CIBER INC
Form 10-Q
August 08, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2006

or

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

For the transition period from to

Commission file number 0-23488

CIBER, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**38-2046833**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5251 DTC Parkway, Suite 1400, Greenwood Village, Colorado	**80111**
(Address of Principal Executive Offices),	(Zip Code)

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

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

x Yes   o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

o Large accelerated filer   **x** Accelerated filer   o Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2).

o Yes   **x** No

As of June 30, 2006, there were 61,812,669 shares of the Registrant s common stock ($0.01 par value) outstanding.

CIBER, Inc. and Subsidiaries

Form 10-Q

Table of Contents

CIBER, Inc. and Subsidiaries

Consolidated Statements of Operations

(In thousands, except per share data)

(Unaudited)

	Three Months Ended June 30, 2005	2006	Six Months Ended June 30, 2005	2006
Consulting services	$ 231,658	$ 240,383	$ 462,731	$ 471,053
Other revenue	9,297	9,585	17,789	20,658
Total revenue	240,955	249,968	480,520	491,711
Cost of consulting services	169,372	176,350	337,285	348,930
Cost of other revenue	5,185	4,281	9,947	10,774
Selling, general and administrative expenses	51,619	54,972	102,727	106,521
Amortization of intangible assets	1,479	1,491	3,059	2,938
Operating income	13,300	12,874	27,502	22,548
Interest income	269	170	586	302
Interest expense	(2,235)	(2,111)	(4,441)	(4,145)
Other income (expense), net	(535)	178	(67)	(210)
Income before income taxes	10,799	11,111	23,580	18,495
Income tax expense	4,207	4,359	9,191	7,293
Net income	$ 6,592	$ 6,752	$ 14,389	$ 11,202
Earnings per share basic	$ 0.11	$ 0.11	$ 0.23	$ 0.18
Earnings per share diluted	$ 0.10	$ 0.11	$ 0.22	$ 0.18
Weighted average shares basic	62,556	61,969	62,602	62,044
Weighted average shares diluted	72,447	62,393	72,497	62,436

See accompanying notes to unaudited consolidated financial statements.

CIBER, Inc. and Subsidiaries

Consolidated Balance Sheets

(In thousands, except per share data)

(Unaudited)

	December 31, 2005	June 30, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 40,661	$ 32,270
Accounts receivable, net of allowances of $1,218 and $1,966	212,110	219,564
Prepaid expenses and other current assets	17,851	21,042
Income taxes refundable	267	420
Deferred income taxes	4,603	2,973
Total current assets	275,492	276,269
Property and equipment, at cost	60,086	71,064
Less accumulated depreciation and amortization	(34,698)	(45,014)
Property and equipment, net	25,388	26,050
Goodwill	409,703	424,222
Other intangible assets, net	24,708	22,940
Deferred income taxes	913	965
Other assets	8,363	9,653
Total assets	$ 744,567	$ 760,099
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	$ 31,995	$ 27,871
Accrued compensation and related liabilities	44,371	39,938
Other accrued expenses and liabilities	31,712	38,692
Deferred revenue	14,145	14,818
Bank term loans	2,000	2,200
Income taxes payable	3,887	3,770
Total current liabilities	128,110	127,289
Bank line of credit	42,638	35,514
Other long-term liabilities	503	331
Deferred income taxes	18,779	22,374
Long-term debentures	175,000	175,000
Total liabilities	365,030	360,508
Minority interest	2,930	4,330
Commitments and contingencies		
Shareholders equity:		
Preferred stock, $0.01 par value, 5,000 shares authorized, no shares issued		
Common stock, $0.01 par value, 100,000 shares authorized, 64,705 issued	647	647
Additional paid-in capital	267,743	268,599
Retained earnings	130,182	139,849
Accumulated other comprehensive income (loss)	(879)	7,939
Treasury stock, 2,658 and 2,892 shares, at cost	(21,086)	(21,773)
Total shareholders equity	376,607	395,261
Total liabilities and shareholders equity	$ 744,567	$ 760,099

See accompanying notes to unaudited consolidated financial statements.

CIBER, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Six Months Ended June 30, 2005	2006
Operating activities:		
Net income	$ 14,389	$ 11,202
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	5,706	5,974
Amortization of intangible assets	3,059	2,938
Deferred income tax expense	1,840	6,950
Stock-based compensation	91	784
Provision for doubtful receivables	303	1,138
Other, net	1,839	(87)
Changes in operating assets and liabilities, net of the effect of acquisitions:		
Accounts receivable	(7,407)	(5,324)
Other current and long-term assets	(103)	(4,394)
Accounts payable	(304)	(4,812)
Accrued compensation and related liabilities	8,539	(5,478)
Other accrued expenses and liabilities	(7,368)	1,306
Income taxes payable/refundable	(1,737)	(376)
Net cash provided by operating activities	18,847	9,821
Investing activities:		
Acquisitions, net of cash acquired	(6,559)	(4,832)
Capitalized software development costs		(526)
Purchases of property and equipment, net	(4,197)	(5,807)
Net cash used in investing activities	(10,756)	(11,165)
Financing activities:		
Employee stock purchases and options exercised	3,145	2,797
Purchases of treasury stock	(4,120)	(5,110)
Borrowings on long-term bank line of credit	169,663	178,926
Payments on long-term bank line of credit	(189,033)	(186,050)
Borrowings on term notes		1,600
Payments on term notes	(1,200)	(1,400)
Tax benefits from stock-based compensation		163
Minority shareholder capital contribution	271	
Net cash used in financing activities	(21,274)	(9,074)
Effect of foreign exchange rate changes on cash	(3,056)	2,027
Net decrease in cash and cash equivalents	(16,239)	(8,391)
Cash and cash equivalents, beginning of period	44,446	40,661
Cash and cash equivalents, end of period	$ 28,207	$ 32,270
Non-cash activities:		
Value of shares and options issued for acquisitions	$ 186	$

See accompanying notes to unaudited consolidated financial statements.

CIBER, Inc. and Subsidiaries

Consolidated Statement of Shareholders Equity

(In thousands)

(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders Equity
Balances at January 1, 2006	64,705	$ 647	$ 267,743	$ 130,182	$ (879)	$ (21,086)	$ 376,607
Net income				11,202			11,202
Foreign currency translation					8,818		8,818
Comprehensive income							20,020
Employee stock purchases and options exercised				(1,516)		4,313	2,797
Tax benefit from exercise of stock options			163				163
Stock compensation expense			693	(19)		110	784
Purchases of treasury stock						(5,110)	(5,110)
Balances at June 30, 2006	64,705	$ 647	$ 268,599	$ 139,849	$ 7,939	$ (21,773)	$ 395,261

See accompanying notes to unaudited consolidated financial statements.

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CIBER, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

(1) Organization and Basis of Presentation

The accompanying unaudited interim consolidated financial statements of CIBER, Inc. and subsidiaries (together, CIBER, the Company, we, our, or us) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission and do not include certain information and note disclosures required by U.S. generally accepted accounting principles for complete financial statements. These consolidated financial statements should therefore be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2005. The accompanying unaudited interim consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles and include all adjustments of a normal, recurring nature that, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the periods presented. Interim results of operations for the three and six month periods ended June 30, 2006 are not necessarily indicative of operating results to be expected for the fiscal year ending December 31, 2006.

Significant Accounting Policies. For a description of the our significant accounting policies, see Note 2 (Summary of Significant Accounting Policies) to the Company s Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

Minority Interest. At June 30, 2006, we owned 95% of the net outstanding shares of Novasoft AG (Novasoft). In addition, we have several international subsidiaries that have minority ownership interests. The minority shareholders proportionate share of the equity of these subsidiaries is reflected as minority interest in the consolidated balance sheet. The minority shareholders proportionate share of the net income or loss of these subsidiaries is included in other income, net in the consolidated statement of operations. For the six months ended June 30, 2005 and 2006, we recognized minority interest expense of $128,000 and $381,000, respectively.

Our registration with the German court to acquire the remaining 5% of outstanding Novasoft shares became effective on August 4, 2006, making CIBER the holder of 100% of the Novasoft shares. We still need to provide payment to the former minority shareholders and anticipate those costs will be approximately $4.5-5.0 million.

Foreign Currency Translation. The assets and liabilities of our foreign operations are translated into U.S. dollars at current exchange rates and revenues and expenses are translated at average exchange rates for the period. The resulting translation adjustments are included in accumulated other comprehensive income (loss) on the balance sheet. Gains and losses arising from inter-company international transactions are recognized in the period incurred and are included in other income, net in the consolidated statement of operations. We recorded net foreign currency transaction losses of $576,000 for the six months ended June 30, 2005 and net foreign currency transaction gains of $327,000 for the six months ended June 30, 2006.

Recently Issued Accounting Standard. In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109*, which clarifies the accounting for uncertainty in tax positions. FIN 48 requires that we recognize in our financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. We will be required to adopt the provisions of FIN 48 on January 1, 2007, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. We are currently evaluating the impact on our financial statements of adopting FIN 48.

(2) Earnings Per Share

Pursuant to the terms of our Convertible Senior Subordinated Debentures (Debentures), the Debentures may be converted to shares of CIBER common stock under certain conditions. In accordance with Emerging Issues Task Force Issue 04-8, The Effect of Contingently Convertible Instruments on Diluted Earnings per Share (EITF 04-8), the dilutive effect of our Debentures has been included in our diluted earnings per share calculations in the 2005 periods as further described below. When assuming conversion of the Debentures for purposes of calculating diluted earnings per share, we also adjust net income to exclude the net of tax cost of interest expense on the Debentures.

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Full conversion of the Debentures into shares would require us to issue approximately 12,830,000 shares of our common stock. On January 4, 2005, we made an irrevocable election to settle not less than 30% of the principal amount of the Debentures surrendered for conversion in cash and not in shares. As a result, our calculations of diluted earnings per share thereafter assumed conversion of only 70% of the Debentures, which would require us to issue approximately 8,981,000 shares of our common stock. On July 20, 2005, we increased our irrevocable election to settle 100% of the principal amount of the Debentures surrendered for conversion in cash and not in shares. As a result, our calculations of diluted earnings per share thereafter assumed conversion of none of the Debentures. Due to the irrevocable elections mentioned above, our calculations of diluted earnings per share for the three and six month periods ended June 30, 2005 include approximately 8,981,000 shares related to the potential conversion of the Debentures and our calculations of diluted earnings per share for the three and six month periods ended June 30, 2006 do not include any shares related to the potential conversion of the Debentures.

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

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2005	**2006**	**2005**	**2006**
	(In thousands, except per share data)			
Numerator:				
Net income, as reported	$ 6,592	$ 6,752	$ 14,389	$ 11,202
Interest and amortization expense related to the Debentures, net of related tax effects	661		1,321	
Net income assuming dilution	$ 7,253	$ 6,752	$ 15,710	$ 11,202
Denominator:				
Basic weighted average shares outstanding	62,556	61,969	62,602	62,044
Dilutive effect of Debentures	8,981		8,981	
Dilutive effect of employee stock options	910	424	914	392
Diluted weighted average shares outstanding	72,447	62,393	72,497	62,436
Earnings per share basic	$ 0.11	$ 0.11	$ 0.23	$ 0.18
Earnings per share diluted	$ 0.10	$ 0.11	$ 0.22	$ 0.18

Dilutive securities are excluded from the computation in periods in which they have an antidilutive effect. The average number of antidilutive stock options (options whose exercise price is greater than the average CIBER stock price during the period) omitted from the computation of diluted weighted average shares outstanding was 3,592,000 and 6,339,000 for the three months ended June 30, 2005 and 2006, respectively, and 3,559,000 and 6,303,000 for the six months ended June 30, 2005 and 2006, respectively.

(3) Comprehensive Income

The components of comprehensive income are as follows:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2005	**2006**	**2005**	**2006**
	(In thousands)			
Net income	$ 6,592	$ 6,752	$ 14,389	$ 11,202
Foreign currency translation adjustments	(9,172)	6,264	(17,296)	8,818
Comprehensive income (loss)	$ (2,580)	$ 13,016	$ (2,907)	$ 20,020

(4) Acquisitions

During the six months ended June 30, 2006, we acquired two SAP consulting businesses in Europe for a total purchase price of approximately $7.3 million. Approximately $5.3 million was paid during the current period and approximately $2.0 million is expected to be paid in future annual periods. The results of the acquired operations have been included in our consolidated financial statements since their respective dates of acquisition and have been combined with our European Operations segment. We acquired net tangible assets of approximately $1.0 million and recorded intangible assets of approximately $6.3 million.

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See accompanying notes to unaudited consolidated financial statements.

(5) Goodwill

Our goodwill is assigned to individual segments and is reviewed for possible impairment at least annually, or more frequently upon the occurrence of an event or when circumstances indicate that a segment s carrying amount is greater than its fair value. As of June 30, 2006, we performed our annual impairment review by business segments, which are the same as our reporting units, and determined that there was no impairment.

The changes in the carrying amount of goodwill for the six months ended June 30, 2006 are as follows:

	Commercial Solutions	Federal Government Solutions	State & Local Government Solutions	Package Solutions	European Operations	Total
			(In thousands)			
Balance at January 1, 2006	$ 134,099	$ 74,569	$ 42,266	$ 41,356	$ 117,413	$ 409,703
Acquisitions					6,038	6,038
Adjustments on prior acquisitions	100					100
Effect of foreign exchange rate changes					8,381	8,381
Balance at June 30, 2006	$ 134,199	$ 74,569	$ 42,266	$ 41,356	$ 131,832	$ 424,222

(6) Share-Based Compensation

Prior to January 1, 2006, we accounted for our share-based compensation plans using the intrinsic value method in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations, as permitted by Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation. Effective January 1, 2006, we adopted the provisions of SFAS No. 123(R), Share-Based Payment. The adoption of SFAS No. 123(R) resulted in the recording of compensation expense for employee stock options and employee stock purchase rights in our financial statements. Such compensation expense is recognized over the requisite service period based on the fair value of the options or rights on the date of grant.

Using the modified-prospective transition method, the compensation cost recognized in the six months ended June 30, 2006, included (i) compensation cost for all share-based payments granted prior to, but not yet vested as of, January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and (ii) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R). Results for prior periods have not been restated.

On November 10, 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 123R-3, Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards. We have elected to adopt the alternative transition method provided in the FASB Staff Position for calculating the tax effects of share-based compensation pursuant to SFAS No. 123(R). The alternative transition method includes simplified methods to establish the beginning balance of the additional paid-in capital pool (APIC Pool) related to the tax effects of employee share-based compensation, and to determine the subsequent impact on the APIC Pool and Consolidated Statements of Cash Flows of the tax effects of employee and director share-based awards that are outstanding upon adoption of SFAS No. 123(R).

As a result of adopting SFAS No. 123(R) on January 1, 2006, our income before income taxes and net income for the six months ended June 30, 2006 were approximately $692,000 and $601,000 lower, respectively, than if we had continued to account for share-based compensation under APB Opinion No. 25. Basic and diluted earnings per share for the six months ended June 30, 2006 were each $0.01 lower than if we had continued to account for share-based compensation under APB Opinion No. 25. Share-based compensation cost is recognized in either Cost of Consulting Services or in Selling, General and Administrative Expense, as appropriate, in accordance with SFAS No. 123(R). For the six months ended June 30, 2006, approximately $438,000 of our share-based compensation cost was recognized in Selling, General and Administrative Expense and the remainder, or approximately $254,000, was recognized in Cost of Consulting Services.

The following table illustrates the effect on net income and earnings per share if we had applied the fair value provisions of SFAS No. 123 to share-based compensation for the periods prior to the adoption of SFAS No. 123(R).

		Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
		(In thousands, except per share data)	
Net income, as reported		$ 6,592	$ 14,389
Deduct: Share-based compensation cost determined under the fair value based method, net of related tax effects		(1,056)	(4,348)
Pro forma net income		$ 5,536	$ 10,041
Earnings per share basic:	As reported	$ 0.11	$ 0.23
	Pro forma	$ 0.09	$ 0.16
Earnings per share diluted:	As reported	$ 0.10	$ 0.22
	Pro forma	$ 0.09	$ 0.16

Our pro forma share-based compensation cost for the six months ended June 30, 2005 was considerably higher than our share-based compensation cost for the six months ended June 30, 2006. This was primarily related to our acceleration of the vesting on approximately 914,000 employee stock options during the first quarter of 2005. In addition, at December 31, 2005, substantially all of our outstanding stock options were fully vested and as such, they have little impact on our stock-based compensation expense recognized under SFAS No. 123(R).

Share-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. As part of this adoption, 5,000,000 shares of CIBER, Inc. common stock were authorized for issuance under the 2004 Plan. The plan administrators may grant restricted stock, stock options, performance bonuses or any combination thereof, to officers, employees and consultants. The Compensation Committee of the Board of Directors determines the number, nature and vesting of such awards. As of June 30, 2006, there are approximately 1,347,000 shares available for future grants under the 2004 Plan. We issue stock from treasury for shares delivered under the 2004 Plan.

The 2004 Plan also implements a formula stock option plan for non-employee directors. Under the formula plan, each non-employee director will receive a non-statutory option to purchase 20,000 shares of common stock upon election to the Board of Directors, and an option to purchase 5,000 shares of common stock on each anniversary of election to the Board of Directors. The 2004 Plan further provides that non-employee directors receive shares of CIBER common stock valued at approximately $2,500 for each Board and Annual Meeting attended. Effective July 1, 2005, each non-employee director is also paid a $12,500 semi-annual retainer, of which between 50%-100% must be paid in stock, with the percentage to be set by the individual director. Included in our total share-based compensation costs disclosed below, $90,000 and $91,000 for the six months ended June 30, 2005 and 2006, respectively, represented compensation expense for grants of common stock to non-employee directors.

Options granted under the 2004 Plan generally have an exercise price that is at least equal to the market value of our common stock on the date of issuance. Options currently being granted under the 2004 Plan are subject to cliff or graded vesting, generally ranging from one to four years, as determined at the date of grant by the Board of Directors, with the exception of some options granted to employees of our European Operations segment, which may be fully vested on the grant date. Additionally, options granted under the 2004 Plan generally have a contractual term ranging from four to 10 years; all 2004 Plan options must expire no later than 10 years from the date of grant. Compensation costs related to options with graded vesting are recognized on a straight-line basis over the vesting period.

See accompanying notes to unaudited consolidated financial statements.

A summary of information with respect to our recorded share-based compensation follows:

	For the Six Months Ended June 30, 2005	2006
	(In thousands)	
Total share-based compensation cost included in net income	$ 54	$ 656
Income tax benefit related to share-based compensation included in net income	36	128

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing method. The expected life of the option is derived from historical data pertaining to option exercises and employee terminations. Expected volatilities are based on historical volatility of our common stock. The risk-free interest rate is derived from the U.S. Treasury yields in effect at the time of grant and the dividend yield is based on historical experiences and expected future changes. A summary of the assumptions used for options granted during the six months ended June 30, 2006 follows:

Expected life (in years)	3.0-4.5	
Expected volatility	39.0	%
Risk-free interest rate	4.54%-5.13	%
Expected dividend yield	0	%
Forfeiture rate	5	%

A summary of stock option activity for the six months ended June 30, 2006 is presented below:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
		(Option in thousands)		
Outstanding at January 1, 2006	9,397	$ 8.10		
Granted	618	$ 6.30		
Exercised	(205)	$ 4.26		
Expired or cancelled	(327)	$ 8.31		
Forfeited	(6)	$ 6.62		
Outstanding at June 30, 2006	9,477	$ 8.06	6.6	$ 4,560,336
Exercisable at June 30, 2006	8,927	$ 8.17	6.5	$ 4,367,572

The weighted average grant-date fair value of options granted during the six months ended June 30, 2006 was $2.37. The total intrinsic value of options exercised (which is the amount by which the stock price exceeded the exercise price of the options on the date of exercise) during the six months ended June 30, 2006 was approximately $478,000.

For the six months ended June 30, 2006, cash received from the exercise of stock options was approximately $873,000 and the income tax benefit realized from the exercise of stock options was approximately $163,000. As of June 30, 2006, there was approximately $1.1 million of total unrecognized compensation cost related to unvested stock options. That cost is expected to be recognized over a weighted average period of 2.5 years.

Employee Stock Purchase Plan (ESPP) Under our ESPP, which is a nonqualified plan, eligible employees are allowed to purchase shares of our common stock through after-tax payroll deductions at a price equal to 85% of the lesser of the fair market value on the first day of the applicable offering period or on the last day of the respective purchase period. Each offering period is equal to three months. Under this plan, substantially all employees may elect to contribute up to $4,000 of their compensation during one calendar year. A total of 8,750,000 shares of common stock have been authorized for issuance under the ESPP, of which, approximately 1,504,000 shares are available at June 30, 2006 for future issuances. A summary of the assumptions used to estimate compensation expense related to our ESPP using the Black-Scholes option pricing method during the six months ended June 30, 2006 follows:

Expected life (in years)	0.24	
Expected volatility	34.0	%
Risk-free interest rate	4.42	%
Expected dividend yield	0	%

For the six months ended June 30, 2006, the compensation cost related to the ESPP was approximately $344,000. For the six months ended June 30, 2006 we issued 243,701 shares under our ESPP with a weighted-average grant date fair value of $1.44.

(7) Accrued Lease Costs

We have a lease costs reserve for certain office space that is vacant or has been subleased at a loss. The activity in this reserve during the six months ended June 30, 2006, consists of the following *(in thousands)*:

Balance at January 1, 2006	$1,998	
Cash payments	(897	)
Effect of foreign exchange rate changes	57	
Balance at June 30, 2006	$1,158	

(8) 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.

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 if the closing sale price of our common stock exceeds 120% of the conversion price for at least 20 trading days in the 30 consecutive trading day period ending on the last trading day of the preceding fiscal quarter; (2) during the five business days after any ten consecutive trading day period in which the trading price per $1,000 principal amount of Debentures for each day of such period was less than 98% of the product of the closing sale price of our common stock and the number of shares issuable upon conversion of $1,000 principal amount of the Debentures; (3) if the Debentures have been called for redemption; or (4) upon the occurrence of certain specified corporate transactions. The conversion price is subject to adjustment in certain circumstances. On January 4, 2005, we made an irrevocable election to settle in cash and not in shares, not less than 30% of the principal amount of the Debentures surrendered for conversion. On July 20, 2005, we increased our irrevocable election to settle in cash and not in shares 100% of the principal amount of the Debentures surrendered for conversion. As a result, upon conversion we will deliver cash in lieu of our common stock. 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. 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.

(9) Bank Line of Credit

Bank Line of Credit We have a $60 million revolving line of credit with Wells Fargo Bank, N.A. that expires on September 30, 2007. The line of credit will remain unsecured, unless borrowings exceed $40 million for two consecutive fiscal quarters, or, if certain financial covenant thresholds are exceeded, in which case, substantially all of CIBER s assets would secure the line of credit. The interest rate charged on borrowings under the agreement ranges from the prime rate of interest (prime) less 1.00% to prime less 0.30%, 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

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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. Senior Funded Indebtedness means the sum of our liabilities for borrowed money, excluding our Debentures and any liabilities under any swap contract. On June 30, 2006, the bank s prime rate was 8.25% and our rate for borrowing was 7.45%. We are also required to pay a fee per annum on the unused portion of the line of credit. This fee ranges from 0.25% to 0.50%, depending on CIBER s Pricing Ratio and changes, as required, on the first day of each quarter. The line of credit agreement contains certain financial covenants including: a maximum senior leverage ratio, a minimum fixed charge coverage ratio, a maximum leverage ratio and a maximum asset coverage ratio. We were in compliance with these financial covenants as of June 30, 2006. The terms of the credit agreement also contain, among other provisions, specific limitations on additional indebtedness, liens and acquisitions, purchases of treasury stock, investment activity and prohibit the payment of any dividends. The line of credit provides for the issuance of up to $15 million in letters of credit. Any outstanding letters of credit reduce the maximum available borrowings under the line of credit. At June 30, 2006, we had $6.2 million of outstanding letters of credit securing certain financial performance obligations, leaving approximately $18.3 million of remaining borrowing availability under the line of credit.

(10) Financial Instruments

We have numerous investments in foreign subsidiaries, and the net assets of those subsidiaries are exposed to foreign currency exchange rate volatility. In December 2005, we entered into a one year cross-currency swap arrangement to partially hedge the foreign currency exposure associated with our net investment in certain Euro-based foreign operations (net investment hedge). The notional amount of the swap is 42.0 million/$50.0 million. During the term of this transaction, we will remit to and receive from the counterparty interest payments equal to three-month EURIBOR plus 0.11% and three-month U.S. LIBOR rates, respectively. At July 1, 2006, CIBER pays interest at a rate of 3.17% and receives interest at a rate of 5.50% on the notional amount, and such rates are reset quarterly. These payments will be recorded as an adjustment to our reported interest expense during the periods. Gains and losses in the net investment in the Company s subsidiaries due to foreign exchange volatility will be partially offset by foreign exchange losses and gains related to this net investment hedge, both of which will be recorded within accumulated other comprehensive income (loss) on the Consolidated Balance Sheet. The recorded fair value of the cross-currency swap was an unrealized loss of approximately $3.8 million at June 30, 2006. The amount recorded within accumulated other comprehensive income (loss) during the six months ended June 30, 2006 related to this swap decreased shareholders equity by approximately $2.3 million.

From time to time, we enter into foreign exchange forward contracts for investment purposes. These derivative financial instruments generally have maturities of less than one year and are subject to fluctuations in foreign exchange rates, as well as credit risk. These foreign exchange forward contracts do not qualify as hedges and, accordingly, gains and losses from settlement of such contracts, as well as changes in fair value of any open contracts are included in other income, net in the consolidated statement of operations. A net gain of $829,000 and a net loss of $157,000 were recorded during the six month periods ended June 30, 2005 and 2006, respectively.

(11) Shareholder s Equity

Repurchase Program In December 2005, the Board of Directors revised the Company s share repurchase program to authorize the Company s management to repurchase up to $7.5 million of our common shares and our Debentures, whichever is determined to be more advantageous. During the six months ended June 30, 2006, we repurchased 800,000 common shares under this program at a cost of approximately $5.1 million. We did not repurchase any of our Debentures during this period. At June 30, 2006, there was approximately $1.8 million remaining for future repurchases under this program.

(12) Segment Information

Our operating segments are organized internally primarily by the nature of their services, client base and geography, and they consist of Commercial Solutions, Federal Government Solutions, State & Local Government Solutions, Package Solutions and European Operations. Our Commercial Solutions, Federal Government Solutions and State & Local Government Solutions segments comprise our U.S. based CIBER branch offices that provide IT services and products in custom-developed software environments. These offices report to a segment based on their primary client focus category (Commercial, Federal or State & Local); however, they also may have clients that fall into

See accompanying notes to unaudited consolidated financial statements.

another category. For example, a Commercial office may also provide services to a government client. Our India operations are considered part of our Commercial Solutions segment. Our Package Solutions segment is comprised of our CIBER Enterprise Solutions division that primarily provides enterprise software implementation services, including ERP and supply chain management software from software vendors such as Oracle, SAP and Lawson. Our European Operations segment represents our offices in Europe, Eastern Asia and Australia that provide a broad range of IT consulting services, including package software implementation, application development, systems integration and support services.

We evaluate our segments   results of operations based on operating income before amortization of intangible assets. We exclude the costs of our share-based compensation programs from segment operating income as these expenses are significantly impacted by external factors, including stock market volatility and other valuation assumptions. Instead share-based compensation costs are recorded as part of our corporate expenses. Additionally, 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 found in Note 2 to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2005.

The following presents financial information about our reportable segments:

	Three Months Ended June 30, 2005	**2006**	**Six Months Ended June 30, 2005**	**2006**
		(In thousands)		
Total revenue:				
Commercial Solutions	$ 88,604	$ 90,672	$ 176,995	$ 179,679
Federal Government Solutions	41,733	34,640	83,932	71,152
State & Local Government Solutions	30,787	36,154	61,957	69,051
Package Solutions	26,350	30,335	51,251	58,897
European Operations	54,059	58,925	107,502	114,312
Inter-segment	(578)	(758)	(1,117)	(1,380)
Total revenue	$ 240,955	$ 249,968	$ 480,520	$ 491,711
Income from operations:				
Commercial Solutions	$ 7,156	$ 6,775	$ 14,236	$ 12,013
Federal Government Solutions	5,179	3,387	10,902	6,947
State & Local Government Solutions	1,622	3,690	3,940	5,642
Package Solutions	2,843	2,196	5,397	5,374
European Operations	2,274	3,187	4,540	5,495
Corporate expenses	(4,295)	(4,870)	(8,454)	(9,985)
Total	14,779	14,365	30,561	25,486
Amortization of intangibles	(1,479)	(1,491)	(3,059)	(2,938)
Operating income	$ 13,300	$ 12,874	$ 27,502	$ 22,548

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

The following discussion and analysis of the results of operations and financial condition should be read in conjunction with our Unaudited Consolidated Financial Statements and related Notes included elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2005, and with the information under the heading Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2005. In the following discussion and analysis of results of operations and financial condition, certain financial measures may be considered non-GAAP financial measures under Securities and Exchange Commission rules. These rules require supplemental explanation and reconciliation, which is provided in Exhibit 99.1 to this Quarterly Report on Form 10-Q, and is incorporated by reference herein.

Disclosure Regarding Forward-Looking Statements

Included in this Quarterly Report on Form 10-Q and elsewhere from time to time in other written and oral statements, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on current expectations, estimates, forecasts and projections about our Company, the industry in which we operate and other matters, as well as management s beliefs and assumptions and other statements that are not historical facts. Words, such as anticipate, believe, could, expect, estimate, intend, may, opportunity, plan, potential, project, should, and will and similar expressions are intended to identify forw statements and convey uncertainty of future events or outcomes. These statements are not guarantees and involve risks, uncertainties and assumptions that are difficult to predict. Actual outcomes and results may differ materially from such forward-looking statements due to a number of factors, including without limitation, the factors set forth in this Quarterly Report and/or in our Annual Report on Form 10-K under the caption Item 1A. Risk Factors. As a result of these and other factors, our past financial performance should not be relied on as an indication of future performance. Additionally, we caution investors not to place undue reliance on any forward-looking statement as these statements speak only as of the date when made. We undertake no obligation to publicly update or revise any forward-looking statements, whether resulting from new information, future events or otherwise.

Results of Operations

Consolidated

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

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2006	Six Months Ended June 30, 2005	Six Months Ended June 30, 2006
Consulting services	96.1 %	96.2 %	96.3 %	95.8 %
Other revenue	3.9	3.8	3.7	4.2
Total revenue	100.0	100.0	100.0	100.0
Gross profit consulting services	26.9	26.6	27.1	25.9
Gross profit other revenue	44.2	55.3	44.1	47.8
Gross profit total	27.5	27.7	27.7	26.8
Selling, general and administrative expenses	21.4	22.0	21.3	21.6
Operating income before amortization	6.1	5.7	6.4	5.2
Amortization of intangible assets	0.6	0.5	0.7	0.6
Operating income	5.5	5.2	5.7	4.6
Interest and other expense, net	(1.0)	(0.8)	(0.8)	(0.8)
Income before income taxes	4.5	4.4	4.9	3.8
Income tax expense	1.8	1.7	1.9	1.5
Net income	2.7 %	2.7 %	3.0 %	2.3 %

Adoption of Statement of Financial Accounting Standards No. 123(R)

Prior to January 1, 2006, we accounted for our share-based compensation plans using the intrinsic value method in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations, as permitted by Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation. Effective January 1, 2006, we adopted the provisions of SFAS No. 123(R), Share-Based Payment using the modified-prospective transition method. The adoption of SFAS No. 123(R) resulted in the recording of compensation expense for employee stock options and employee stock purchase rights in our financial statements. Such compensation expense is recognized over the requisite service period based on the fair value of the options or rights on the date of grant.

The estimated annual increase in share-based compensation expense for 2006 relating to the adoption of SFAS No. 123(R) is expected to be approximately $1.5 million, or approximately $1.2 million, net of related taxes. The incremental share-based compensation expense recognized due to the adoption of SFAS No. 123(R) for the three months ended June 30, 2006 was approximately $419,000, or approximately $353,000, net of related taxes. For the six months ended June 30, 2006, the incremental cost of share-based compensation expense was approximately $692,000, or approximately $601,000, net of related taxes. As of June 30, 2006, there was approximately $1.1 million of total unrecognized compensation cost related to unvested stock options. That cost is expected to be recognized over a weighted average period of 2.5 years.

On January 1, 2006, substantially all of our outstanding stock options were fully vested due to vesting accelerations that occurred prior to January 1, 2006 and as such, they have little impact on our stock-based compensation expense recognized under SFAS No. 123(R).

We exclude the costs of our share-based compensation programs from segment operating income as these expenses are significantly impacted by external factors, including stock market volatility and other valuation assumptions. Share-based compensation cost is recognized in either Cost of Consulting Services or in Selling, General and Administrative Expenses, as appropriate, in accordance with SFAS No. 123(R).

Segments

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

	Three Months Ended June 30, 2005	2006	Six Months Ended June 30, 2005	2006
		(In thousands)		
Total revenue:				
Commercial Solutions	$ 88,604	$ 90,672	$ 176,995	$ 179,679
Federal Government Solutions	41,733	34,640	83,932	71,152
State & Local Government Solutions	30,787	36,154	61,957	69,051
Package Solutions	26,350	30,335	51,251	58,897
European Operations	54,059	58,925	107,502	114,312
Inter-segment	(578)	(758)	(1,117)	(1,380)
Total revenue	$ 240,955	$ 249,968	$ 480,520	$ 491,711
Income from operations:				
Commercial Solutions	$ 7,156	$ 6,775	$ 14,236	$ 12,013
Federal Government Solutions	5,179	3,387	10,902	6,947
State & Local Government Solutions	1,622	3,690	3,940	5,642
Package Solutions	2,843	2,196	5,397	5,374
European Operations	2,274	3,187	4,540	5,495
Corporate expenses	(4,295)	(4,870)	(8,454)	(9,985)
Total	14,779	14,365	30,561	25,486
Amortization of intangibles	(1,479)	(1,491)	(3,059)	(2,938)
Operating income	13,300	12,874	27,502	22,548
Net interest and other expense	(2,501)	(1,763)	(3,922)	(4,053)
Income before income taxes	10,799	11,111	23,580	18,495
Income tax expense	4,207	4,359	9,191	7,293
Net income	$ 6,592	$ 6,752	$ 14,389	$ 11,202

Three Months Ended June 30, 2006 as compared to Three Months Ended June 30, 2005

Total revenue for the three months ended June 30, 2006 increased approximately 4% to $250.0 million from $241.0 million for the three months ended June 30, 2005. Revenue grew organically by approximately 6% quarter over quarter taking into account the August 2005 sale of our IBM staffing business and our July 2005 acquisition of Knowledge Systems, both in our Commercial Solutions segment, as well as two small acquisitions that closed during the current quarter in our European Operations segment. Organic revenue growth was strongest in our State & Local Government Solutions segment at approximately 17%, as well as our Package Solutions segment, which grew approximately 15%, both compared to the second quarter of 2005. Offsetting the strong current quarter organic growth in those two segments was a 17% revenue decrease in our Federal Government Solutions segment. The decrease is due primarily to the loss of a sizeable outsourcing contract, the effects of which were felt beginning in the second half of 2005. Our average number of billable consultants working during the quarter increased slightly to approximately 7,200 for the three months ended June 30, 2006, compared to approximately 7,150 for the three months ended June 30, 2005. In addition, average billing rates increased approximately $5 per hour to $80 per hour for the three months ended June 30, 2006, compared to $75 per hour for the three months ended June 30, 2005. Higher billing rates in our Commercial Solutions segment, which divested its low billing rate IBM staffing business in August of 2005 and continued to migrate toward a project solution based business model, accounted for the majority of the increase. Other revenue increased over 3% to $9.6 million for the three months ended June 30, 2006 from $9.3 million for the three months ended June 30, 2005 due to comparatively strong product sales in our Commercial Solutions and Package Solutions segments.

In total, our gross profit percentage increased to 27.7% of revenue for the three months ended June 30, 2006 from 27.5% of revenue for the same period of 2005. Gross profit on other revenue was the primary catalyst for the quarter over quarter gross profit percentage increase, while gross profit on services revenue declined slightly for the same period. Services gross margin steadily declined during the last nine months of 2005, which was primarily the result of our reliance on higher cost subcontractors, while 2006 has shown consecutive improvements. Since the fourth

See accompanying notes to unaudited consolidated financial statements.

quarter of 2005, gross profit as a percentage of services revenue has increased by 200 basis points from 24.6% in the fourth quarter of 2005 to 26.6% for the three months ended June 30, 2006.

As a percentage of sales, selling, general and administrative expenses (SG&A) increased by approximately 60 basis points to 22.0% for the three months ended June 30, 2006 compared to 21.4% for the three months ended June 30, 2005. A number of things contributed to this increase, including severance costs in our State & Local Government Solutions and European Operations segments, higher than expected marketing costs in our Package Solutions segment, and continued investments in our Commercial Solutions segment for our national sales team and CIBERsites, our low cost application development and support centers.

Amortization of intangible assets was comparable at $1.5 million for the three months ended June 30, 2006 and 2005.

Interest income and expense fluctuates based on our average cash balance invested or amounts borrowed. Net interest expense totaled approximately $1.9 million for the three months ended June 30, 2006 compared to $2.0 million for the same period of the prior year. In addition to our outstanding Debentures, our average line of credit balance was approximately $40 million for the three months ended June 30, 2006 compared to approximately $44 million for the three months ended June 30, 2005. A higher interest rate on our line of credit in 2006 offset the decrease in our average balance outstanding. Interest income is primarily from cash held in our European subsidiaries.

Other income, net was $178,000 during the three months ended June 30, 2006 compared to other expense, net of $535,000 during the three months ended June 30, 2005. Other income in 2006 consisted primarily of foreign currency gains of $523,000, offset by minority interest expense of $188,000 and losses on foreign currency forward contracts of $157,000. Other expense in the second quarter of 2005 consisted primarily of losses due to foreign exchange rate fluctuations of $456,000 and minority interest expense of $66,000.

Our effective tax rate was 39.2% for the three months ended June 30, 2006, and was 39.0% for the same period in 2005.

Six Months Ended June 30, 2006 as compared to Six Months Ended June 30, 2005

Total revenue for the six months ended June 30, 2006, increased 2% to $491.7 million from $480.5 million for the six months ended June 30, 2005. Revenue grew organically by approximately 6% for the comparative six month periods, taking into account the August 2005 sale of our IBM staffing business and our July 2005 acquisition of Knowledge Systems, both in our Commercial Solutions segment, as well as two small acquisitions that closed during the current quarter in our European Operations segment. Organic revenue growth was strongest in our Package Solutions segment which grew approximately 15%, as well as our State & Local Government Solutions segment which grew approximately 11%, both compared to the same period of 2005. Offsetting the strong organic growth in those two segments was a 15% revenue decrease in our Federal Government Solutions segment, due primarily to the lost outsourcing contract mentioned previously. Our average number of billable consultants decreased less than 1% to approximately 7,110 for the six months ended June 30, 2006 from approximately 7,170 for the six months ended June 30, 2005. Other revenue increased 16% to $20.7 million for the six months ended June 30, 2006 from $17.8 million for the six months ended June 30, 2005 due to strong demand in our Technology Solutions Practice within our Package Solutions segment. Other revenue in the Package Solutions segment increased by 46%, to $8.4 million for the six months ended June 30, 2006, from $5.7 million for the same period in 2005. Our average billing rate increased to approximately $79 per hour for the six months ended June 30, 2006, compared to approximately $75 per hour for the six months ended June 30, 2005. Higher billing rates in our Commercial Solutions segment accounted for the majority of the increase.

In total, our gross profit percentage decreased to 26.8% of revenue for the six months ended June 30, 2006 compared to 27.7% of revenue for the same period in 2005. The overall gross profit percentage decrease is due to lower gross profit on services revenue, resulting primarily from a higher percentage of high priced subcontractors in 2006 in our Package Solutions and State & Local Government Solutions segments, and higher gross margins associated with revenue recognized in 2005 on the lost outsourcing contract in our Federal Solutions segment. Our gross profit percentage on other revenue improved by 370 basis points to 47.8% for the first six months of 2006 from 44.1% for the same period in 2005, due primarily to higher commission percentages earned on increased sales volume in our Technology Solutions Practice within our Package Solutions segment.

As a percentage of sales, SG&A increased approximately 30 basis points to 21.6% for the six months ended June 30, 2006 from 21.3% for the six months ended June 30, 2005, primarily due to higher than normal expenses during the three months ended June 30, 2006, attributed to severance, marketing and professional fees, plus investments in our national sales team and in CIBERsites for the six month period.

Amortization of intangible assets decreased to $2.9 million for the six months ended June 30, 2006 from $3.1 million for the same period last year.

Interest income and expense fluctuates based on our average cash balance invested or amounts borrowed. Net interest expense totaled approximately $3.8 million for the six months ended June 30, 2006 compared to $3.9 million for the same period of the prior year. In addition to our outstanding Debentures, our average line of credit balance was approximately $39 million for the six months ended June 30, 2006 as compared to $46 million for the same period of 2005. A higher interest rate on our line of credit in 2006 offset the decrease in our average balance outstanding. Interest income is primarily from cash held in our European subsidiaries.

Other expense, net of $210,000 was recorded during the six months ended June 30, 2006 as compared to $67,000 during the same period of 2005. The 2006 amount was primarily comprised of minority interest expense of $381,000 and losses on foreign currency forward contracts of $157,000, offset by foreign currency gains of $327,000. The 2005 amount was primarily comprised of gains on foreign currency forward contracts of $830,000, offset by foreign currency losses of $576,000, minority interest expense of $128,000 and investment losses of $150,000.

Our effective tax rate was 39.4% and 39.0% for the six month periods ended June 30, 2006 and 2005, respectively.

Segments

Commercial Solutions

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	**2006**	**2005**	**2006**
	(Dollars in thousands, except billing rate)			
Consulting services	$ 87,123	$ 89,153	$ 174,256	$ 175,614
Other revenue	1,481	1,519	2,739	4,065
Total revenue	88,604	90,672	176,995	179,679
Gross profit-consulting services	23,270	24,758	46,639	47,044
Gross profit-other revenue	217	89	403	343
Gross profit-total	23,487	24,847	47,042	47,387
SG&A total	16,331	18,072	32,806	35,374
Operating income	7,156	6,775	14,236	12,013
Gross profit percentage-consulting services	26.7 %	27.8 %	26.8 %	26.8 %
Gross profit percentage-other revenue	14.7 %	5.9 %	14.7 %	8.4 %
Gross profit percentage-total	26.5 %	27.4 %	26.6 %	26.4 %
SG&A percentage	18.4 %	19.9 %	18.5 %	19.7 %
Operating income percentage	8.1 %	7.5 %	8.0 %	6.7 %
Average hourly billing rate	$ 63	$ 68	$ 63	$ 68
Consultant utilization	93 %	92 %	93 %	91 %
Average billable headcount	2,875	2,925	2,915	2,865

Commercial Solutions (Commercial) total revenue increased approximately 2% for both the three and six months ended June 30, 2006, compared to the same periods of the prior year. Commercial revenue increased despite the August 2005 sale of our IBM staffing operation, which contributed revenue of approximately $5.0 million and $12.0 million for the three and six months ended June 30, 2005, respectively. Absent the sale, and taking into account our July 2005 acquisition of Knowledge Systems, organic growth was approximately 8% and 9% for the three and six month periods ended June 30, 2006, respectively, both compared to the same periods in 2005. A healthy demand environment combined with a more mature CIBERsites offering, contributed to the increase. An increase in the average hourly billing rate, due mainly to the absence of our IBM staffing operation, which carried a lower average billing rate, was offset by lower utilization resulting from a higher percentage of project-based business. Other

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See accompanying notes to unaudited consolidated financial statements.

revenue in the Commercial segment increased 48% in the first six months of 2006 compared to the same period of 2005 due to an increase in lower margin hardware sales.

Gross profit percentage on services revenue increased by 110 basis points to 27.8% for the three months ended June 30, 2006 compared to 26.7% for the three months ended June 30, 2005, and was flat at 26.8% between the six month periods ended June 30, 2006 and 2005. Our gross profit percentage on other revenue, which represents resale of third-party hardware and software products, decreased by 630 basis points for the six months ended June 30, 2006 compared to the same period in 2005. The 2005 gross profit percentage on other revenue was unusually high due to gross profit associated with a single product sale, and, as a result, the 2006 gross profit percentage on other revenue is comparable with our expectations.

The Commercial segment s operating income percentage declined to 7.5% and 6.7% for the three and six months ended June 30, 2006, respectively, compared to 8.1% and 8.0% for the three and six months ended June 30, 2005, respectively, due to the previously discussed gross profit declines on other revenue combined with higher SG&A costs. The higher SG&A costs are due to the investment we are making in CIBERsites, our low-cost application development and support centers, and to a lesser extent, investments made in a newly formed national sales team focused on selling large outsourcing engagements.

Federal Government Solutions

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2005	**2006**	**2005**	**2006**
		(Dollars in thousands, except billing rate)		
Consulting services	$ 41,733	$ 34,640	$ 83,932	$ 71,152
Other revenue				
Total revenue	41,733	34,640	83,932	71,152
Gross profit-consulting services	9,795	7,870	19,891	15,797
Gross profit-other revenue				
Gross profit-total	9,795	7,870	19,891	15,797
SG&A total	4,616	4,483	8,989	8,850
Operating income	5,179	3,387	10,902	6,947
Gross profit percentage-consulting services	23.5 %	22.7 %	23.7 %	22.2 %
Gross profit percentage-other revenue	%	%	%	%
Gross profit percentage-total	23.5 %	22.7 %	23.7 %	22.2 %
SG&A percentage	11.1 %	12.9 %	10.7 %	12.4 %
Operating income percentage	12.4 %	9.8 %	13.0 %	9.8 %
Average hourly billing rate	$ 49	$ 49	$ 50	$ 49
Consultant utilization	93 %	92 %	93 %	90 %
Average billable headcount	1,800	1,540	1,800	1,555

Federal Government Solutions (Federal) revenue decreased approximately 17% and 15% during the three and six month periods ended June 30, 2006, respectively, compared to the same periods of 2005. The decrease is due primarily to the loss of a large outsourcing contract in the second half of 2005. Loss of this contract resulted in a revenue decrease of approximately $5.0 million for the three months ended June 30, 2006 and $10.0 million for the six months ended June 30, 2006 compared to the same periods of 2005. Additionally, the Federal segment recognized revenue of approximately $1.0 million in the first six months of 2005 on harbor management-related projects and, due to funding delays, recognized no revenue from this vertical during the first six months of 2006.

Gross profit percentage in the Federal segment decreased by 80 and 150 basis points for the three and six months ended June 30, 2006, respectively, compared to the same periods of 2005. Loss of the revenue on the outsourcing contract mentioned above, which contributed higher than average gross profit, accounted for the majority of the gross profit percentage decrease.

The Federal segment s operating income percentage declined to 9.8% for the three and six months ended June 30, 2006 compared to 12.4% and 13.0% for the three and six months ended June 30, 2005, respectively, due to the previously discussed gross profit decline combined with higher SG&A costs as a percentage of revenue. SG&A expenses as a percentage of revenue, increased to 12.9% and 12.4% for the three and six months ended June 30, 2006, respectively, compared to 11.1% and 10.7% for the three and six months ended June 30, 2005, respectively.

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Though SG&A as a percentage of revenue increased, SG&A dollars decreased 3% and 2% for the three and six month periods ended June 30, 2006, respectively, compared to the same periods in 2005. SG&A expense did not decrease at the same rate that revenue declined as sales and deal pursuit efforts intensified in an attempt to replace the lost outsourcing and lower maritime revenue.

State & Local Government Solutions

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2005	**2006**	**2005**	**2006**
		(Dollars in thousands, except billing rate)		
Consulting services	$ 30,060	$ 35,283	$ 60,174	$ 67,228
Other revenue	727	871	1,783	1,823
Total revenue	30,787	36,154	61,957	69,051
Gross profit-consulting services	7,896	9,558	16,232	16,723
Gross profit-other revenue	40	66	153	155
Gross profit-total	7,936	9,624	16,385	16,878
SG&A total	6,314	5,934	12,445	11,236
Operating income	1,622	3,690	3,940	5,642
Gross profit percentage-consulting services	26.3 %	27.1 %	27.0 %	24.9 %
Gross profit percentage-other revenue	5.5 %	7.6 %	8.6 %	8.5 %
Gross profit percentage-total	25.8 %	26.6 %	26.4 %	24.4 %
SG&A percentage	20.5 %	16.4 %	20.1 %	16.3 %
Operating income percentage	5.3 %	10.2 %	6.4 %	8.2 %
Average hourly billing rate	$ 71	$ 74	$ 71	$ 73
Consultant utilization	90 %	91 %	91 %	88 %
Average billable headcount	950	1,065	940	1,040

State & Local Government Solutions (State & Local) revenue increased by approximately 17% for the three months ended June 30, 2006 compared to the same period in 2005 and by 11% for the six months ended June 30, 2006 compared to the six months ended June 30, 2005. Incremental revenue associated with project revenue from the City of New Orleans that began in June of 2005 and Pennsylvania Turnpike Commission that began in April of 2006, accounted for the majority of the revenue increase.

The consulting services gross profit percentage in our State & Local segment for the three months ended June 30, 2006 increased to 27.1% from 26.3% for the three months ended June 30, 2005; however, for the six months ended June 30, 2006 consulting services gross profit percentage was 24.9% compared to 27.0% for the six months ended June 30, 2005. Dependence on high-priced subcontractors and lower productivity for the three months ended March 31, 2006, accounted for the majority of the six month gross profit percentage decline, while a lesser dependence on subcontractors, better margins on new projects and higher productivity for the three months ended June 30, 2006, accounted for the gross profit percentage improvement for the current quarter.

Operating income as a percentage of revenue increased significantly to 10.2% for the three months ended June 30, 2006 compared to 5.3% for the three months ended June 30, 2005. Operating income as a percentage of revenue also increased for the six months ended June 30, 2006 to 8.2% compared to 6.4% for the same period in 2005. These percentages were significantly impacted by an improvement in SG&A costs as a percentage of revenue, which improved by over 380 basis points for both the three and six month periods ended June 30, 2006 compared to the same periods in 2005. This improvement was the result of cost cutting efforts within the segment.

Package Solutions

	Three Months Ended June 30, 2005	2006	Six Months Ended June 30, 2005	2006
	(Dollars in thousands, except billing rate)			
Consulting services	$ 23,481	$ 26,018	$ 45,509	$ 50,503
Other revenue	2,869	4,317	5,742	8,394
Total revenue	26,350	30,335	51,251	58,897
Gross profit-consulting services	6,963	5,775	13,587	11,799
Gross profit-other revenue	1,751	2,865	3,548	5,694
Gross profit-total	8,714	8,640	17,135	17,493
SG&A total	5,871	6,444	11,738	12,119
Operating income	2,843	2,196	5,397	5,374
Gross profit percentage-consulting services	29.7 %	22.2 %	29.9 %	23.4 %
Gross profit percentage-other revenue	61.0 %	66.4 %	61.8 %	67.8 %
Gross profit percentage-total	33.1 %	28.5 %	33.4 %	29.7 %
SG&A percentage	22.3 %	21.2 %	22.9 %	20.6 %
Operating income percentage	10.8 %	7.2 %	10.5 %	9.1 %
Average hourly billing rate	$ 144	$ 146	$ 147	$ 146
Consultant utilization	79 %	79 %	77 %	80 %
Average billable headcount	425	485	415	485

Package Solutions (Package) revenue for the three and six months ended June 30, 2006 increased by approximately 15% compared to the three and six months ended June 30, 2005. The 2006 revenue increase was all organic growth resulting from a very robust demand environment and an increased emphasis in our relationship with SAP. Other revenue is derived from our Technology Solutions Practice and represents commissions on the resale of third-party IT hardware products. For the three and six months ended June 30, 2006, other revenue increased by approximately 50% and 46%, respectively, compared to the same periods of 2005. Heavy demand for high-end servers, along with computer hardware sold in conjunction with customer enterprise package software implementations, accounted for much of the increase.

Overall gross profit percentage in the Package segment decreased to 28.5% and 29.7% for the three and six months ended June 30, 2006, respectively, compared to 33.1% and 33.4% for the three and six months periods ended June 30, 2005, respectively. Gross profit on services revenue accounted for the entire decrease, declining by 750 basis points in the current quarter and 650 basis points in the current six month period. Higher employee labor costs, use of a greater percentage of higher-priced subcontractors, plus unexpected costs associated with projects coming to an end, accounted for the majority of the services gross profit percentage decline. Gross profit on other revenue, which consists of commission dollars earned on the resale of certain hardware products, improved by 600 basis points to 67.8% for the first six months of 2006 compared to 61.8% for the first six months of 2005. The increase relates to higher commission percentage thresholds being reached on higher revenue volumes.

SG&A expenses decreased as a percentage of revenue for the three and six months ended June 30, 2006 compared to the three and six months ended June 30, 2005; however, it was not enough to offset the decrease in the gross profit percentages on services and the result was a decrease in operating income as a percentage of revenue to 7.2% for the three months ended June 30, 2006 compared to 10.8% for the three months ended June 30, 2005, and a decrease to 9.1% for the six months ended June 30, 2006 compared to 10.5% for the six months ended June 30, 2005.

European Operations

	Three Months Ended June 30, 2005	2006	Six Months Ended June 30, 2005	2006
		(Dollars in thousands, except billing rate)		
Consulting services	$ 49,838	$ 56,047	$ 99,978	$ 107,935
Other revenue	4,221	2,878	7,524	6,377
Total revenue	54,059	58,925	107,502	114,312
Gross profit-consulting services	14,362	16,205	29,273	31,008
Gross profit-other revenue	2,102	2,283	3,735	3,697
Gross profit-total	16,464	18,488	33,008	34,705
SG&A total	14,190	15,301	28,468	29,210
Operating income	2,274	3,187	4,540	5,495
Gross profit percentage-consulting services	28.8 %	28.9 %	29.3 %	28.7 %
Gross profit percentage-other revenue	49.8 %	79.3 %	49.6 %	58.0 %
Gross profit percentage-total	30.5 %	31.4 %	30.7 %	30.4 %
SG&A percentage	26.3 %	26.0 %	26.5 %	25.6 %
Operating income percentage	4.2 %	5.4 %	4.2 %	4.8 %
Average hourly billing rate	$ 127	$ 130	$ 126	$ 129
Consultant utilization	69 %	70 %	70 %	71 %
Average billable headcount	1,100	1,185	1,100	1,165

Our European Operations (European) segment revenue increased by approximately 9% and 6% for the three and six months ended June 30, 2006 compared to the same periods in the prior year. Our acquisition of two small, SAP firms in the quarter, one in Norway and the other in Germany, contributed approximately $1.0 million of incremental revenue for the three and six month periods ended June 30, 2006. Changes in foreign currency rates had very little impact on the three month comparative numbers, but for the six months ended June 30, 2006 reduced revenue by approximately $4.4 million compared to the same period in 2005. Adjusting for acquisitions and foreign currency effects, organic growth was approximately 7% for the three months ended June 30, 2006, and 10% for the six months ended June 30, 2006, both compared to the same periods in 2005. Strong revenue growth in our Netherlands and Sweden-based operations accounted for the majority of the revenue increase.

Overall gross profit percentage in the European segment increased by 90 basis points for the current quarter to 31.4% compared to 30.5% for the same quarter of 2005, but declined by 30 basis points to 30.4% for the six months ended June 30, 2006 from 30.7% for the same period of 2005. Gross profit on consulting services accounted for all of the six month decline, falling by 60 basis points to 28.7% for the six months ended June 30, 2006, compared to 29.3% for the same period in 2005. The use of high-priced subcontractors in our German operation and expected lower gross profit in our Netherlands operation associated with a new staffing subsidiary, accounted for the majority of the services gross profit percentage decline. Partially offsetting this decline was an improvement in the gross profit percentage in our Denmark operation, which experienced significant losses on two fixed-price projects in 2005 and had limited losses on those two engagements in 2006. The gross profit percentage on Europe s other revenue increased to 79.3% for the current quarter of 2006 and 58.0% for the six months ended June 30, 2006, compared to 49.8% and 49.6% for the three and six months ended June 30, 2005, respectively. The percentage increase relates to higher commission percentage thresholds being reached on higher revenue volumes.

SG&A expenses decreased as a percentage of revenue for the three and six months ended June 30, 2006 compared to the same periods of 2005, due to operating leverage achieved on higher revenue volumes. SG&A expense dollars increased, but at a lower rate than revenue. The decrease in SG&A as a percentage of revenue translated into improved operating income percentage results. Operating income as percentage of revenue increased to 5.4% for the three months ended June 30, 2006 compared to 4.2% for the three months ended June 30, 2005 and improved by 60 basis points to 4.8% for the six months ended June 30, 2006 from 4.2% for the six months ended June 30, 2005.

See accompanying notes to unaudited consolidated financial statements.

Liquidity and Capital Resources

At June 30, 2006, we had $149.0 million of working capital and a current ratio of 2.2: 1. Historically, we have used our operating cash flow, borrowings under our line of credit, periodic sales of our common stock, as well as the sale of Debentures, to finance our ongoing operations as well as business combinations. 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 12 months.

	Six Months Ended June 30,	
	2005	**2006**
	(In thousands)	
Net cash provided by (used in):		
Operating activities	$ 18,847	$ 9,821
Investing activities		