prime rate was 4.25% and our rate for borrowing was 3.45%. 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: maximum liabilities to tangible net worth, minimum fixed charge coverage ratio, maximum leverage ratio and a maximum asset coverage ratio. We were in compliance with the covenants as of June 30, 2004. The terms of the credit agreement also contain, among other provisions, specific limitations on additional indebtedness, liens and acquisition and investment activity and prohibit the payment of any dividends.

On April 9, 2004, we entered into a term loan with Wells Fargo in the amount of \$6 million, which matures on September 30, 2006. The term loan bears interest at the same rate as our line of credit. This term loan is secured by certain computer hardware. The outstanding principal balance of the term loan is due in equal monthly installments of \$200,000. At June 30, 2004, the term loan had an outstanding principal balance of \$5.4 million.

(9) Stock Based Plans

CIBER, Inc. 2004 Incentive Plan (the 2004 Plan) On April 27, 2004 our shareholders approved the adoption of the CIBER, Inc. 2004 Incentive Plan to replace the CIBER, Inc. Equity Incentive Plan, and the CIBER, Inc. Non-Employee Director Stock Option Plan, which both expired on January 31, 2004 and the Non-Employee Director Compensation Plan, which has no expiration date. As part of this adoption, 5,000,000 shares of CIBER, Inc. common stock were authorized for issuance under the plan.

The plan administrators may grant to officers, employees and consultants, restricted stock, stock options, performance bonuses or any combination thereof. The Compensation Committee of the Board of Directors determines the number and nature of awards. Options become exercisable, as determined at the date of grant by the Board of Directors, and expire within 10 years from the date of grant.

Share Repurchase Program During the six months ended June 30, 2004, we repurchased 627,000 shares of our common stock at a cost of \$5,958. At June 30, 2004, there were 547,000 shares authorized by the board of directors for future repurchase under the plan.

SCB Employee Inducement Award Plan Effective March 1, 2004, we established the SCB Employee Inducement Award Plan. This plan was established to provide new CIBER employees who joined the Company, as a result of the SCB merger, with CIBER stock options. This is a single-purpose plan approved by CIBER's Board of Directors. There are 300,000 shares authorized under this plan and options for approximately 140,000 shares have been issued under this plan as of June 30, 2004.

(10) Segment Information

Our operating segments are organized internally primarily by the nature of their services and geographic area. Similar operating units have been aggregated in the determination of reportable segments. The Custom Solutions segment includes our United States based CIBER branch offices that provide IT project solutions and IT professional staffing services in custom developed software environments. Our Package Solutions segment is comprised of our CIBER Enterprise Solutions division (including our Canadian subsidiary). The Package Solutions segment primarily provides enterprise software implementation services, including enterprise resource planning (ERP), and supply chain management software from software vendors such as PeopleSoft, Lawson, Oracle and SAP. Our European Operations segment is comprised of our European operations in Denmark, Germany, the Netherlands, Norway, Sweden and the United Kingdom.

We evaluate our segments' results of operations based on operating income before amortization of intangible assets and goodwill impairment. 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 reporting segments:

| | Three months ended June 30, | | Six months ended June 30, | |
|---------------------------------------|--------------------------------|-------------------|------------------------------|-------------------|
| | 2004 | 2003 | 2004 | 2003 |
| Total revenue: | | | | |
| Custom Solutions | \$ 160,629 | \$ 132,121 | \$ 296,401 | \$ 264,082 |
| Package Solutions | 22,442 | 25,203 | 43,734 | 47,962 |
| European Operations | 25,901 | 20,257 | 49,822 | 35,703 |
| Inter-segment | (694) | (438) | (1,624) | (1,049) |
| Total | \$ 208,278 | \$ 177,143 | \$ 388,333 | \$ 346,698 |
| Inter-segment revenue: | | | | |
| Custom Solutions | \$ (175) | \$ (86) | \$ (1,347) | \$ (92) |
| Package Solutions | (519) | (352) | (277) | (957) |
| Total | \$ (694) | \$ (438) | \$ (1,624) | \$ (1,049) |
| Income (loss) from operations: | | | | |
| Custom Solutions | \$ 15,883 | \$ 12,973 | \$ 27,861 | \$ 25,191 |
| Package Solutions | 2,011 | 3,017 | 3,021 | 4,828 |
| European Operations | 2,215 | 948 | 3,729 | 403 |
| Corporate | (5,171) | (4,763) | (9,349) | (9,879) |
| Total | 14,938 | 12,175 | 25,262 | 20,543 |
| Amortization of intangibles | (1,007) | (784) | (1,616) | (1,313) |
| Operating income | \$ 13,931 | \$ 11,391 | \$ 23,646 | \$ 19,230 |

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

Disclosure Regarding Forward-Looking Statements

Included in this Report and elsewhere from time to time in other written and oral statements, are forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995 that are based on current expectations, estimates, forecast 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 anticipates, believes, could, expects, estimate, intend, may, opportunity, plans, should, and will and similar expressions are intended to identify forward-looking statements and convey uncertainty of future events or outcomes. These statements are only predictions and as such are not guarantees and involve risks, uncertainties and assumptions that are difficult to predict. Actual outcomes and results may differ materially from what is expressed or forecast in such forward-looking statements. Factors that could cause actual results to differ materially, include, among others, price, utilization rate and cost volatility, management of a rapidly changing technology, client satisfaction with our services, growth through business combinations, international operations, business economic conditions, dependence on significant relationships and the absence of long-term contracts, fixed-priced project overruns, governmental audits, competition, the ability to attract and retain qualified IT employees, outstanding debt, and potential fluctuations in quarterly operating results, which are discussed in this Report under the caption Factors That May Affect Future Results Or The Market Price Of Our Stock. Many of these factors are beyond our ability to predict or control. As a result of these and other factors, our past financial performance should not be relied on as an indication of future performance. In addition, these statements speak only as of the date they were made, and we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Business Combinations

As part of our ongoing growth strategy, we intend to continue to selectively identify and pursue the acquisition of complementary businesses to expand our geographic reach, service offerings and client base. In 2004, we completed the following significant business combinations:

| Acquired Company | Date | Consultants added | Goodwill added |
|---------------------------------|------------|-------------------|----------------|
| SCB Computer Technology | March 2004 | 1,250 | \$59.3 million |
| Ascent Technology Group Limited | May 2004 | 130 | \$36.3 million |

On March 1, 2004, we completed our acquisition of SCB Computer Technology, Inc. (SCB). The results of SCB's operations have been included in our consolidated financial statements since that date. SCB, based in Memphis, Tennessee, provided IT services similar to CIBER, including consulting, outsourcing and professional staffing, with a particular focus on federal and state government clients. The aggregate purchase price for all of SCB's shares, options and warrants totaled \$57.3 million, excluding transaction-related costs, consisting of \$44.3 million in cash and approximately 1,353,000 shares of CIBER common stock valued at approximately \$12.7 million and replacement options valued at \$271,000. In addition, SCB had certain debt obligations, totaling approximately \$33.1 million, which we repaid shortly after closing the acquisition. We used a portion of the cash raised from our December 2003 Convertible Debenture Offering to fund the cash portion of the purchase consideration and the repayment of SCB's debt.

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This acquisition expands our Federal Government and State and Local Government Practices and also adds beneficial customer relationships to our commercial sector business. We expect that a combined CIBER and SCB will be able to compete more effectively for larger public sector contracts. SCB's operations generally had lower average billing rates, lower client cost and slightly lower margins than our Custom Solutions Segment's historical rates, which we estimate lowered our average billing rate for our Custom Solutions segment by approximately \$4.50 per hour for the six months ended June 30, 2004 compared to the prior year. However, we believe that the acquisition will provide an opportunity to realize operational efficiencies in the form of lower combined selling, general and administrative costs, primarily by reducing SCB's corporate administrative costs.

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On May 24, 2004 we completed our acquisition of U.K. based, Ascent Technology Group Limited (Ascent). The results of Ascents operations have been included in our consolidated financial statements since that date. Ascent, based in, Leicestershire, U.K. provides IT services to medium-sized enterprises with a particular focus on software implementation and sales, including both SAP and Sage ERP solutions as well as, their own proprietary customer relationship management software. The aggregate purchase price for all of Ascent s shares totaled \$21.7 million, excluding transaction-related costs, consisting of \$20.2 million in cash and approximately 177,000 shares of CIBER common stock valued at approximately \$1.5 million. In addition, Ascent had certain debt obligations, totaling approximately \$19.5 million, which we repaid shortly after closing the acquisition. We used a portion of the cash raised from our December 2003 Convertible Debenture Offering to fund the cash portion of the purchase consideration and the repayment of Ascent s debt.

Results of Operations

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

| | Three months ended June 30, | | Six months ended June 30, | |
|--|--------------------------------|--------|------------------------------|--------|
| | 2004 | 2003 | 2004 | 2003 |
| Consulting services | 96.0% | 95.4% | 96.1% | 96.3% |
| Other revenue | 4.0 | 4.6 | 3.9 | 3.7 |
| Total revenue | 100.0% | 100.0% | 100.0% | 100.0% |
| Gross margin services | 27.8% | 29.3% | 27.7% | 28.8% |
| Gross margin other revenue | 26.0 | 32.2 | 25.9 | 28.7 |
| Gross margin total | 27.7 | 29.4 | 27.6 | 28.8 |
| Selling, general and administrative expenses | 20.5 | 22.6 | 21.1 | 22.8 |
| Operating income before amortization | 7.2 | 6.8 | 6.5 | 6.0 |
| Amortization of intangible assets | 0.5 | 0.4 | 0.4 | 0.4 |
| Operating income | 6.7 | 6.4 | 6.1 | 5.6 |
| Interest and other income (expense), net | (0.5) | 0.0 | (0.2) | (0.2) |
| Income before income taxes | 6.2 | 6.4 | 5.9 | 5.4 |
| Income tax expense | 2.4 | 2.5 | 2.3 | 2.1 |
| Net income | 3.8% | 3.9% | 3.6% | 3.3% |

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

| In thousands | Three months ended June 30, | | Six months ended June 30, | |
|------------------------------|--------------------------------|------------|------------------------------|------------|
| | 2004 | 2003 | 2004 | 2003 |
| Services Revenue: | | | | |
| Custom Solutions | \$ 156,223 | \$ 127,667 | \$ 288,012 | \$ 256,359 |
| Package Solutions | 20,214 | 21,767 | 39,612 | 43,298 |
| European Operations | 24,189 | 19,951 | 47,222 | 35,206 |
| Eliminations | (693) | (435) | (1,624) | (1,049) |
| | \$ 199,933 | \$ 168,950 | \$ 373,222 | \$ 333,814 |
| Percent of Services Revenue: | | | | |
| Custom Solutions | 78% | 75% | 77% | 77% |

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| | | | | |
|--------------------------|-------|-------|-------|-------|
| Package Solutions | 10% | 13% | 10% | 13% |
| European Operations | 12% | 12% | 13% | 10% |
| Services Gross Margin %: | | | | |
| Custom Solutions | 26.7% | 27.2% | 26.6% | 27.0% |
| Package Solutions | 29.8% | 34.7% | 28.7% | 35.6% |
| European Operations | 33.3% | 34.1% | 31.9% | 31.5% |

Three Months Ended June 30, 2004 as Compared to Three Months Ended June 30, 2003

Total revenue for the three months ended June 30, 2004 increased 18% to \$208.3 million from \$177.1 million for the quarter ended June 30, 2003. This represents an 18% increase in consulting service revenue, as well as a 2% increase in other revenue. Other revenue totaled \$8.3 million for the three months ended June 30, 2004 compared to \$8.2 million for the same quarter last year. This resulted from an increase in IT product sales during the quarter ended June 30, 2004 primarily as a result of our Ascent acquisition, completed in May 2004, which added approximately \$1.5 million of product revenue to the quarter ended June 30, 2004. This increase in product sales was partially offset by a decrease in commissions on product sales quarter-over-quarter. Custom Solutions service revenue increased 22%, Package Solutions service revenue decreased 7% and our European Operations service revenue increased 21% when compared to the same period last year. Overall, the 2004 revenue growth is primarily due to our March 1, 2004 acquisition of SCB, the one-month benefit of our Ascent acquisition, which closed in late May 2004, combined with organic growth of approximately 3%. Our average number of billable consultants increased 27% to approximately 6,500 for the quarter ended June 30, 2004 from approximately 5,100 for the quarter ended June 30, 2003. The increase in Custom Solutions service revenue during the three months ended June 30, 2004 was due to an average net increase of approximately 1,370 consultants (+33%), primarily attributable to the SCB acquisition, as well as a 150 basis point increase in utilization levels to 95.4% for the three-months ended June 30, 2004 from 93.9% for the three-months ended June 30, 2003. The decrease in Package Solutions service revenue during the three months ended June 30, 2004 was due to an average net decrease of approximately 40 consultants (-9%) quarter-over-quarter as well as a 230 basis point decrease in utilization levels to 74.8% for the three-months ended June 30, 2004 from 77.1% for the three-months ended June 30, 2003. The increase in European Operations service revenue was primarily due to the Ascent acquisition completed in May 2004. This acquisition increased our European billable headcount 28% to 659 as of June 30, 2004 from 516 as of June 30, 2003.

In total, our gross margin percentage decreased to 27.7% of revenue for the three months ended June 30, 2004 from 29.4% of revenue for the same quarter of 2003. This decrease is due to lower gross margins on both service revenue and other revenue. The decline in gross profit on services revenue was primarily due to the expected lower margins on the incremental revenue contributed by SCB, plus lower utilization in the Package Segment resulting from the final costs associated with a project overrun. Custom Solutions gross margin on service revenue decreased 50 basis points during the three months ended June 30, 2004 from the same quarter in the prior year. Our average billing rates decreased to \$59 for the three-months ended June 30, 2004 from \$65 for the three-months ended June 30, 2003. This decrease in billing rates is primarily due to the acquisition of SCB in March 2004, which had lower billing rates and slightly lower gross margins than CIBER's other Custom Solutions operations. Package Solutions gross margin on service revenue decreased 490 basis points for the quarter ended June 30, 2004 compared to the same quarter of the prior year. This decrease was the combined result of a decrease in average billing rates to \$145 for the three months ended June 30, 2004 from \$147 for the three months ended June 20, 2003 as well as additional cost associated with one project that a client began then unexpectedly canceled and a second project that incurred cost overruns. European Operations gross margin on service revenue decreased 70 basis points to 33.3% for the quarter ended June 30, 2004 from 34.0% for the same quarter in the prior year due to a 260 basis point decrease in utilization levels to 69.8% for the quarter ended June 30, 2004 from 72.4% for the quarter ended June 30, 2003, partially offset by an increase in the average billing rate to \$117 per hour for the quarter ended June 30, 2004 compared to \$102 per hour for the same period in 2003.

Our gross margin percentage on other revenue decreased to 26.0% for the three months ended June 30, 2004 from 32.2% in 2003 due to the fact that commission revenue on product sales, which have high margins, constituted only 27% of other revenues during the quarter ended June 30, 2004 compared to 43% of other revenues during the same quarter of the prior year.

Selling, general and administrative expenses (SG&A) increased to \$42.8 million for the quarter ended June 30, 2004 from \$39.9 million for the quarter ended June 30, 2003. However, as a percentage of sales, SG&A decreased to 20.5% for the quarter ended June 30, 2004 from 22.6% in 2003, as we continue efforts to contain costs and leverage our existing overhead infrastructure.

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Amortization of intangible assets increased to \$1,007,000 for the three months ended June 30, 2004 from \$784,000 for the same quarter last year, due to additional amortizable intangible assets resulting from recent acquisitions.

Interest income and expense fluctuates based on our average cash balance invested or amounts borrowed. In December 2003, we completed a \$175 million sale of convertible senior subordinated debentures and paid off our outstanding borrowings under our bank line of credit. The increase in interest expense quarter over quarter is due to the fact that we recorded interest expense on the \$175 million debenture balance for the quarter ended June 30, 2004 compared to interest expense on our line of credit, which had an average outstanding balance of approximately \$38 million during the quarter ended June 30, 2003.

Other income of \$553,000 was recorded during the three months ended June 30, 2004, primarily due to \$286,000 of minority interest relating to our 51% ownership interest in CIBER India as well as \$185,000 of foreign currency transaction gains.

Our effective tax rate of 39.0% for the three months ended June 30, 2004 was consistent with the effective rate of 39.2% for the same period of last year.

Six Months Ended June 30, 2004 as Compared to Six Months Ended June 30, 2003

Total revenue for the six months ended June 30, 2004 increased 12% to \$388.3 million from \$346.7 million for the six months ended June 30, 2003. This represents a 12% increase in consulting service revenue, as well as a 17% increase in other revenue. Other revenue totaled \$15.1 million for the six-months ended June 31, 2004 compared to \$12.9 million for the same period last year. This resulted from an increase in demand for IT products during the six months ended June 30, 2004 partially as a result of our Ascent acquisition, completed in May 2004, which added approximately \$1.5 million of product revenue to the six months ended June 30, 2004. Custom Solutions service revenue increased 12%, Package Solutions service revenue decreased 9% and our European Operations service revenue increased 34% when compared to the same period last year. Overall, the 2004 revenue growth is primarily due to our March 1, 2004 acquisition of SCB and the full period benefit of our ECsoft acquisition, which closed in late January 2003. Our average number of billable consultants increased 20% to approximately 6,000 for the six months ended June 30, 2004 from approximately 5,000 for the six months ended June 30, 2003. The increase in Custom Solutions service revenue during the six months ended June 30, 2004 was due to an average net increase of approximately 920 consultants (+22%), primarily attributable to the SCB acquisition as well as a 40 basis point increase in utilization levels to 94.8% for the six months ended June 30, 2004 from 94.4% for the six months ended June 30, 2003. The decrease in Package Solutions service revenue during the six months ended June 30, 2004 was due to a 190 basis point decrease in utilization levels to 75.3 % for the six-months ended June 30, 2004 from 77.2% for the six-months ended June 30, 2003, combined with an average net decrease of approximately 50 consultants (-11%) period-over-period. The utilization decrease was due primarily to cost overruns incurred on a single project during the period. The increase in European Operations service revenue was due to the fact that ECsoft was included in our results for the entire six months of 2004 compared to only five months of 2003. In addition, the 2004 period included one month of revenue from the May 2004 acquisition of Ascent.

In total, our gross margin percentage decreased to 27.6% of revenue for the six months ended June 30, 2004 from 28.8% of revenue for the same period in 2003. This decrease is due to lower gross margins on both service revenue and other revenue. The decline in gross profit on services revenue was primarily due to the cost overrun on the Package Segment project mentioned previously, plus lower margins, as expected on the incremental revenue contributed by SCB. Custom Solutions gross margin on service revenue decreased 40 basis points during the six months ended June 30, 2004 from the same period in the prior year. Our average billing rates decreased to \$60 for the six-months ended June 30, 2004 from \$65 for the six-months ended June 30, 2003. This decrease in billing rates is primarily due to the acquisition of SCB in March 2004, which had lower billing rates and slightly lower gross margins than CIBER's other Custom Solutions operations. Package Solutions gross margin on service revenue decreased 690 basis points for the six months ended June 30, 2004 compared to the same period in the prior year. This decrease

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was the combined result of a decrease in average billing rates to \$145 for the six-months ended June 30, 2004 from \$148 for the six-months ended June 20, 2003 as well as additional cost associated with one project that a client began then unexpectedly canceled during the

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first quarter of 2004 and a second project that incurred cost overruns. European Operations' gross margin on service revenue increased 40 basis points to 31.9% for the six months ended June 30, 2004 from 31.5% for the same period in the prior year due to an increase in average billing rates to approximately \$117 for the six months ended June 30, 2004 from approximately \$102 for the six months ended June 30, 2003.

Our gross margin percentage on other revenue increased to 25.9% for the six months ended June 30, 2004 from 28.7% in 2003 due to decreased margins on hardware sales during the period.

Selling, general and administrative expenses (SG&A) increased to \$81.9 million for the six months ended June 30, 2004 from \$79.2 million for the six months ended June 30, 2003. However, as a percentage of sales, SG&A decreased to 21.1% for the six months ended June 30, 2004 from 22.8% in 2003, as we continue efforts to contain costs and leverage our existing overhead infrastructure.

Amortization of intangible assets increased to \$1.6 million for the six months ended June 30, 2004 from \$1.3 million for the same period last year, due to additional amortizable intangible assets resulting from recent acquisitions.

Interest income and expense fluctuates based on our average cash balance invested or amounts borrowed. In December 2003, we completed a \$175 million sale of convertible senior subordinated debentures and paid off our outstanding borrowings under our bank line of credit. The increase in interest expense period over period is due to the fact that we recorded interest expense on the \$175 million debenture balance for the six months ended June 30, 2004 compared to interest expense on our line of credit, which had an average outstanding balance of approximately \$41 million during the six months ended June 30, 2003.

Other income of \$1.9 million was recorded during the six months ended June 30, 2004, primarily due to \$822,000 of foreign currency transaction gains as well as \$734,000 of foreign currency investment gains and \$286,000 of minority interest.

Our effective tax rate was 39.0% for the six months ended June 30, 2004 and 2003.

Liquidity and Capital Resources

At June 30, 2004, we had \$108.9 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.

| In thousands | Six months ended June 30, | |
|---------------------------------|---------------------------|------|
| | 2004 | 2003 |
| Net cash provided by (used in): | | |

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| | | | | |
|---|----|-----------|----|----------|
| Operating activities | \$ | 6,614 | \$ | 9,694 |
| Investing activities | | (76,696) | | (17,973) |
| Financing activities | | (48,239) | | 13,691 |
| Effect of foreign exchange rates on cash | | (1,337) | | 1,063 |
| Net increase (decrease) in cash and equivalents | \$ | (119,658) | \$ | 6,475 |

Net cash provided by operations decreased during the six months ended June 30, 2004 compared to the same period of the prior year due to a larger quarter-end payroll accrual as a result of our increase in headcount to 7,400 at June 30, 2004 from 5,700 at December 31, 2003 as well as cash used to pay various accounts payable and accrued liabilities acquired with our acquisitions of SCB and Ascent.

Investing activities are primarily comprised of cash paid for acquisitions and purchases of property and equipment. Purchases of property and equipment have increased as a result of certain system upgrades completed during the quarter. In 2004, we used cash of \$73.5 million for our acquisitions of Ascent, SCB and FullTilt.

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Financing activities are primarily comprised of cash used for the repayment of acquired debt, cash provided by a term loan, 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. During the six months ended June 30, 2004, we repaid \$33.1 million of debt acquired in connection with our SCB acquisition and \$19.5 million of debt acquired in connection with our Ascent acquisition. We entered into a \$6 million term loan, which matures on September 30, 2006. We purchased \$6.0 million of treasury stock during the six months ended June 30, 2004 compared to \$3.1 million for the same period of last year. The cash provided by sales of stock under our employee stock purchase plan and options exercised increased to \$4.9 million during the six months ended June 30, 2004 compared to \$2.5 million during the six months ended June 30, 2003.

Total accounts receivable increased to \$181.4 million at June 30, 2004 from \$140.0 million at December 31, 2003 primarily due to our acquisitions of Ascent and SCB, which added approximately \$5.5 million and \$21.9 million of accounts receivable, respectively. Total accounts receivable days sales outstanding (DSO) increased slightly to 77 days at June 30, 2004 compared to 76 days at December 31, 2003. Changes in accounts receivable 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), and our level of collection efforts. Many individual reasons are outside of our control. As a result, our DSO will normally fluctuate from period to period affecting our liquidity.

Accrued compensation and related liabilities increased to \$44.1 million as of June 30, 2004 from \$38.0 million at December 31, 2003. This increase is solely due to an increase in headcount of approximately 1,700, to 7,400 as of June 30, 2004 from 5,700 as of December 31, 2003.

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, relate to vendor payments for IT hardware and software products that we resell and payments to services-related contractors. Other accrued expenses and liabilities increased to \$27.4 million as of June 30, 2004 from \$23.7 million as of December 31, 2003 primarily due to our acquisitions of Ascent and SCB as well as an increase accrual for subcontractor payments at June 30, 2004 compared to December 31, 2003.

Deferred Revenue increased to \$10.9 million as of June 30, 2004 from \$700,000 as of December 31, 2003. This increase is primarily due to our acquisitions of Ascent and SCB, which increased deferred revenue by \$8.5 million, combined.

In 2004 we continued the repurchase of our common stock under our share repurchase program. At June 30, 2004, there were 547,000 shares authorized by the board of directors for future repurchase under the plan. We may continue to use cash to repurchase our common stock in future periods.

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. 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 \$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 (approximately

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\$16.37 per share) 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. Upon conversion, we

will have the right to deliver, in lieu of our common stock, cash or a combination of cash and common stock. The conversion price is subject to adjustment in certain circumstances.

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 \$50 million Line of Credit with Wells Fargo Bank, N.A. that expires on September 30, 2007. The line of credit is unsecured, unless borrowings exceed \$40 million 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 80 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, 2004, the bank's prime rate was 4.25% and our rate for borrowing was 3.45%. 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 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 5.0 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 charged coverage ratio (the ratio of EBITDAR to Total Fixed Charges) of 1.75. We are required to satisfy the financial covenants at the end of each quarter. 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 convertible subordinated debentures.

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

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

Critical Accounting Policies and Estimates

Our discussion and analysis of financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. 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, the collectibility of accounts receivable, acquisition accounting, the valuation of goodwill, certain accrued liabilities and other reserves, 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 and fixed-price contracts - We recognize revenue as we perform services for our clients. We primarily provide consulting services under time-and-material or fixed-price contracts. The majority of our service revenue is recognized under time-and-material 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. These unbilled amounts are actually billed the following month and any differences compared to estimates are accounted for. The most common reason for differences between our accruals and actual bills relate to hour adjustments as time sheets are approved, late time sheets received, and rate changes. For fixed-price contracts, revenue is recognized on the basis of 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. Our allowance for bad debts is based upon specific identification of likely and probable losses. We review our accounts receivable and reassess our estimates of collectibility each month. 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.

Acquisition accounting - In connection with acquisitions, we estimate the fair value of assets acquired and liabilities assumed. Some of the items, including accounts receivable, property and equipment, other intangible assets, certain accrued liabilities, and legal and other reserves require a high degree of management judgment. Certain estimates may change as additional information becomes available. In particular, restructuring liabilities are subject to change as we complete our assessment of the acquired operations and finalize our integration plan.

Valuation of goodwill - We have recorded a significant amount of goodwill resulting from acquisitions. Effective January 1, 2002, goodwill is no longer 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 estimate of fair value requires significant judgment. Any loss resulting from an impairment test would be reflected in operating income in our statement of operations.

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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. In certain situations, where

deemed necessary, we use third parties to assist us with such valuations. In addition, these intangible assets are to be amortized over the 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; 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.

Possible Impacts of Future Accounting Standards

In July 2004, the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board (FASB) announced a tentative conclusion on EITF Issue No. 04-8, *The Effect of Contingently Convertible Debt on Diluted Earnings per Share*. The EITF tentatively concluded that contingently convertible debt should be included in the calculation of diluted earnings per share using the if-converted method regardless of whether the market price trigger has been met. Under the if-converted method, the debt is considered converted to shares, with the resulting number of shares included in the denominator of the earnings per share calculation and the related interest expense (net of tax) added back to the numerator of the earnings per share calculation. The EITF also agreed that the tentative conclusion would be applied by restating previously reported diluted earnings per share. Issue 04-8 is scheduled for further discussion, by the EITF in September 2004.

Our current method of accounting for diluted earnings per share does not give consideration to the possible conversion of our Convertible Senior Subordinated Debentures. Thus, if the tentative conclusion of the EITF is adopted, this change in accounting would impact our calculation of earnings per share and our diluted earnings per share for the quarter ended June 30, 2004 would be reduced by approximately \$0.01.

Factors That May Affect Future Results or the Market Price of Our Stock

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 effect 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 profitability will suffer if we are not able to maintain our pricing and utilization rates and control our costs.

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. The rates we charge for our services are affected by a number of factors, including:

- our clients' perception of our ability to add value through our services;
- competition;
- introduction of new services or products by us or our competitors;
- pricing policies of our competitors;
- the use of globally sourced, lower cost service delivery capabilities by our competitors and our clients; and
- general economic conditions.

Our utilization rates are also affected by a number of factors, including:

- seasonal trends, primarily as a result of holidays and vacations;
- our ability to transition employees from completed assignments 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.

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We have implemented cost-management programs to manage our costs, including personnel costs, support and other overhead costs. Some of our costs, like office rents, are fixed in the short term, which limits our ability to reduce costs in periods of declining revenue. Our current and future cost-management initiatives may not be sufficient to maintain our margins as our level of revenue varies.

Our business will be negatively affected if we are not able to anticipate and keep pace with rapid changes in technology.

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. Also, 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.

If our clients are not satisfied with our services, we may have exposure to liabilities, which could adversely affect our profitability and financial condition as well as our ability to compete for future work.

If we fail to meet our contractual obligations, we could be subject to legal liability, which could adversely affect our business, operating results and financial condition. The provisions we typically include in our contracts that

are designed to limit our exposure to legal claims relating to our services and the applications we develop may not protect us or may not be enforceable under some circumstances or under the laws of some jurisdictions. It is possible, because of the nature of our business, that we will be sued in the future. In addition, although we maintain professional liability insurance, the policy limits may not be adequate to provide protection against all potential liabilities. Moreover, as a consulting firm, we depend to a large extent on our relationships with our clients and our reputation for high-quality services to retain and attract clients and employees. As a result, claims made against our work may damage our reputation, which in turn, could impact our ability to compete for new work and negatively impact our revenue and profitability.

If we do not successfully integrate the businesses that we acquire, our revenue and profitability may decline.

As an integral part of our business strategy, we intend to continue to expand by acquiring information technology businesses. We regularly evaluate potential business combinations and aggressively pursue attractive transactions. We may be unable to profitably manage businesses that we have acquired or that we may acquire or we may fail to integrate them successfully without incurring substantial expenses, delays or other problems that could negatively impact our revenue, profitability and our financial condition.

Acquisitions involve additional risks, including:

- diversion of management's attention from existing business activities;
- additional costs and delays from difficulties in the integration of the acquired business with our existing business activities;
- loss of significant clients acquired;
- loss of key management and technical personnel acquired;
- assumption of unanticipated legal or other financial liabilities;
- becoming significantly leveraged as a result of debt incurred to finance acquisitions;
- unanticipated operating, accounting or management difficulties in connection with the acquired entities;
- impairment charges for acquired intangible assets, including goodwill, that decline in value; and
- dilution to our earnings per share as a result of issuing shares of our stock to finance acquisitions.

Also, client dissatisfaction or performance problems with an acquired firm could materially and adversely affect our reputation as a whole. Further, the acquired businesses may not achieve the revenue and earnings we anticipated.

Historically, we have not always achieved the level of benefits that we expected from our acquisitions. As a result of our acquisitions we have recorded a significant amount of goodwill. Acquired businesses may perform significantly worse than we had expected for a variety of reasons,

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including, decreased customer demand for a particular service offering or the loss of a significant customer, among others. Such factors could lead to a goodwill impairment charge. During 2000, we recorded a goodwill impairment charge of \$80.8 million to write-down the goodwill associated with certain acquisitions.

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 employees, 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. 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.

The continuation of the current economic downturn has negatively impacted our revenue, and future economic downturns may cause our revenue and profitability to decline.

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. As a result of the current difficult economic environment, some clients have cancelled, reduced or deferred expenditures for information technology products and services. Future deterioration of economic conditions could adversely affect our pricing and utilization rates, and therefore our revenue and profitability.

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

We expect to continue to expand our international operations. Our foreign operations accounted for 11% of our 2003 revenue. We now have offices in eight foreign countries: Canada, Denmark, India, Germany, the Netherlands, Norway, Sweden and the United Kingdom. International operations could cause us to be subject to unexpected, uncontrollable and changing economic and political conditions that could have an adverse effect on our business, revenue, profitability and financial condition. The following factors, among others, present risks that could have an adverse effect on us:

the costs and difficulties relating to managing geographically diverse operations;

foreign currency exchange rate fluctuations;

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

restrictions on the movement of cash;

multiple, and possible 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 termination of a contract by a significant client could reduce our revenue and profitability or adversely affect our financial condition.

Our five largest clients accounted for 29% of our revenue in 2003. The various agencies of the U.S. Federal Government represent our largest client, accounting for 10% of total revenue in 2003, while no other customer accounted for more than 6% our total revenue. In 2004 we expect that the US Federal Government will represent approximately 15-20% of our total revenues. We strive to develop long-term relationships with

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our clients. Most individual client assignments are from three to twelve months, however, many of our client relationships have continued for many years. Our clients typically retain us on a non-exclusive, engagement-by-engagement basis. Although they may be subject to penalty provisions, clients may generally cancel a contract at any time. Under many contracts, clients may reduce their use of our services under such contract without penalty. In addition, contracts with the federal government contain provisions and are subject to laws and regulations that provide the federal government with rights and remedies not typically found in commercial contracts. Among other things, governments may terminate contracts, with short notice, for convenience and may cancel multi-year contracts if funds become unavailable. When contracts are terminated, our revenue may decline and if we are unable to eliminate associated costs in a timely manner, our profitability may decline. In 2003, approximately 26% of our revenue was from public sector clients, including U. S. Federal, state, local and foreign governments and agencies. We expect that in 2004 our public sector clients will comprise 35-40% of our total revenues. Often government spending programs are dependent upon the budgetary capability to support such programs. Many government budgets have been adversely impacted by the economic slowdown. Most all states must operate under a balanced budget. As a result of such budget and deficit considerations, our existing and future revenue and profitability could be adversely affected by reduced government IT spending.

We generate a significant portion of our revenue from projects to implement packaged software developed by others, including PeopleSoft, Lawson, Oracle, and SAP. Our future success in the packaged software

implementation business depends on the continuing viability of these companies and their ability to maintain market leadership. For example, it is unclear whether PeopleSoft will continue to maintain a strong market presence following the acquisition of J.D. Edwards. In addition, Oracle has commenced a hostile tender offer of PeopleSoft and has stated that if successful in acquiring PeopleSoft, it may discontinue developing and selling or continue to sell and support PeopleSoft software only for a limited time. The uncertainty about Oracle's intentions may cause customers of PeopleSoft to defer or cancel software purchases, which could harm our business. We cannot assure you that we will be able to maintain a good relationship with these companies or that they will maintain their leadership positions in the software market.

If we do not accurately estimate the cost of a large engagement, which is conducted on a fixed-price basis, our revenue and profitability may decline.

We estimate that approximately 10% of our revenue is from engagements performed on a fixed-price basis. For fixed-price contracts, revenue is recognized on the basis of the estimated percentage of completion based on costs incurred relative to total estimated costs. 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. Losses, if any, on fixed-price contracts are recognized when the loss is determined. When proposing for and managing fixed-price engagements, we rely on our estimates of costs for completing the project. These estimates reflect our best judgment regarding the efficiencies of our methodologies and professionals as we plan to apply them to the project. 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.

Unfavorable government audits could require us to refund payments we have received, 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. If the audit agency determines that we have improperly received reimbursement, we would be required to refund any such amount. 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, forfeitures of profits, suspension of payments, fines and suspension or disqualification from doing business with the government. Any such unfavorable determination could adversely impact our ability to bid for new work.

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 markets 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. These changes may create more or larger and better-capitalized competitors with 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. In addition, one or more of our competitors may develop and implement methodologies that result in superior productivity and price reductions without adversely affecting the competitors' profit margins. In addition, there are relatively few barriers to entry into our markets and we have faced, and expect to continue to face, competition from new entrants into our markets. As a result, we may be unable to continue to compete successfully with our existing or any new future competitors and our revenue and profitability may be adversely affected.

If we are unable to manage our growth, our profitability may decline.

Our profitability is also a function of our ability to control our costs and improve our efficiency. Growth places significant demands on our management as well as on our administrative, operational and financial resources. As we increase the number of our professionals and execute our strategy for growth, we may not be able to manage a significantly larger and/or more diverse workforce, control our costs or improve our efficiency.

Our future success depends on our ability to continue to retain and attract qualified employees.

We believe that our future success depends upon our ability to continue to train, retain, effectively manage and attract highly skilled technical, managerial, sales and marketing personnel. Employee turnover is generally high in the IT services industry. If our efforts in these areas are not successful, our costs may increase, our sales efforts may be hindered, and our customer service may degrade. Although we invest significant resources in recruiting and retaining employees, there is often significant competition for certain personnel in the IT services industry. From time to time, we experience difficulties in locating enough highly qualified candidates in desired geographic locations, or with required specific expertise.

In addition, we believe that there are certain key employees within the organization, primarily in the senior management team, who are necessary 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.

If the accounting for employee stock options is changed, we may be forced to change our business practices.

Under current accounting principles, we do not record expense for our employee stock options. If the proposals to require recording of expense for employee stock options that are currently under consideration by accounting standards organizations are adopted, we may be required to change our business practices. As a result, we could decide to reduce the number of stock options granted to employees or to grant options to fewer employees. This could affect our ability to retain employees and attract qualified candidates and could increase the cash compensation we would have to pay. In addition, such a change in accounting would have a negative effect on our earnings.

Our debt may affect our business and may restrict our operating flexibility.

In December 2003, we issued \$175 million of Convertible Senior Subordinated Debentures (debentures) due 2023. This significantly increased our aggregate level of indebtedness. In the future, we may obtain additional long-term debt and working capital lines of credit to meet future financing needs, which would have the effect of increasing total leverage. We are not restricted under the terms of the debentures from incurring additional debt, including secured debt or repurchase of our securities. In addition, 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. Our ability to incur additional debt and take a number of other actions that are not limited by the terms of the debentures could have the effect of diminishing our

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ability to make payments on the debentures when due. Certain of our other debt instruments may, however, restrict these and other actions.

We also have a \$50 million bank revolving line of credit that expires in September 2007. We have used borrowings under our line of credit for consideration related to our acquisitions in 2001, 2002 and 2003. In the past, we have been successful in generating cash flow from operations to reduce our indebtedness. We have experienced, from time to time, instances of covenant non-compliance under our line of credit, which non-compliances have been waived by our lender. We had no outstanding borrowings under our line of credit at June 30, 2004.

The level of our indebtedness could:

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

limit our ability to obtain, or obtain on favorable terms, additional debt financing in the future for working capital or acquisitions;

limit our flexibility in reacting to competitive and other changes in our industry and economic conditions generally;

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

increase our vulnerability to adverse economic and industry conditions; and

expose us to risks inherent in interest rate fluctuations because of the variable interest rates, which could result in higher interest expense in the event of increases in interest rates.

Our ability to repay or to refinance our indebtedness will depend upon our future operating performance, which may be affected by general economic, financial, competitive, regulatory, business and other factors beyond our control, including those discussed herein. In addition, there can be no assurance that future borrowings or equity financing will be available for the payment or refinancing of any indebtedness we may have. 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. There can be no assurances that any of these strategies could be affected 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.

Holders of our Convertible Senior Subordinated Debentures (debentures) 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 agreement. Any of our future debt agreements may contain a similar provision. We may not have sufficient funds to make the required repurchase in cash at such time or the ability to arrange necessary financing on acceptable terms. In addition, if we fail to repurchase the debenture as required by the indenture, it would constitute an event of default under the indenture governing the debentures which, in turn, would be expected to constitute an event of default under any agreement relating to debt outstanding, 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 holders of the debentures to require us to repurchase or redeem the debentures.

Conversion of the debentures will dilute the ownership interest of existing shareholders and may adversely affect the price of our common stock.

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The conversion of some or all of the debentures into CIBER common shares will dilute the ownership interest of existing shareholders. Any significant sales in the public market of the common stock issuable upon conversion of the debentures could also adversely affect prevailing market prices of our common stock.

Our quarterly revenue, operating results and profitability will vary from quarter to quarter and other factors may result in increased volatility of our share price.

Our quarterly revenue, 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. The changes in the market price of our common stock may also be for reasons unrelated to our operating performance. Some other factors that may cause the market price of our common stock to fluctuate substantially, include:

- the failure to be awarded a significant contract on which we have bid;
- the termination by a client of a material contract;
- announcement of new services by us or our competitors;
- announcement of acquisitions or other significant transactions by us or our competitors;
- changes in or failure to meet earnings estimates by securities analysts;
- sales of common stock by CIBER or existing shareholders, or the perception that such sales may occur;
- adverse judgments or settlements obligating us to pay liabilities;
- changes in management;
- general economic conditions and overall stock market volatility; and
- changes in or the application of U.S. generally accepted accounting principles.

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 impacting the market price of our stock.

Certain provisions of our Certificate of Incorporation and Bylaws could delay the removal of incumbent directors and could make a merger, tender offer or proxy contest involving us more difficult, even if such events would be beneficial to the interests of the shareholders. These provisions include adoption of a Preferred Stock Purchase Rights Agreement, commonly known as a poison pill that gives our board 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.

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The above factors and certain provisions of the Delaware General Corporation Law may have the effect of deterring hostile takeovers or otherwise delaying or preventing changes in the control or management of CIBER, including transactions in which our shareholders might otherwise receive a premium over the then-current market for their shares of CIBER common stock.

Our Chairman of the Board owns sufficient shares of our common stock and can significantly affect the results of any shareholder vote regardless of the opposition of other shareholders or the desire of other shareholders to pursue an alternate course of action.

Our Chairman of the board of directors and Founder, Bobby G. Stevenson, beneficially owns approximately 12% of our common stock. As a result, Mr. Stevenson has the ability to significantly influence the outcome of matters requiring a shareholder vote, including the election of the board of directors, amendments to our organizational documents, or approval of any merger, sale of assets or other major corporate transaction. The interests of Mr. Stevenson may differ from the interests of our other shareholders, and Mr. Stevenson may be able to delay or prevent us from entering into transactions that would result in a change in control, including transactions in which our shareholders might otherwise receive a premium over the then-current market price for their shares. These factors 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.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks were reported in our Annual report on Form 10-K for the year ended December 31, 2003. There have been no material changes in these risks since the end of the year.

CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit to the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified by the Commission's rules and forms, and that information is accumulated and communicated to our management, including our principal executive and principal financial officers (whom we refer to in this periodic report as our Certifying Officers), as appropriate to allow timely decisions regarding required disclosure. Our management evaluated, with the participation of our Certifying Officers, the effectiveness of our disclosure controls and procedures as of June 30, 2004, pursuant to Rule 13a-15(b) under the Exchange Act. Based upon that evaluation, our Certifying Officers concluded that, as of June 30, 2004, our disclosure controls and procedures were effective.

There were no changes in our internal control over financials reporting that occurred during our most recently completed fiscal quarter that have materially affected, or are reasonable likely to materially affect, our internal control over financial reporting.

In response to recent legislation and proposed regulations, we have begun a process of reviewing our internal control structure and our disclosure controls and procedures. Although we believe our pre-existing disclosure controls and procedures were adequate to enable us to comply with our disclosure obligations, as a result of such review, we are implementing minor changes, from time to time, primarily to formalize and document procedures already in place.

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings

None

ITEM 2. Changes in Securities and Use of Proceeds

In connection with our May 24, 2004 acquisition of Ascent Technology Group Ltd (Ascent), as part of the total consideration for each outstanding share of Ascent stock, we issued to Ascent shareholders a total of 176,661 registered shares of CIBER common stock. There were no cash proceeds to CIBER. The CIBER shares issued were registered on Form S-4 (commission file number 333-102780) effective July 18, 2003, as amended.

ITEM 3. Defaults Upon Senior Securities

Not applicable

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

At the Annual Meeting of Shareholders of CIBER, Inc. held on April 27, 2004, the following matters were voted upon with the results indicated below.

Election of three Class I 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.

| | In Favor | Withheld |
|----------------------|-----------------|-----------------|
| Bobby G Stevenson | 53,119,443 | 544,091 |
| James C. Spira | 52,124,503 | 1,539,031 |
| Peter H. Cheesbrough | 51,888,978 | 1,774,556 |

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Adoption of the CIBER, Inc. 2004 Incentive Plan to replace (1) the CIBER, Inc. Equity Incentive Plan, which expired on January 31, 2004; (2) the CIBER, Inc. Non-Employee Director Stock Option Plan, which expired January 31, 2004 and (3) the Non-employee Director Stock Compensation Plan, which had no expiration date. And as part of this proposal, to authorize 5,000,000 shares for issuance under the plan.

| In Favor | Withheld | Abstain |
|-----------------|-----------------|----------------|
| 30,505,274 | 11,465,138 | 1,492,296 |

Amendment of the CIBER, Inc. Employee Stock Purchase Plan (the ESP Plan) to increase the number of shares of Common Stock authorized for issuance under the plan from a total of 6,750,000 to 8,750,000 shares, or 2,000,000 shares.

| In Favor | Withheld | Abstain |
|-----------------|-----------------|----------------|
| 39,773,964 | 2,217,700 | 1,471,044 |

ITEM 5. Other Information

None

ITEM 6. Exhibits and Reports on Form 8-K

Exhibit 10.1 Third revision to the CIBER, Inc. Salary Continuation Retirement Plan for Mac J. Slingerlend dated as of May 18, 2004.

Exhibit 31.1 Certification by Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002.

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Exhibit 31.2 Certification by Chief Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.1 Certification by Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

Reports on Form 8-K During the Quarter Ended June 30, 2004

On April 26, 2004 we filed a Form 8-K announcing that we had issued a press release with our financial results for the three-months ended March 31, 2004.

On April 28, 2004 we filed a Form 8-K announcing that we had updated our full year guidance.

On June 21, 2004 we filed a Form 8-K announcing the filing of a shelf equity registration statement with the Securities and Exchange Commission.

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 there unto duly authorized.

CIBER, INC.

(Registrant)

Date July 29, 2004

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

Date July 29, 2004

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