

CIBER INC  
Form 10-Q  
November 05, 2004

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

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Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months 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 September 30, 2004, there were 62,431,486 shares of the Registrant's common stock (\$0.01 par value) outstanding.

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**CIBER, Inc.**

**Form 10-Q**

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

In thousands, except per share data	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Consulting services	\$ 209,897	\$ 168,495	\$ 583,119	\$ 502,309
Other revenue	9,554	9,396	24,665	22,280
Total revenue	219,451	177,891	607,784	524,589
Cost of consulting services	152,124	121,165	422,095	358,968
Cost of other revenue	5,090	7,019	16,283	16,210
Selling, general and administrative expenses	46,696	41,452	128,603	120,613
Amortization of intangible assets	1,223	710	2,839	2,023
Operating income	14,318	7,545	37,964	26,775
Interest income	316	96	732	543
Interest expense	(1,779)	(321)	(5,000)	(1,429)
Other income (expense), net	354	(122)	2,290	20
Income before income taxes	13,209	7,198	35,986	25,909
Income tax expense	4,854	2,806	13,736	10,103
Net income	\$ 8,355	\$ 4,392	\$ 22,250	\$ 15,806
Earnings per share - basic	\$ 0.14	\$ 0.07	\$ 0.37	\$ 0.25
Earnings per share - diluted	\$ 0.14	\$ 0.07	\$ 0.36	\$ 0.24
Weighted average shares - basic	60,742	63,739	60,088	63,930
Weighted average shares - diluted	61,415	65,016	61,168	64,688

See accompanying notes to unaudited consolidated financial statements.

## CIBER, Inc. and Subsidiaries

## Consolidated Balance Sheets

(Unaudited)

In thousands, except per share data	September 30, 2004	December 31, 2003
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 28,652	\$ 132,537
Accounts receivable, net	204,888	140,037
Prepaid expenses and other current assets	18,163	10,521
Income taxes refundable	2,109	4,616
Deferred income taxes	5,354	4,931
Total current assets	259,166	292,642
Property and equipment, at cost	57,213	46,023
Less accumulated depreciation and amortization	(32,150)	(30,646)
Net property and equipment	25,063	15,377
Goodwill	388,776	249,992
Other intangible assets, net	32,727	8,231
Other assets	11,720	7,081
Total assets	\$ 717,452	\$ 573,323
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 24,005	\$ 17,236
Accrued compensation and related liabilities	39,993	37,954
Other accrued expenses and liabilities	42,599	23,652
Deferred revenue	11,386	747
Bank term loan - current portion	2,400	
Income taxes payable	2,075	501
Deferred income taxes	4,163	
Total current liabilities	126,621	80,090
Bank line of credit	29,258	
Bank term loan - long term	2,400	
Deferred income taxes	8,114	8,650
Other long term liabilities	4,054	4,951
Long term debentures	175,000	175,000
Total liabilities	345,447	268,691
Minority interest	16,201	
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	267,336	266,777
Retained earnings	101,407	85,366
Accumulated other comprehensive income	6,370	6,051
Treasury stock, 2,273 and 6,106 shares at cost	(19,956)	(54,209)
Total shareholders' equity	355,804	304,632
Total liabilities and shareholders' equity	\$ 717,452	\$ 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	Nine months ended September 30,	
	2004	2003
<b>Operating activities:</b>		
Net income	\$ 22,250	\$ 15,806
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	7,736	6,719
Amortization of intangible assets	2,839	2,023
Deferred income taxes	8,646	5,576
Provision for doubtful receivables	219	1,501
Provision for office lease and closure costs		940
Other, net	681	(846)
Changes in operating assets and liabilities, net of the effects of acquisitions:		
Accounts receivable	(16,940)	(1,271)
Other current and long-term assets	584	1,280
Accounts payable	1,364	(1,111)
Accrued compensation and related liabilities	(9,807)	(8,218)
Deferred revenue	1,756	835
Other current and long-term liabilities	(4,819)	(7,937)
Income taxes payable/refundable	6,482	7,291
Net cash provided by operating activities	20,991	22,588
<b>Investing activities:</b>		
Acquisitions, net of cash acquired	(98,953)	(17,605)
Proceeds from the sale of DigiTerra Broadband, net of expenses		2,080
Purchases of property and equipment, net	(4,782)	(3,169)
Purchases of investments		(62)
Sales of investments		593
Net cash used in investing activities	(103,735)	(18,163)
<b>Financing activities:</b>		
Employee stock purchases and options exercised	6,288	6,363
Purchases of treasury stock	(8,746)	(5,479)
Cash settlement of put option		(5,832)
Repayment of debt of acquired companies	(52,628)	
Borrowings on long term bank line of credit	141,794	326,425
Payments on long term bank line of credit	(112,536)	(321,021)
Line of credit origination fees paid		(250)
Borrowings on term note	6,000	
Payments on term note	(1,200)	
Minority contribution	294	
Net cash provided by (used in) financing activities	(20,734)	206
Effect of foreign exchange rate changes on cash	(407)	127
Net increase (decrease) in cash and cash equivalents	(103,885)	4,758
Cash and cash equivalents, beginning of period	132,537	14,899
Cash and cash equivalents, end of period	\$ 28,652	\$ 19,657
<b>Non-cash activities:</b>		
Note forgiveness as acquisition consideration	\$ 1,174	

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Value of shares and options issued for acquisitions	\$	30,458
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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					
<b>Balances at January 1, 2004</b>	64,705	\$ 647	\$ 266,777	\$ 85,366	\$ 6,051	\$ (54,209)	304,632
Net income				22,250			22,250
Foreign currency translation					319		319
Acquisition consideration				(3,797)		34,255	30,458
Employee stock purchases and options exercised				(2,408)		8,696	6,288
Tax benefit from exercise of stock options			559				559
Stock compensation expense				(4)		48	44
Purchases of treasury stock						(8,746)	(8,746)
<b>Balances at September 30, 2004</b>	64,705	\$ 647	\$ 267,336	\$ 101,407	\$ 6,370	\$ (19,956)	355,804

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 of a normal, recurring nature that are necessary for a fair presentation of the financial position and results of operations for the periods presented. Interim results of operations for the three and nine month periods ended September 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 \$44 and \$42 for the nine months ended September 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 September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Net income, as reported	\$ 8,355	\$ 4,392	\$ 22,250	\$ 15,806
Deduct: Stock based compensation expense determined under fair value based method, net of related tax effects	(1,230)	(1,159)	(3,624)	(3,577)
Pro forma net income	\$ 7,125	\$ 3,233	\$ 18,626	\$ 12,229
Earnings per share basic: As reported	\$ 0.14	\$ 0.07	\$ 0.37	\$ 0.25
Pro forma	\$ 0.12	\$ 0.05	\$ 0.31	\$ 0.19
Earnings per share diluted:As reported	\$ 0.14	\$ 0.07	\$ 0.36	\$ 0.24
Pro forma	\$ 0.12	\$ 0.05	\$ 0.30	\$ 0.19

(Unaudited)

*Minority Interest* - On September 10, 2004, we acquired approximately 67% of the net outstanding shares of Novasoft AG. In addition we have three international subsidiaries that have minority ownership interests. The minority shareholders' proportionate share of the equity of these subsidiaries is reflected as minority interest in the consolidated balance sheet. The minority shareholders' proportionate share of the net income or loss of these subsidiaries is included in other income, net in the consolidated statement of operations.

*Recently Issued Accounting Standards* - In September 2004, the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board (FASB) reached a consensus on EITF Issue No. 04-8, "The Effect of Contingently Convertible Debt on Diluted Earnings per Share". The EITF 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 FASB plans to issue an amendment to FASB Statement No. 128 "Earnings per Share" in the fourth quarter of 2004 that incorporates this new consensus. That amendment is expected to be

effective for periods ending after December 15, 2004, and the consensus must be applied by restating previously reported diluted earnings per share. 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, adoption of this new accounting standard will impact our calculation of diluted earnings per share. Had this accounting standard been in effect currently, our diluted earning per share would be reduced by \$0.01 for the three months ended September 30, 2004 and by \$0.02 for the nine months ended September 30, 2004.

## (2) Earnings Per Share

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

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
<b>Numerator:</b>				
Net income	\$ 8,355	\$ 4,392	\$ 22,250	\$ 15,806
<b>Denominator:</b>				
Basic weighted average shares outstanding	60,742	63,739	60,088	63,930
Dilutive effect of employee stock options	673	1,277	1,080	598
Dilutive effect of put option				160
Diluted weighted average shares outstanding	61,415	65,016	61,168	64,688
Earnings per share basic	\$ 0.14	\$ 0.07	\$ 0.37	\$ 0.25
Earnings per share diluted	\$ 0.14	\$ 0.07	\$ 0.36	\$ 0.24

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 3,600,000 and 3,637,000 for the three months ended September 30, 2004 and 2003, respectively and 2,436,000 and 5,426,000 for the nine months ended September 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 September 30, 2004.

## (3) Comprehensive Income

The components of comprehensive income are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Net income	\$ 8,355	\$ 4,392	\$ 22,250	\$ 15,806
Change in net unrealized gain/loss on available for sale investments		(46)		(1,311)
Foreign currency translation adjustments	759	116	319	1,528
Comprehensive income	\$ 9,114	\$ 4,462	\$ 22,569	\$ 16,023

**(4) Acquisitions**

*Novasoft AG ( Novasoft )* On September 10, 2004 we acquired approximately 67 percent of the net outstanding shares of Novasoft AG, an international SAP consultancy, headquartered in Heidelberg, Germany. The results of Novasoft's operations have been included in our consolidated financial statements since that date. We acquired the Novasoft shares owned by the two founding partners of Novasoft, in a private transaction, for total consideration of approximately \$53,457, consisting of approximately \$37,446 in cash and 2,338,023 shares of CIBER common stock valued at approximately \$16,011. The value of the CIBER shares issued was based on the average closing price of CIBER stock for the ten trading days ended August 25, 2004. Novasoft and its

subsidiaries is a provider of implementation and other consulting services related to SAP software products. Novasoft is a SAP Alliance Partner, and implements all of SAP's ERP products including mySAP.com products and industry specific applications. At the time of the acquisition, Novasoft had approximately 425 consultants, primarily located in Germany, the United Kingdom and Spain. We acquired Novasoft to expand our international presence as well as our geographically limited focus on SAP related services.

We have recorded preliminary goodwill of \$35,600 related to the acquisition of Novasoft. The Novasoft goodwill has been assigned to our European Operations segment. We expect that none of this goodwill will be deductible for income tax purposes. We have preliminarily assigned \$6,339 to other intangible assets which is primarily 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 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.

In October 2004, CIBER filed with BaFin, the German securities authority, a compulsory cash offer to all of Novasoft's public shareholders to acquire the remaining Novasoft shares. In October 2004, we borrowed approximately \$30 million under our bank line of credit and transferred these funds to our wholly owned German subsidiary, to be held in a bank account, in escrow by ABN Amro NV to satisfy the cash availability requirements of the compulsory share purchase offer.

*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 \$36,969 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 assigned \$7,075 to other intangible assets for the estimated fair value of customer relationships, which is being amortized, on a straight-line basis over 7 years. 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 for estimated severance of Ascent personnel in the amount of \$537.

*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.

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We have recorded preliminary goodwill of \$57,327 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 exit costs consist of \$2,140 to terminate an office lease and \$327 for severance of SCB personnel. All but \$881 related to the lease termination has been paid as of September 30, 2004.

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

	Novasoft	Ascent	SCB
Cash paid	\$ 37,446	\$ 20,191	\$ 44,324
CIBER shares issued	16,011	1,473	12,704
CIBER options issued			271
Transaction costs	1,182	1,031	1,342
Severance costs and other exit costs		537	2,467
<b>Total</b>	<b>\$ 54,639</b>	<b>\$ 23,232</b>	<b>\$ 61,108</b>
Allocation of purchase price:			
Net asset (liability) value acquired	\$ 19,039	\$ (13,727)	\$ 3,781
Goodwill	35,600	36,959	57,327
<b>Total</b>	<b>\$ 54,639</b>	<b>\$ 23,232</b>	<b>\$ 61,108</b>

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

	Novasoft	Ascent	SCB
Cash and cash equivalents	\$ 13,243	\$ 1,452	\$ 1,714
Accounts receivable, net	17,619	5,483	21,863
Prepaid expenses and other current assets	4,513	3,633	1,156
Income taxes refundable	769	64	295
Deferred income taxes	1,656	169	11,956
Property and equipment	3,557	2,581	5,811
Other assets	3,688		
Other intangible assets	6,339	7,075	12,165
<b>Total assets acquired</b>	<b>51,384</b>	<b>20,457</b>	<b>54,960</b>
Accounts payable	(1,805)	(2,220)	(1,198)
Accrued compensation and related liabilities	(1,000)	(1,445)	(5,302)
Deferred revenue		(7,870)	(632)
Income taxes payable	(1,370)		
Other liabilities	(9,927)	(993)	(10,953)
Long-term debt		(19,534)	(33,094)
Deferred income taxes	(2,100)	(2,122)	
Minority interest	(16,143)		
<b>Total liabilities assumed</b>	<b>(32,345)</b>	<b>(34,184)</b>	<b>(51,179)</b>
<b>Net assets (liabilities)</b>	<b>\$ 19,039</b>	<b>\$ (13,727)</b>	<b>\$ 3,781</b>

The following pro forma information presents the combined results of operations of CIBER, SCB, Ascent and Novasoft 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



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SCB's expenses related to their acquisition by CIBER, the elimination of historical intangible asset amortization and the addition of amortization of intangible assets resulting from CIBER's acquisition of 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

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have occurred had CIBER, SCB, Ascent and Novasoft constituted a single entity during such periods, nor are they necessarily indicative of future operating results.

	Pro Forma Three months ended September 30,		Pro Forma Nine months ended September 30,	
	2004	2003	2004	2003
Total revenue	\$ 230,964	\$ 234,499	\$ 692,169	\$ 687,003
Net income	\$ 8,294	\$ 4,512	\$ 21,431	\$ 18,488
Income per share - basic	\$ 0.13	\$ 0.07	\$ 0.34	\$ 0.27
Income per share - diluted	\$ 0.13	\$ 0.07	\$ 0.34	\$ 0.27

*Services Division of FullTilt Solutions, Inc.* On January 23, 2004, we acquired certain assets and liabilities comprising the Services Division of FullTilt Solutions, Inc. (the Services Division ) for consideration of \$9,751. The results of the Services Division's operations have been included in our consolidated financial statements since that date. The Services Division had 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 as follows: \$1,308 to 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 nine months ended September 30, 2004 are as follows:

	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	57,327			57,327
FullTilt goodwill	6,936			6,936
Novasoft goodwill			35,600	35,600
Ascent goodwill			36,959	36,959
Other acquisitions	1,229			1,229
Effect of foreign exchange rate changes			733	733
Balance at September 30, 2004	\$ 242,667	\$ 38,171	\$ 107,938	\$ 388,776

Amortized other intangible assets are comprised of the following:

	As of September 30, 2004		Intangible Assets, net	As of December 31, 2003	
	Cost	Accumulated Amortization		Cost	Accumulated Amortization

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Customer relationships	\$	37,539	\$	(4,812)	\$	32,727	\$	11,467	\$	(3,286)	\$	8,181
Other								100		(50)		50
	\$	37,539	\$	(4,812)	\$	32,727	\$	11,567	\$	(3,336)	\$	8,231

The estimated amortization expense for the years ending December 31, 2004, 2005, 2006, 2007 and 2008 is \$4,056, \$5,382, \$5,281, \$4,888 and \$4,888, respectively.

**(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 nine months ended September 30, 2004, consists of the following:

Balance at January 1, 2004	\$	8,557
Additions due to acquisitions		2,635
Cash payments		(4,769)
Effect of foreign exchange rate changes		88
Balance at September 30, 2004	\$	6,511

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

**(8) Bank Line of Credit and Term Loan**

*Bank Line of Credit* We have a Revolving Line of Credit with Wells Fargo Bank, N.A that expires on September 30, 2007. On October 1, 2004 we amended the line of credit to increase the maximum allowable borrowings from \$50 million to \$75 million. The line of credit automatically reduces to \$60 million on March, 31, 2005 and then again to

\$50 million on September 30, 2005. The line of credit is unsecured, unless borrowings exceed \$40 million for two consecutive fiscal quarters or if certain financial covenant thresholds are exceeded, in which case substantially all of CIBER's assets would secure the line of credit. The interest rate charged on borrowings under the agreement ranges from the prime rate of interest (prime) less 100 basis points to prime less 30 basis points depending on CIBER's Pricing Ratio and changes, as required, on the first day of each quarter. CIBER's Pricing Ratio is defined as the ratio of CIBER's Senior Funded Indebtedness at the end of each quarter divided by CIBER's earnings before interest, taxes, depreciation and amortization (EBITDA) for the prior four fiscal quarters then ended. On October 1, 2004, the bank's prime rate was 4.75% and our rate for borrowing was

3.75%. 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 these financial covenants as of September 30, 2004. The terms of the credit agreement also contains, among other provisions, specific limitations on additional indebtedness, liens and acquisitions, purchases of treasury stock, investment activity and prohibits the payment of any dividends. The line of credit provides for the issuance of up to \$10 million in letters of credit. Any outstanding letters of credit reduce the maximum available borrowings under the line of credit. At September 30, 2004, we had approximately \$7 million of outstanding letters of credit securing certain financial performance obligations.

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 September 30, 2004, the term loan had an outstanding principal balance of \$4.8 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 nine months ended September 30, 2004, we repurchased 1,017,000 shares of our common stock at a cost of \$8,746. During the quarter, our Board of Directors approved an increase of 1,500,000 shares to our share repurchase program. At September 30, 2004, there were 1,657,000 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 acquisition of SCB, with CIBER stock options. This is a single-purpose plan approved by CIBER's Board of Directors under which options for approximately 275,000 shares were issued. No further options may be granted under this plan.

#### **(10) Segment Information**

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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 and our CIBER India subsidiary that provide IT project solutions and IT professional staffing services in custom developed software environments. Our Package Solutions segment is comprised of our U.S based 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 primarily provides both custom and package software consulting services to European customers. Our London based European Operations segment has offices in approximately 14 countries, including Asia.

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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 September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
<b>Total revenue:</b>				
Custom Solutions	\$ 160,517	\$ 135,493	\$ 456,917	\$ 399,574
Package Solutions	22,359	24,772	66,093	72,734
European Operations	37,081	18,195	86,903	53,899
Inter-segment	(506)	(569)	(2,129)	(1,618)
<b>Total</b>	<b>\$ 219,451</b>	<b>\$ 177,891</b>	<b>\$ 607,784</b>	<b>\$ 524,589</b>
<b>Income (loss) from operations:</b>				
Custom Solutions	\$ 16,544	\$ 11,986	\$ 44,400	\$ 37,177
Package Solutions	2,023	2,965	5,044	7,793
European Operations	2,446	463	6,174	867
Corporate	(5,472)	(7,159)	(14,815)	(17,039)
<b>Total</b>	<b>15,541</b>	<b>8,255</b>	<b>40,803</b>	<b>28,798</b>
Amortization of intangibles	(1,223)	(710)	(2,839)	(2,023)
<b>Operating income</b>	<b>\$ 14,318</b>	<b>\$ 7,545</b>	<b>\$ 37,964</b>	<b>\$ 26,775</b>

Inter-segment revenue is primarily within the Package Solutions segment.



**MANAGEMENT'S 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
Novasoft AG	September 2004	425	\$ 35.6 million
Ascent Technology Group Limited	May 2004	130	\$ 37.0 million
SCB Computer Technology	March 2004	1,250	\$ 57.3 million

*Novasoft AG ( Novasoft )* On September 10, 2004 we acquired approximately 67 percent of the net outstanding shares of Novasoft AG, headquartered in Heidelberg, Germany. We acquired the Novasoft shares owned by the two founding partners of Novasoft, in a private transaction, for total consideration of approximately \$53.5 million, consisting of approximately \$37.4 million in cash and 2,338,023 shares of CIBER common stock valued at approximately \$16.0 million. Payment of the cash portion of the consideration was funded by borrowing under our bank revolving line of credit. Novasoft is a provider of implementation and other consulting services related to SAP software products. Novasoft is a SAP Alliance Partner and implements all of SAP's ERP products including mySAP.com products and industry specific applications. At the time of the acquisition, Novasoft had approximately 425 consultants, primarily located in Germany, the United Kingdom and Spain. We acquired Novasoft to expand our international presence as well as our geographically limited focus on SAP related services.

*Ascent Technology Group Limited ( Ascent )* - On May 24, 2004 we acquired all of the outstanding stock of Ascent. 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 and to a lesser extent, borrowing under our bank line of credit, to fund the cash portion of the purchase consideration and the repayment of Novasoft's debt.

*SCB Computer Technology, Inc. ( SCB )* - On March 1, 2004 we acquired all of the outstanding stock of SCB. 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. 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 \$4.00 per hour for the nine months ended September 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.

The results of operations of these acquired businesses have been included in our consolidated financial statements since the date of the respective acquisition.

## Results of Operations

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

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Consulting services	95.6%	94.7%	95.9%	95.8%
Other revenue	4.4	5.3	4.1	4.2
Total revenue	100.0%	100.0%	100.0%	100.0%
Gross margin services	27.5%	28.1%	27.6%	28.5%
Gross margin other revenue	46.7	25.3	34.0	27.2
Gross margin total	28.4	27.9	27.9	28.5
Selling, general and administrative expenses	21.3	23.3	21.2	23.0
Operating income before amortization	7.1	4.6	6.7	5.5
Amortization of intangible assets	0.6	0.4	0.5	0.4
Operating income	6.5	4.2	6.2	5.1

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Interest and other income (expense), net	(0.5)	(0.2)	(0.3)	(0.2)
Income before income taxes	6.0	4.0	5.9	4.9
Income tax expense	2.2	1.6	2.3	1.9
Net income	3.8%	2.4%	3.7%	3.0%

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

In thousands	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
<b>Services Revenue:</b>				
Custom Solutions	\$ 157,238	\$ 128,990	\$ 445,250	\$ 385,351
Package Solutions	20,109	22,034	59,721	65,331
European Operations	33,056	18,040	80,278	53,245
Eliminations	(506)	(569)	(2,130)	(1,618)
	\$ 209,897	\$ 168,495	\$ 583,119	\$ 502,309
<b>Percent of Services Revenue:</b>				
Custom Solutions	75%	76%	76%	77%
Package Solutions	9%	13%	10%	13%
European Operations	16%	11%	14%	10%
<b>Services Gross Margin%:</b>				
Custom Solutions	26.7%	26.5%	27.6%	26.9%
Package Solutions	31.6%	34.9%	29.7%	35.4%
European Operations	29.2%	30.3%	30.8%	31.2%

### Three Months Ended September 30, 2004 as Compared to Three Months Ended September 30, 2003

Total revenue for the three months ended September 30, 2004 increased 23.4% to \$219.5 million from \$177.9 million for the quarter ended September 30, 2003. This represents a 24.6% increase in consulting service revenue, as well as a 2% increase in other revenue. Other revenue totaled \$9.6 million for the three months ended September 30, 2004 compared to \$9.4 million for the same quarter last year. This resulted from an increase in IT product sales during the quarter ended September 30, 2004 resulting from our Ascent acquisition, completed in May 2004, which added approximately \$3.7 million of product revenue to the quarter ended September 30, 2004. This increase was almost entirely offset by a decrease in product sales in our Custom Solutions segment quarter-over-quarter. Custom Solutions service revenue increased 21.9%, Package Solutions service revenue decreased 8.7% and our European Operations service revenue increased 83.2% when compared to the same period last year. Overall, the 2004 revenue growth is due to our March 1, 2004 acquisition of SCB, the May 24, 2004 acquisition of Ascent and the one month benefit of our September 2004 Novasoft acquisition. Our average number of billable consultants increased 28.9% to approximately 6,700 for the quarter ended September 30, 2004 from approximately 5,200 for the quarter ended September 30, 2003. The increase in Custom Solutions service revenue during the three months ended September 30, 2004 was due to an average net increase of approximately 1,300 consultants (+29.9%), primarily attributable to the SCB acquisition, as well as a 110 basis point increase in utilization levels to 93.4% for the three months ended September 30, 2004 from 92.3% for the three months ended September 30, 2003. The decrease in Package Solutions service revenue during the three months ended September 30, 2004 was due to an average net decrease of approximately 40 consultants (-10.3%) quarter-over-quarter and a 50 basis point decrease in utilization levels to 75.1% for the three-months ended September 30, 2004 from 75.6% for the three months ended September 30, 2003. The increase in European Operations service revenue was primarily due to the Ascent acquisition completed in May 2004 and the September 2004 acquisition of Novasoft. These acquisitions increased our average European billable headcount 51.1% to 775 for the quarter ended September 30, 2004 compared to 520 for the quarter ended September 30, 2003.

In total, our gross margin percentage increased to 28.4% of revenue for the three months ended September 30, 2004 from 27.9% of revenue for the same quarter of 2003. This increase is due to higher gross margins on other revenue offset by slightly lower gross margins on services revenue. The decline in gross profit on services revenue was primarily due to lower gross profit in our European segment which also accounted for a higher percentage of overall revenue. Lower utilization and billing rates in our Package Segment also contributed to the decrease. Europe's gross margin on service revenue decreased 110 basis points during the three months ended



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September 30, 2004 from the same quarter in the prior year due to expected lower services margins for Ascent and Novasoft. Package Solutions' gross margin on service revenue decreased 330 basis points for the quarter ended September 30, 2004 compared to the same quarter of the prior year. This decrease was the result of a decrease in average billing rates to \$144 per hour for the three months ended September 30, 2004 from \$147 per hour for the three months ended September 30, 2003.

Our gross margin percentage on other revenue increased to 46.7% for the three months ended September 30, 2004 from 25.3% in 2003 due to high margins on maintenance and license revenue contributed by Ascent.

Selling, general and administrative expenses ( SG&A ) increased to \$46.7 million for the quarter ended September 30, 2004 from \$41.5 million for the quarter ended September 30, 2003. However, as a percentage of sales, SG&A decreased to 21.3% for the quarter ended September 30, 2004 from 23.3% in 2003, as we continue efforts to contain costs and leverage our existing overhead infrastructure.

Amortization of intangible assets increased to \$1.2 million for the three months ended September 30, 2004 from \$710,000 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 September 30, 2004 compared to interest expense on our line of credit, which had an average outstanding balance of approximately \$32 million during the quarter ended September 30, 2003.

Other income of \$354,000 was recorded during the three months ended September 30, 2004, primarily due to foreign currency investment gains.

Our effective tax rate of 36.8% for the three months ended September 30, 2004 was lower than the effective rate of 39.0% for the same period of last year. The decrease is due to the expected benefit of a research and experimentation credit that CIBER will realize in 2004.

### **Nine Months Ended September 30, 2004 as Compared to Nine Months Ended September 30, 2003**

Total revenue for the nine months ended September 30, 2004 increased 15.9% to \$607.8 million from \$524.6 million for the nine months ended September 30, 2003. This represents a 16.1% increase in consulting service revenue, as well as a 10.7% increase in other revenue. Other revenue totaled \$24.7 million for the nine months ended September 31, 2004 compared to \$22.3 million for the same period last year. The increase is due to the incremental revenue contributed by our Ascent acquisition, completed in May 2004, which added approximately \$5.3 million of product revenue to the nine months ended September 30, 2004. Custom Solutions service revenue increased 15.5%, Package Solutions service revenue decreased 8.6% and our European Operations service revenue increased 50.8% when compared to the same period last year. Overall, the 2004 revenue growth is primarily due to our March 1, 2004 acquisition of SCB, our May 24, 2004 acquisition of Ascent, our September 10, 2004 acquisition of Novasoft and the full period benefit of our ECsoft acquisition, which closed in late January 2003. Our average number of billable consultants increased 22% to approximately 6,200 for the nine months ended September 30, 2004 from approximately 5,100 for the nine months ended September 30, 2003. The increase in Custom Solutions' service revenue during the nine months ended September 30, 2004 was due to an average net increase of approximately 1,000 consultants (+23.8%), primarily attributable to the SCB

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acquisition as well as a 70 basis point increase in utilization levels to 94.3% for the nine months ended September 30, 2004 from 93.6% for the nine months ended September 30, 2003. The decrease in Package Solutions service revenue during the nine months ended September 30, 2004 was due to a 290 basis point decrease in utilization levels to 73.1 % for the nine months ended September 30, 2004 from 76.0% for the nine months ended September 30, 2003, combined with an 11.6% decrease in the average number of consultants in 2004 compared to 2003. The 2004 utilization decrease was due primarily to cost overruns incurred on a single



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project during the first six months of the nine month period. The increase in European Operations' service revenue was due to four months of revenue contributed from the Ascent acquisition, one month of revenue contributed from the Novasoft acquisition, plus the contribution of ECsoft's results for nine months of 2004 compared to only eight months of 2003.

In total, our gross margin percentage decreased to 27.9% of revenue for the nine months ended September 30, 2004 from 28.5% of revenue for the same period in 2003. This decrease is due to lower gross margins on service revenue offset by higher gross margins on other revenue. The decline in gross profit on service revenue was primarily due to a cost overrun on a Package Segment project, plus lower margins, as expected on the incremental revenue contributed by SCB. Custom Solutions' gross margin on service revenue decreased 19 basis points during the nine months ended September 30, 2004 from the same period in the prior year. Our average billing rates decreased to \$60 for the nine months ended September 30, 2004 from \$65 for the nine months ended September 30, 2003. The decrease in billing rates is due to SCB, acquired 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 568 basis points for the nine months ended September 30, 2004 compared to the same period in the prior year. This decrease was the combined result of a decrease in average billing rates to \$145 for the nine months ended September 30, 2004 from \$148 for the nine months ended September 30, 2003 as well as additional costs associated with one project that incurred cost overruns. European Operations' gross margin on service revenue was approximately 31% for the nine months ended September 30, 2004 and for the same period in 2003.

Our gross margin percentage on other revenue increased to 34.0% for the nine months ended September 30, 2004 from 27.2% in 2003 due to better margins on the incremental other revenue contributed by our acquisition of Ascent.

Selling, general and administrative expenses (SG&A) increased to \$128.6 million for the nine months ended September 30, 2004 from \$120.6 million for the nine months ended September 30, 2003. However, as a percentage of sales, SG&A decreased to 21.2% for the nine months ended September 30, 2004 from 23.0% in 2003, as we continue efforts to contain costs and leverage our existing overhead infrastructure.

Amortization of intangible assets increased to \$2.8 million for the nine months ended September 30, 2004 from \$2.0 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 nine months ended September 30, 2004 compared to interest expense on our line of credit, which had an average outstanding balance of approximately \$47 million during the nine months ended September 30, 2003.

Other income of \$2.3 million was recorded during the nine months ended September 30, 2004, primarily due to \$0.7 million of foreign currency transaction gains as well as \$1.4 million of foreign currency investment gains and \$0.2 million of minority interest.

Our effective tax rate was 38.2% and 39.0% for the nine months ended September 30, 2004 and 2003, respectively. The decrease is due to the expected benefit of a research and experimentation credit that CIBER will realize in 2004.

**Liquidity and Capital Resources**

At September 30, 2004, we had \$132.5 million of working capital and a current ratio of 2.0:1. Historically, we have used our operating cash flow plus the periodic sales of stock and borrowings under our line of credit to finance our operations and business combinations. In December 2003 we sold \$175 million of Convertible Senior Subordinated Debentures. We believe that our cash and cash equivalents, our operating cash flow and our available line of credit will be sufficient to finance our working capital needs through at least the next year.

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In thousands	Nine months ended September 30,	
	2004	2003
Net cash provided by (used in):		
Operating activities	\$ 20,991	\$ 22,588
Investing activities	(103,735)	(18,163)
Financing activities	(20,734)	206
Effect of foreign exchange rates on cash	(407)	127
Net increase (decrease) in cash and equivalents	\$ (103,885)	\$ 4,758

Net cash provided by operations decreased during the nine months ended September 30, 2004 compared to the same period of the prior year due to an increase in accounts receivable days sales outstanding to 76 days on services and 80 days overall at September 30, 2004 from 70 days on services and 76 days overall 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. In 2004, we used cash of \$99.0 million for our acquisitions of Novasoft, Ascent, SCB and FullTilt, compared to \$17.6 million for our acquisitions of ECsoft and Alphanet in 2003. In 2003, we also received \$2.1 million in proceeds from the sale of DigiTerra Broadband. Purchases of property and equipment were also higher for the first nine months of 2004 compared to the same period in 2003 due to our larger size in 2004.

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 nine months ended September 30, 2004, we repaid \$52.6 million of debt acquired in connection with our acquisitions of SCB and Ascent. We entered into a \$6 million term loan, which matures on September 30, 2006. We purchased \$8.7 million of treasury stock during the nine months ended September 30, 2004 compared to \$5.5 million for the same period of last year. The cash provided by sales of stock under our employee stock purchase plan and options exercised decreased slightly to \$6.3 million during the nine months ended September 30, 2004 compared to \$6.4 million during the nine months ended September 30, 2003.

Total accounts receivable increased to \$204.9 million at September 30, 2004 from \$140.0 million at December 31, 2003 primarily due to our 2004 acquisitions, which added approximately \$48 million of accounts receivable. Total accounts receivable days sales outstanding ( DSO ) increased slightly to 80 days at September 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 \$40.0 million as of September 30, 2004 from \$38.0 million at December 31, 2003. The increase is due to an increase in headcount of approximately 40%, to 8,000 as of September 30, 2004 from 5,700 as of December 31, 2003. The reason that the increase was not greater is that there were only nine days of payroll accrued for our U.S. operations as of September 30, 2004 as compared to thirteen days accrued 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 \$42.6 million as of September 30, 2004 from \$23.7 million as of December 31, 2003 primarily due to our 2004 acquisitions as well as an increase in our accrual for subcontractor payments at September 30, 2004 compared to December 31, 2003.



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Deferred Revenue increased to \$11.4 million as of September 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 approximately \$8.5 million. The large deferred revenue balance for Ascent results from up front payments received from customers for annual software maintenance agreements.

Borrowings under our revolving Bank Line of Credit totaled \$29.3 million as of September 30, 2004. We had nothing borrowed on the Line of Credit as of December 31, 2003. The increase is attributable to our September 10, 2004 purchase of 67% of Novasoft AG. In October 2004, CIBER filed with BaFin, the German securities authority, a compulsory cash offer to all of Novasoft's public shareholders to acquire the remaining Novasoft shares. In October 2004, we borrowed approximately \$30 million under our bank line of credit. The funds were transferred to our wholly owned German subsidiary, to be held in a bank account, in escrow by ABN Amro NV to satisfy the cash availability requirements of the compulsory share purchase offer.

In 2004 we continued the repurchase of our common stock under our share repurchase program. At September 30, 2004, there were approximately 1.7 million 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 \$16.36 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-days notice to the holders, redeem any of the Debentures at a redemption price of 100% of their principal amount, plus accrued interest. Debenture holders may require us to repurchase their Debentures on December 15, 2008, 2010, 2013 and 2018 or at any time prior to their maturity in the case of certain events, at a repurchase price of 100% of their principal amount plus accrued interest.

*Bank Line of Credit* We have a revolving Line of Credit with Wells Fargo Bank, N.A. that expires on September 30, 2007. On October 1, 2004 we amended the line of credit to increase the maximum allowable borrowings from \$50 million to \$75 million. The line of credit automatically reduces to \$60 million on March, 31, 2005 and then again to \$50 million on September 30, 2005. The line of credit is unsecured, unless borrowings exceed \$40 million for two

consecutive fiscal quarters or if certain financial covenant thresholds are exceeded, in which case substantially all of CIBER's assets would secure the line of credit. The interest rate charged on borrowings under the agreement ranges from the prime rate of interest (prime) less 100 basis points to prime less 30 basis points depending on CIBER's Pricing Ratio and changes, as required, on the first day of each quarter. CIBER's Pricing Ratio is defined as the ratio of CIBER's Senior Funded Indebtedness at the end of each quarter divided by CIBER's earnings before interest, taxes, depreciation and amortization (EBITDA) for the prior four fiscal quarters then ended. On October 1, 2004, the bank's prime rate was 4.75% and our rate for borrowing was

3.75%. 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. We were in compliance with these financial covenants as of September 30, 2004. 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 the prior four quarters.

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

Total Fixed Charges represents the sum of capital expenditures, plus interest expense 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.

*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.

#### **Impacts of Future Accounting Standards**

In September 2004, the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board (FASB) reached a consensus on EITF Issue No. 04-8, *The Effect of Contingently Convertible Debt on Diluted Earnings per Share*. The EITF 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 FASB plans to issue an amendment to FASB Statement No. 128 *Earnings per Share* in the fourth quarter of 2004 that incorporates this new consensus. That amendment is expected to be effective for periods ending after December 15, 2004, and the consensus must be applied by restating previously reported diluted earnings per share.

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, adoption of this new accounting standard will impact our calculation of diluted earnings per share. Had this accounting standard been in effect currently, our diluted earning per share would be reduced by \$0.01 for the quarter ended September 30, 2004 and by \$0.02 for the nine months ended September 30, 2004.



**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 have continued to expand our international operations in 2004 and we estimate that our foreign operations currently accounts for approximately 20% of our total revenue. We currently have offices in sixteen foreign countries. 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 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



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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 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 \$75 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 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 \$29.3 outstanding borrowings under our line of credit at September 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 September 30, 2004, pursuant to Rule 13a-15(b) under the Exchange Act. Based upon that evaluation, our Certifying Officers concluded that, as of September 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. Unregistered Sales of Equity Securities and Use of Proceeds

In connection with our September 10, 2004 acquisition of Novasoft AG ( Novasoft ), as part of the total consideration paid to the sellers for their shares of Novasoft stock, we issued a total of 2,338,023 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.

## Issuer Purchases of Equity Securities:

Period (1)	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Number of Shares that May Yet Be Purchased Under the Programs (2)
July 2004	200,000	\$ 7.33	200,000	346,937
August 2004	115,000	\$ 6.86	115,000	231,937
September 2004	75,000	\$ 7.10	75,000	1,656,937
Total	390,000	\$ 7.15	390,000	

(1) Calendar month

(2) As of end of month indicated

On June 22, 1999, CIBER announced its common stock share repurchase program. The program has been amended from time to time by our Board of Directors to increase the authorized shares available for repurchase. In September 2004, the Board of Directors increased the authorized shares by 1,500,000. In total, 11,388,591 shares have been authorized under this program since its inception.

ITEM 3. Defaults Upon Senior Securities

Not applicable

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

None

ITEM 5. Other Information

None

ITEM 6. Exhibits

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

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.

**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: November 5,  
2004

By /s/ Mac J. Slingerlend

Mac J. Slingerlend  
Chief Executive Officer, President and Secretary

Date: November 5,  
2004

By /s/ David G.  
Durham

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