

# Edgar Filing: CHAMBERS JOHN T - Form 4

CHAMBERS JOHN T

Form 4

April 02, 2003

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 4

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP

( ) Check this box if no longer subject to Section 16.

Form 4 or Form 5 obligations may continue. See Instructions 1(b).

1. Name and Address of Reporting Person

John T. Chambers

Cisco Systems

3300 East Tasman Drive

CA, San Jose 94531

2. Issuer Name and Ticker or Trading Symbol

Wal-Mart Stores, Inc. (WMT)

3. IRS or Social Security Number of Reporting Person (Voluntary)

4. Statement for Month/Year

3/31/2003

5. If Amendment, Date of Original (Month/Year)

6. Relationship of Reporting Person(s) to Issuer (Check all applicable)

(X) Director ( ) 10% Owner ( ) Officer (give title below) ( ) Other

(specify below)

7. Individual or Joint/Group Filing (Check Applicable Line)

(X) Form filed by One Reporting Person

( ) Form filed by More than One Reporting Person

Table I -- Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security	2. Transaction Date	3. Transaction Code	4. Securities Acquired (A) or Disposed of (D) Amount	5. Amount of Securities Beneficially Owned at End of Month
Common Stock	3/31/2003	A	239	22694

Table II -- Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Derivative Security	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date	4. Transaction Code	5. Number of Derivative Securities Acquired (A) or Disposed of (D) Amount	6. Date Exercisable and Expiration Date	7. Title and Amount of Underlying Securities	8. Put or Call or Other Feature
Stock Options	51.720				05/31	Common Stock	

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							/2011		
Stock Options	54.4300						06/06 Common Stock		
							/12		
Stock Options	58.9375						06/01 Common Stock		
							/10		

### Explanation of Responses:

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Goodwill

409,703

431,886

Other intangible assets, net

24,708

21,220

Deferred income taxes

913

4,427

Other assets

8,363

11,483

Total assets

\$

744,567

\$

779,679

Liabilities and Shareholders' Equity

Current liabilities:

Bank term loans    current portion

\$

2,000

\$

3,602

Accounts payable

31,995

41,486

Accrued compensation and related liabilities

44,371

43,579

Deferred revenue

14,145

12,973

Income taxes payable

3,887

7,147

Other accrued expenses and liabilities

31,712

34,598

Total current liabilities

128,110

143,385

Bank line of credit

42,638

11,949

Bank term loans   long-term portion

5,143

Long-term debentures

175,000

175,000

Deferred income taxes

18,779

26,684

Other long-term liabilities

503

148

Total liabilities

365,030

362,309

Minority interest

2,930

1,248

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 shares issued

647

647

Additional paid-in capital

267,743

269,303



Retained earnings

130,182

152,681

Accumulated other comprehensive income (loss)

(879

)

15,356

Treasury stock, 2,658 and 2,952 shares, at cost

(21,086

)

(21,865

)

Total shareholders' equity

376,607

416,122

Total liabilities and shareholders' equity

\$

744,567

\$

779,679

See accompanying notes to consolidated financial statements.

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## CIBER, Inc. and Subsidiaries

## Consolidated Statements of Shareholders Equity

(In thousands)

	Common Stock Shares	Common Stock Amount	Treasury Stock Shares	Treasury Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity
<b>Balances at January 1, 2004</b>	64,705	\$ 647	(6,106 )	\$ (54,209 )	\$ 266,777	\$ 85,366	\$ 6,051	\$ 304,632
Net income						29,701		29,701
Foreign currency translation							14,596	14,596
Comprehensive income								44,297
Acquisition consideration			3,868	34,255		(3,797 )		30,458
Employee stock purchases and options exercised			1,363	12,087		(3,458 )		8,629
Tax benefit from exercise of stock options					772			772
Share-based compensation			7	60		(4 )		56
Purchases of treasury stock			(1,295 )	(11,181 )				(11,181 )
<b>Balances at December 31, 2004</b>	64,705	647	(2,163 )	(18,988 )	267,549	107,808	20,647	377,663
Net income						24,707		24,707
Gain on net investment hedge, net of \$146 tax							219	219
Foreign currency translation							(21,745 )	(21,745 )
Comprehensive income								3,181
Acquisition consideration			20	174		12		186
Employee stock purchases and options exercised			939	8,085		(2,384 )		5,701
Tax benefit from exercise of stock options					194			194
Share-based compensation			16	140		39		179
Purchases of treasury stock			(1,470 )	(10,497 )				(10,497 )
<b>Balances at December 31, 2005</b>	64,705	647	(2,658 )	(21,086 )	267,743	130,182	(879 )	376,607
Net income						24,735		24,735
Loss on net investment hedge, net of \$2,353 tax							(3,820 )	(3,820 )
Foreign currency translation							20,055	20,055
Comprehensive income								40,970
Employee stock purchases and options exercised			928	7,122		(2,203 )		4,919
Tax benefit from exercise of stock options					222			222
Share-based compensation			28	214	1,338	(33 )		1,519
Purchases of treasury stock			(1,250 )	(8,115 )				(8,115 )
<b>Balances at December 31, 2006</b>	64,705	\$ 647	(2,952 )	\$ (21,865 )	\$ 269,303	\$ 152,681	\$ 15,356	\$ 416,122

See accompanying notes to consolidated financial statements.

**CIBER, Inc. and Subsidiaries**

**Consolidated Statements of Cash Flows**

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(In thousands)

	Year Ended December 31,		
	2004	2005	2006
<b>Operating activities:</b>			
Net income	\$ 29,701	\$ 24,707	\$ 24,735
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	10,006	11,486	12,187
Amortization of intangible assets	4,214	5,958	5,930
Deferred income tax expense	10,155	6,780	5,590
Provision for doubtful receivables	1,208	834	3,129
Share-based compensation	56	179	1,519
Other, net	(83 )	2,101	207
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(15,948 )	(11,412 )	(11,246 )
Other current and long-term assets	1,347	(1,035 )	(6,273 )
Accounts payable	4,685	5,076	8,235
Accrued compensation and related liabilities	(12,145 )	(438 )	(2,497 )
Other accrued expenses and liabilities	(6,185 )	(2,859 )	(2,452 )
Income taxes payable/refundable	9,914	(5,591 )	5,741
Net cash provided by operating activities	36,925	35,786	44,805
<b>Investing activities:</b>			
Acquisitions, net of cash acquired	(120,328 )	(9,641 )	(9,854 )
Purchases of property and equipment, net	(7,357 )	(10,757 )	(10,579 )
Capitalized software development costs		(2,514 )	(878 )
Other, net	300	579	280
Net cash used in investing activities	(127,385 )	(22,333 )	(21,031 )
<b>Financing activities:</b>			
Borrowings on long-term bank line of credit	246,448	359,758	375,248
Payments on long-term bank line of credit	(197,744 )	(365,824 )	(405,937 )
Borrowings on bank term loans	6,000		10,523
Payments on bank term loans	(1,800 )	(2,200 )	(3,755 )
Settlement of cross-currency interest rate swap			(6,112 )
Employee stock purchases and options exercised	8,629	5,701	4,919
Purchases of treasury stock	(11,181 )	(10,497 )	(8,115 )
Tax benefits from share-based compensation			222
Repayment of debt of acquired companies	(52,628 )		
Other, net	206	280	16
Net cash used in financing activities	(2,070 )	(12,782 )	(32,991 )
Effect of foreign exchange rate changes on cash	4,439	(4,456 )	1,875
Net decrease in cash and cash equivalents	(88,091 )	(3,785 )	(7,342 )
Cash and cash equivalents, beginning of year	132,537	44,446	40,661
Cash and cash equivalents, end of year	\$ 44,446	\$ 40,661	\$ 33,319

See accompanying notes to consolidated financial statements.

**CIBER, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**(1) Description of Operations**

CIBER, Inc. and its subsidiaries provide information technology ( IT ) system integration consulting and other IT services on an international basis. Our services are offered on a project or strategic staffing basis, in both custom and enterprise resource planning ( ERP ) package environments, and across all technology platforms, operating systems and infrastructures. We also resell certain third party IT hardware and software products. Our clients consist primarily of governmental agencies, Fortune 500 and middle market companies, across most major industries. Founded in 1974, our consultants serve clients from over 60 U.S. offices, over 20 European offices, and five offices in Asia/India/Pacific.

**(2) Summary of Significant Accounting Policies**

The following is a description of our more significant accounting policies.

*(a) Principles of Consolidation*

The consolidated financial statements include the accounts of CIBER, Inc. and all of its majority-owned subsidiaries (together CIBER, the Company, we, our, or us ). All material inter-company balances and transactions have been eliminated. Certain reclassifications have been made to the 2004 and 2005 financial statements to conform to the 2006 presentation. These reclassifications have no effect on our previously reported net income or stockholders equity.

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. In 2004, we recognized minority interest income of \$70,000. In 2005 and 2006, we recognized minority interest expense of \$341,000 and \$304,000, respectively.

*(b) Estimates*

The preparation of these financial statements in conformity with U.S. generally accepted accounting principles 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 expense. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

*(c) Revenue Recognition*

CIBER primarily earns revenue from providing IT services to its clients, and to a much lesser extent, from the sale and resale of IT hardware and software products. CIBER's consulting services revenue comes from three primary sources: (1) technology integration services where we design, build and implement new or enhanced system applications and related processes, (2) general IT consulting services, such as system selection or assessment, feasibility studies, training and staffing, and (3) managed IT services in which we manage, staff, maintain, host or otherwise run solutions and/or systems provided to our customers. Contracts for these services have different terms based on the scope, deliverables and complexity of the engagement, which require management to make judgments and estimates in recognizing revenue. Fees for these contracts may be in the form of time-and-materials, cost-plus or fixed price. The majority of our consulting services revenue is recognized under time-and-materials contracts as hours and costs are incurred. Consulting services revenue also includes project-related reimbursable expenses separately billed to clients.

Revenue for technology integration consulting services where we design/redesign, build and implement new or enhanced systems applications and related processes for our clients is generally recognized based on the percentage-of-completion method in accordance with The American Institute of Certified Public Accountants Statement of Position ( SOP ) 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts. Under the percentage-of-completion method, management estimates the percentage of completion based upon the

contract costs incurred to date as a percentage of the total estimated contract costs. If the total cost estimate exceeds revenue, we accrue for the estimated loss immediately. The use of the percentage-of-completion method requires significant judgment relative to estimating total contract revenue and costs, including assumptions relative to the length of time to complete the project, the nature and complexity of the work to be performed, and anticipated changes in estimated costs. Estimates of total contract costs are continuously monitored during the term of the contract, and recorded revenues and costs are subject to revision as the contract progresses. Such revisions may result in increases or decreases to revenue and income, and are reflected in the consolidated financial statements in the periods in which they are first identified.

Revenue for general IT consulting services is recognized as work is performed and amounts are earned in accordance with Staff Accounting Bulletin ( SAB ) No. 101, Revenue Recognition in Financial Statements, as amended by SAB No. 104, Revenue Recognition. We consider amounts to be earned once evidence of an arrangement has been obtained, services are delivered, fees are fixed or determinable, and collectibility is reasonably assured. For contracts with fees based on time-and-materials or cost-plus, we recognize revenue over the period of performance. For fixed-price contracts, depending on the specific contractual provisions and nature of the deliverables, revenue may be recognized on a proportional performance model based on level of effort, as milestones are achieved, or when final deliverables have been provided.

Managed IT services arrangements typically span several years. Revenue from managed services time-and-materials contracts is recognized as the services are performed. Revenue from unit-priced contracts is recognized as transactions are processed based on objective measures of output. Revenue from fixed-price contracts is recognized on a straight-line basis, unless revenues are earned and obligations are fulfilled in a different pattern. Costs related to delivering managed services are expensed as incurred, with the exception of labor and other costs related to the set-up of processes, personnel and systems, which are deferred during the transition period and expensed evenly over the period services are provided. Amounts billable to the client for transition or set-up activities are also deferred and recognized as revenue evenly over the period that the managed services are provided.

Revenue for contracts with multiple elements is accounted for pursuant to Emerging Issues Task Force Issue 00-21, Accounting for Revenue Arrangements with Multiple Deliverables or SOP 97-2, Software Revenue Recognition. We recognize revenue on arrangements with multiple deliverables as separate units of accounting only if certain criteria are met. If such criteria are not met, then combined accounting is applied to all deliverables, whereby, all revenue is recognized based on the accounting applicable to the last element to be delivered.

Other revenue includes resale of third party IT hardware and software products, sales of proprietary software, as well as commissions on sales of IT products. Some software sales arrangements also include implementation services and/or post-contract customer support. In such multi-element arrangements, if the criteria are met, revenue is recognized based on the vendor specific objective evidence of the fair value of each element. Software support revenue is recognized ratably over the term of the related agreement. Revenue related to the sale of IT products is generally recognized when the products are shipped or, if applicable, when delivered and installed, in accordance with the terms of the sale. Where we are the re-marketer of certain IT products, commission revenue is recognized when the products are drop-shipped from the vendor to the customer. Our commission revenue represents the sales price to the customer less the cost paid to the vendor.

Unbilled accounts receivable represent amounts recognized as revenue based on services performed in advance of billings in accordance with contract terms. 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 accrue revenue for services performed since the last billing cycle. These unbilled amounts are generally billed the following month. Unbilled accounts receivable also arise when percentage-of-completion accounting is used and costs plus estimated contract earnings exceed billings. Such amounts are billed at specific milestone dates or at contract completion. Management expects all unbilled accounts receivable to be collected within one year of the balance sheet date. Billings in excess of revenue recognized are recorded as deferred revenue and are primarily comprised of deferred software support revenue.



*(d) Cash and Cash Equivalents*

Cash and cash equivalents includes bank demand and time deposits, money market funds, and all other highly liquid investments with maturities of three months or less when purchased. Substantially all of our cash balance at December 31, 2004, 2005 and 2006, was held by our European subsidiaries.

*(e) Accounts Receivable and Allowance for Doubtful Accounts*

We record accounts receivable at their face amount less an allowance for doubtful accounts. On a regular basis, we evaluate our client receivables, especially receivables that are past due, and we establish the allowance for doubtful accounts based on specific client collection issues. At December 31, 2006, accounts receivable also includes \$3.1 million expected to be collected on resolution of contractual claims. We base estimated claims on the net amount that we currently believe to be probable of recovery.

*(f) Property and Equipment*

Property and equipment, which consists of computer equipment and software, furniture and leasehold improvements, is stated at cost. Depreciation is computed using straight-line and accelerated methods over the estimated useful lives, ranging primarily from three to seven years. Direct costs of time and material incurred for the development of software for internal use are capitalized as property and equipment.

*(g) Goodwill and Other Intangible Assets*

Goodwill represents the cost of acquired businesses in excess of the estimated fair value assigned to the net assets acquired. Goodwill is not amortized, but rather is subject to impairment testing. We review goodwill for impairment annually at June 30, and whenever events or changes in circumstances indicate its carrying value may not be recoverable in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 142, Goodwill and Other Intangible Assets. The provisions of SFAS No. 142 require that a two-step impairment test be performed on goodwill. In the first step, we compare the fair value of each reporting unit to its carrying value. Our reporting units are consistent with the reportable segments identified in the notes to the consolidated financial statements. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is considered not to be impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of the reporting unit's goodwill exceeds its implied fair value, then we would record an impairment loss equal to the difference.

Other intangible assets arise from business combinations and consist primarily of customer relationships that are amortized, on a straight-line basis, over periods of up to seven years.

*(h) Capitalized Software Development Costs*

For software we intend to sell, we capitalize internal software development costs from the time technological feasibility is established. Capitalized software development costs are reported at the lower of unamortized cost or estimated net realizable value. At December 31, 2005 and 2006, unamortized software development costs were \$2.5 million and \$3.4 million, respectively, and are included in other assets on the balance sheet. There was no related amortization expense in 2005 or 2006, as the software under development has not yet been released. Amortization of the completed product will begin in 2007 over its estimated useful life of 36 months.

*(i) Long-Lived Assets (excluding Goodwill)*

Long-lived assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss is recognized only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows and is measured as the difference between the carrying amount and fair value of the asset.

*(j) Income Taxes*

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and to operating loss carryforwards. Deferred tax amounts are based on enacted tax rates expected to be in effect during the year in which the differences reverse. The effect on deferred tax assets and liabilities due to a change in tax rates is recognized in income tax expense in the period that includes the enactment date. Deferred tax assets and liabilities are classified as current and non-current amounts based on the financial statement classification of the related asset and liability. A valuation allowance is provided when it is more likely than not that a deferred tax asset will not be realized.

The provision for income taxes represents the estimated amounts for federal, state and foreign taxes. The determination of the provision for income tax expense, deferred tax assets and liabilities and related valuation allowance involves judgment. As a global company, we are required to calculate and provide for income taxes in each of the tax jurisdictions where we operate. This involves making judgments regarding the recoverability of deferred tax assets, which can affect the overall effective tax rate. In addition, changes in the geographic mix or estimated level of pre-tax income can affect the overall effective tax rate. Interim-period tax expense is recorded based upon our best estimate of the effective tax rate expected to be applicable for the full fiscal year.

*(k) Foreign Currency*

The assets and liabilities of our foreign operations are translated into U.S. dollars at current exchange rates, and revenue and expense are translated at average exchange rates for the period. The resulting translation adjustments are included in accumulated other comprehensive income on the balance sheet. Gains and losses arising from inter-company international transactions that are of a long-term investment nature are reported in the same manner as translation adjustments.

Foreign currency transaction gains and losses are included in the results of operations as incurred. Foreign currency gains and losses on short-term inter-company loans and advances are also included in the results of operations as incurred. We recorded a net foreign currency gain of \$1.2 million in 2004, a net foreign currency loss of \$1.2 million in 2005, and a net foreign currency gain of \$676,000 in 2006; all of which are included in other income, net in the consolidated statement of operations.

*(l) Comprehensive Income (Loss)*

Comprehensive income (loss) includes changes in the balances of items that are reported directly as separate components of shareholders equity. Comprehensive income (loss) includes net income plus changes in cumulative foreign currency translation adjustment and gains or losses on foreign subsidiary net investment hedges, net of taxes.

The balance of accumulated other comprehensive income (loss) reflected on the consolidated balance sheets was comprised of the following:

	<b>Accumulated Other Comprehensive Income (Loss)</b>		
	<b>Foreign Currency Translation</b>	<b>Hedge Gain (Loss)</b>	<b>Total</b>
	<b>(In thousands)</b>		
<b>Balance at January 1, 2005</b>	\$ 20,647	\$	\$ 20,647
Change in foreign currency translation	(21,745 )		(21,745 )
Change in fair value of hedge, net of tax		219	219
<b>Balance at December 31, 2005</b>	(1,098 )	219	(879 )
Change in foreign currency translation	20,055		20,055
Change in fair value of hedge, net of tax		(3,820 )	(3,820 )
Settlement of net investment hedge	(3,789 )	3,789	
<b>Balance at December 31, 2006</b>	\$ 15,168	\$ 188	\$ 15,356

*(m) 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 No. 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 No. 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 provisions of FIN No. 48 to determine its impact on our financial statements, but presently we anticipate that its adoption will not have a material impact on our financial statements.

**(3) Acquisitions**

We have acquired certain businesses, as set forth below, that we have accounted for using the purchase method of accounting for business combinations and, accordingly, the accompanying consolidated financial statements include the results of operations of each acquired business since the date of acquisition.

Acquisitions 2006

During the second quarter of 2006, we acquired two SAP consulting businesses in Europe for a total purchase price of approximately \$7.4 million. Approximately \$5.3 million was paid during the current year and approximately \$2.1 million is expected to be paid in future annual periods. We acquired net tangible assets of approximately \$800,000, other intangible assets of approximately \$900,000 and recorded goodwill of approximately \$5.7 million. These businesses were added to our European Operations segment.

During the third quarter of 2006, we acquired the remaining 5% of the outstanding shares of Novasoft for consideration of approximately \$4.7 million, bringing our total ownership percentage to 100%. We also incurred approximately \$250,000 for additional expenses related to this final acquisition. This increased our goodwill balance by approximately \$1.9 million.

Acquisitions 2005

Effective July 1, 2005, we acquired Knowledge Systems Pvt. Ltd., an India-based professional services firm specializing in custom application development. The results of this company are reported within our Commercial Solutions segment. The purchase price was \$2.5 million and the purchase agreement includes the possibility of future earn-out payments totaling \$1.2 million to be paid through December 31, 2008. The initial purchase price was allocated as follows: \$244,000 to net tangible assets acquired, \$50,000 to other intangibles and \$2.2 million to goodwill. Additional consideration of \$60,000 was paid in 2006, which increased the related goodwill.

During 2005, we acquired approximately another 1% of the net outstanding shares of Novasoft for consideration and expenses of \$1.8 million, bringing our total ownership percentage to 95%. This increased our European segment goodwill balance by \$1.8 million.

During 2005, we acquired the interest held by a minority shareholder in one of our foreign subsidiaries for total consideration of approximately \$1.7 million, which included approximately 20,000 shares of CIBER common stock valued at \$186,000. This increased our European segment goodwill balance by \$1.7 million.

On January 1, 2005, we acquired certain assets and liabilities comprising an office of another entity for consideration of approximately \$3.7 million. The results of the acquired office's operations have been included in our Package Solutions segment. The purchase price was allocated as follows: \$561,000 to net tangible assets acquired, \$400,000 to customer relationships and \$2.8 million to goodwill.

Acquisitions 2004

*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. We acquired the Novasoft shares owned by the two founding partners of Novasoft, in a private transaction, for total consideration of \$53.7 million, consisting of \$37.7 million in cash and 2,338,023 shares of CIBER common stock valued at approximately \$16.0 million. 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. 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. Through this public offer, which concluded in November 2004, as well as other open market purchases, we acquired an additional 27 percent of Novasoft's shares at a total cost of \$23.3 million, bringing our total ownership percentage at December 31, 2004, to approximately 94 percent.

Novasoft and its subsidiaries provide implementation and other consulting services related to SAP software products. Novasoft is an 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, located mainly in Germany, the United Kingdom and Spain. We acquired Novasoft to expand our international presence as well as our capacity to deliver SAP related services.

In 2004, we recorded goodwill of \$50.0 million related to the acquisition of Novasoft. The Novasoft goodwill has been assigned to our European Operations segment. We expect that none of the Novasoft goodwill will be deductible for income tax purposes. We have assigned \$5.7 million to other intangible assets for the estimated fair value of customer relationships, which is being amortized on a straight-line basis over five years. At the date of the acquisition, Novasoft had tax loss carryforwards in certain foreign jurisdictions for which a full valuation allowance has been recorded. Any subsequent tax benefits from these loss carryforwards will be recorded as a reduction of goodwill.

*Ascent Technology Group Limited ( Ascent )* On May 24, 2004, we acquired Ascent Technology Group Limited and Subsidiaries. Ascent, based in Leicestershire, U.K., provided IT services to medium-size enterprises, with a particular focus on software implementation and sales, including both SAP and Sage ERP solutions. Ascent also developed and sold their own proprietary customer relationship management software. At the time of the acquisition, Ascent had approximately 130 consultants. This acquisition expanded our existing U.K. presence and allowed 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 \$21.7 million consisting of \$20.2 million in cash, and approximately 177,000 shares of CIBER common stock valued at \$1.5 million. 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 goodwill of \$36.9 million related to the acquisition of Ascent. The Ascent goodwill has been assigned to our European Operations segment. We expect that approximately \$500,000 of this goodwill will be deductible for income tax purposes. We have assigned \$7.1 million to other intangible assets for the estimated fair value of customer relationships, which is being amortized on a straight-line basis over seven years.

*SCB Computer Technology, Inc. ( SCB )* On March 1, 2004, we acquired SCB Computer Technology, Inc. and Subsidiaries. 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 operations. At the date of the acquisition, SCB had approximately 1,250 consultants. This acquisition primarily expanded our Federal Government Solutions and State & Local Government Solutions segments, and to a lesser extent, added beneficial customer relationships to our Commercial Solutions business. We acquired SCB because we expected that a combined CIBER and SCB would be able to compete more effectively for larger public sector contracts. The acquisition provided 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 \$57.3 million consisting of \$44.3 million in cash, 1,353,000 shares of CIBER common stock valued at approximately \$12.7 million and replacement employee stock options valued at \$271,000. 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. Prior to the acquisition by CIBER, SCB common stock was publicly traded in the over-the-counter market.

We have recorded goodwill of \$63.4 million related to the acquisition of SCB, which has been allocated to our Commercial Solutions, Federal Government Solutions and State & Local Government Solutions segments. We expect that approximately \$23.3 million of the total SCB goodwill will be deductible for income tax purposes. We have assigned \$12.2 million to other intangible assets for the estimated fair value of customer relationships, which is being amortized, on a straight-line basis over seven years. SCB exit costs consisted of \$2.1 million paid to terminate an office lease and \$327,000 paid for severance of certain SCB personnel.

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 (In thousands)	Ascent	SCB
Cash and cash equivalents	\$ 16,486	\$ 1,452	\$ 1,683
Accounts receivable, net	17,207	5,483	21,863
Prepaid expenses and other current assets	4,831	3,633	881
Income taxes refundable	768	64	104
Deferred income taxes	1,059	169	5,315
Property and equipment	3,872	2,581	6,093
Other assets	374		229
Other intangible assets	5,689	7,075	12,165
Total assets acquired	50,286	20,457	48,333
Accounts payable	(1,950 )	(2,220 )	(1,198 )
Accrued compensation and related liabilities	(7,849 )	(1,445 )	(7,808 )
Deferred revenue		(7,870 )	(632 )
Income taxes payable	(1,467 )		
Other liabilities	(4,504 )	(993 )	(7,872 )
Long-term debt		(19,534 )	(33,094 )
Deferred income taxes	(2,400 )	(2,122 )	
Minority interest	(3,244 )		
Total liabilities assumed	(21,414 )	(34,184 )	(50,604 )
Net assets (liabilities)	\$ 28,872	\$ (13,727 )	\$ (2,271 )

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

	Novasoft (In thousands)	Ascent	SCB
Cash paid	\$ 60,988	\$ 20,191	\$ 44,324
CIBER shares issued	16,011	1,473	12,704
CIBER options issued			271
Transaction costs	1,827	1,020	1,342
Severance costs and other exit costs		537	2,467
Total	\$ 78,826	\$ 23,221	\$ 61,108
Allocation of purchase price:			
Net asset (liability) value acquired	\$ 28,872	\$ (13,727 )	\$ (2,271 )
Goodwill	49,954	36,948	63,379
Total	\$ 78,826	\$ 23,221	\$ 61,108

*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 \$9.8 million. The Services Division had



operations similar to CIBER, located in Philadelphia and Pittsburgh and has been combined with CIBER's existing Commercial Solutions operations in those areas. The addition enhanced our business model, expanded our customer base and strengthened our project delivery capability. This acquisition added approximately 80 consultants. The purchase price was allocated as follows: \$1.2 million to net tangible assets acquired, \$1.6 million to customer relationships and \$6.9 million to goodwill.

#### (4) Sales

##### *Sale of IBM Staffing Operation*

On August 1, 2005, we sold the portion of our IBM operation that was covered by IBM's national staffing contract to a third party. We recognized a gain of \$1.0 million in other income for the year ended December 31, 2005, as a result of this transaction. The agreement also specifies future payments may be made to CIBER in the event that performance of the transferred operation exceeds specified thresholds at the end of each of the next three years; which resulted in the recognition of an additional \$280,000 in other income for the year ended December 31, 2006.

#### (5) 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 2004 and 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.

For purposes of our 2004 diluted earnings per share calculations, we assumed that the Debentures had been fully surrendered for conversion, the result of which would require us to issue approximately 12,830,000 shares of our common stock. On January 4, 2005, we made an irrevocable election to settle not less than 30% of the principal amount of the Debentures 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 2005 were calculated on a pro rata basis.

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

	Year Ended December 31,		
	2004	2005	2006
	(In thousands, except per share amounts)		
Numerator:			
Basic net income as reported	\$ 29,701	\$ 24,707	\$ 24,735
Interest expense related to the debentures, net of related tax effects	3,834	1,465	
Diluted net income assuming debenture conversion	\$ 33,535	\$ 26,172	\$ 24,735
Denominator:			
Basic weighted average shares outstanding	60,701	62,536	61,925
Dilutive effect of debentures	12,830	4,978	
Dilutive effect of employee stock options	1,111	782	432
Diluted weighted average shares	74,642	68,296	62,357
Earnings per share basic	\$ 0.49	\$ 0.40	\$ 0.40
Earnings per share diluted	\$ 0.45	\$ 0.38	\$ 0.40



Dilutive securities are excluded from the computation in periods in which they have an antidilutive effect. The average number of antidilutive stock options (options whose exercise price is greater than the average CIBER stock price during the period) omitted from the computation of diluted weighted average shares outstanding was 2,371,000, 4,124,000 and 5,798,000 for 2004, 2005 and 2006, respectively.

## (6) Accounts Receivable

Accounts receivable consists of the following:

	December 31, 2005 (In thousands)	2006
Billed accounts receivable	\$ 158,232	\$ 166,410
Unbilled scheduled billings	47,795	51,635
Costs and estimated earnings in excess of billings	7,301	10,999
	213,328	229,044
Less allowance for doubtful accounts	(1,218 )	(2,989 )
	\$ 212,110	\$ 226,055

The activity in the allowance for doubtful accounts consists of the following:

	Balance at beginning of period (In thousands)	Additions Charge to cost and expense	Other (1)	Deductions (Write-offs)	Effect of foreign exchange rate changes	Balance at end of period
Year ended December 31, 2004	\$1,656	1,208	832	(1,626 )		\$2,070
Year ended December 31, 2005	\$2,070	834		(1,584 )	(102 )	\$1,218
Year ended December 31, 2006	\$1,218	3,129		(1,416 )	58	\$2,989

(1) Represents additions due to acquisitions

## (7) Property and Equipment

Property and equipment consist of the following:

	December 31, 2005 (In thousands)	2006
Computer equipment and software	\$ 41,640	\$ 51,420
Furniture and fixtures	10,618	12,269
Leasehold improvements and other	7,828	8,636
	60,086	72,325
Less accumulated depreciation	(34,698 )	(45,804 )
Property and equipment, net	\$ 25,388	\$ 26,521

# (8) Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill are as follows:

	Commercial Solutions (In thousands)	Federal Gov t. Solutions	State & Local Gov t. Solutions	Package Solutions	European Operations	Total
<b>Balance at January 1, 2005</b>	\$ 131,822	\$ 74,616	\$ 42,282	\$ 38,171	\$ 130,772	\$ 417,663
Acquisitions	2,281			3,185	3,350	8,816
Adjustments on prior acquisitions	(4 )	(47 )	(16 )		(430 )	(497 )
Effect of foreign exchange rate changes					(16,279 )	(16,279 )
<b>Balance at December 31, 2005</b>	134,099	74,569	42,266	41,356	117,413	409,703
Acquisitions					5,658	5,658
Acquisition of remaining Novasoft shares					1,855	1,855
Adjustments on prior acquisitions	149	(136 )	(46 )		(209 )	(242 )
Effect of foreign exchange rate changes					14,912	14,912
<b>Balance at December 31, 2006</b>	\$ 134,248	\$ 74,433	\$ 42,220	\$ 41,356	\$ 139,629	\$ 431,886

Amortized other intangible assets are comprised of the following:

	Cost	Accumulated Amortization (In thousands)	Intangible Assets, Net
<b>December 31, 2005</b>			
Noncompete agreements	\$ 50	\$ (8 )	\$ 42
Customer relationships	37,789	(13,123 )	24,666
	\$ 37,839	\$ (13,131 )	\$ 24,708
<b>December 31, 2006</b>			
Noncompete agreements	\$ 50	\$ (25 )	\$ 25
Customer relationships	41,125	(19,930 )	21,195
	\$ 41,175	\$ (19,955 )	\$ 21,220

Aggregate amortization expense totaled \$4.2 million, \$6.0 million and \$5.9 million in 2004, 2005 and 2006, respectively.

Amortization expense for future periods as estimated at December 31, 2006, consists of the following (in thousands):

	Estimated Amortization Expense
Year ended December 31, 2007	\$ 5,577
Year ended December 31, 2008	5,569
Year ended December 31, 2009	5,561
Year ended December 31, 2010	3,623
Year ended December 31, 2011	890

# (9) Office Leases

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We have non-cancelable operating leases for our office space. We also have certain office locations that we have subleased to other parties. Net rent expense for operating leases totaled \$12.1 million, \$13.4 million and \$14.6 million in 2004, 2005 and 2006, respectively.

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Future minimum lease payments and sublease receipts as of December 31, 2006, are:

	<b>Rental Payments (In thousands)</b>	<b>Sublease Receipts</b>
2007	\$ 14,084	\$ 615
2008	11,432	187
2009	7,792	
2010	5,853	
2011	2,168	
Thereafter	6,069	
	\$ 47,398	\$ 802

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 consists of the following (*in thousands*):

	<b>Lease Costs Reserve</b>
<b>Balance at January 1, 2005</b>	\$ 5,972
Cash payments	(3,784 )
Foreign currency translation	(190 )
<b>Balance at December 31, 2005</b>	1,998
Cash payments	(1,514 )
Foreign currency translation	59
<b>Balance at December 31, 2006</b>	\$ 543

#### (10) 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.

Debenture issuance costs were approximately \$5.8 million and are being amortized over five years to interest expense. The unamortized debt issuance costs were \$2.2 million as of December 31, 2006. Of this amount, \$1.2 million is included in prepaid and other current assets and \$1.0 million is included in other assets in the accompanying consolidated balance sheet.

#### (11) Bank Line of Credit, Bank Term Loans and Financing Agreement

**Bank Line of Credit** We have a \$60 million revolving line of credit with Wells Fargo Bank, N.A that expires on September 30, 2008. 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 1.25% 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 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 December 31, 2006, the bank's prime rate was 8.25% and our rate for borrowing was 7.00%. We are also required to pay a fee per annum on the unused portion of the line of credit. This fee ranges from 0.125% to 0.40%, 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 December 31, 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 prohibits 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 December 31, 2006, we had approximately \$6.2 million of outstanding letters of credit securing certain financial performance obligations and borrowings of \$11.9 million, leaving approximately \$41.9 million of remaining borrowing availability under the line of credit.

**Long-Term Bank Term Loans** Long-term bank term loans consisted of the following:

	December 31, 2005	2006
(In thousands)		
Loan payable in monthly installments of \$200,000, plus interest at the same rate as our bank line of credit, maturing September 2006	\$ 2,000	\$
Loan payable in monthly installments of \$135,846 (including principal and interest), at a fixed interest rate of 7.11%, maturing November 2009		4,392
Loan payable in monthly installments of \$203,739 (including principal and interest), at a fixed interest rate of 7.48%, maturing November 2008		4,353
	2,000	8,745
Less current portion	2,000	3,602
	\$	\$ 5,143

*Maturities* Maturities of long-term debt were as follows (*in thousands*):

	Amount Maturing
2007	\$ 3,602
2008	15,596
2009	1,496
2010	
2011	
Thereafter	175,000
	\$ 195,694

We may be required by the Debenture holders to repurchase the \$175 million on December 15, 2008 (see Note 10).

*Wholesale Financing Agreement* In connection with our operation as an authorized remarketer of certain computer hardware and other products, we have an Agreement for Wholesale Financing with IBM Credit LLC. Outstanding amounts under this agreement, which totaled \$8.6 million and \$16.5 million at December 31, 2005 and 2006, respectively, are included in accounts payable. Our payment of individual amounts financed is due within normal trade credit payment terms, generally 45 days, and are without interest. Outstanding amounts under the Wholesale Financing Agreement are secured by certain accounts receivable.

## (12) Financial Instruments

### Net Investment Hedges

We have numerous investments in foreign subsidiaries, and the net assets of those subsidiaries are exposed to foreign currency exchange rate volatility. From time to time, we may enter into cross-currency swap arrangements to partially hedge the foreign currency exposure associated with our net investment in certain foreign operations. We consider cross-currency swaps to be effective hedges with gains/losses recorded as part of shareholders' equity. Increases and decreases in the net investment in our subsidiaries due to foreign exchange volatility will be partially offset by foreign exchange losses and gains from the cross-currency swap, both of which are recorded within accumulated other comprehensive income (loss) on the consolidated balance sheet. During 2005, we recorded a net gain in shareholders' equity of \$219,000, and during 2006, we recorded a net loss in shareholders' equity of \$3.8 million from changes in the value of our cross-currency swaps, net of tax effects.

At December 31, 2006, we had two outstanding cross-currency swaps. The first swap is for Euros and United States dollars ( USD ), has notional amounts of 20.0 million/\$26.6 million and matures in September 2008. During the term of this transaction, we will also remit to and receive from the counterparty interest payments equal to three-month EURIBOR plus 0.12% and three-month LIBOR rates, respectively. At December 31, 2006, we pay interest at a rate of 3.76% and receive interest at a rate of 5.35% on the notional amounts, and such rates are reset quarterly. The second swap is for Great British Pounds ( GBP ) and USD, has notional amounts of 12.5 million/\$24.7 million and matures in September 2008. During the term of this transaction, we will remit to and receive from the counterparty interest payments equal to two-month GBP-LIBOR plus 0.09% and two-month LIBOR rates, respectively. At December 31, 2006, we pay interest at a rate of 5.38% and receive interest at a rate of 5.36% on the notional amounts, and such rates are reset quarterly. The interest payments received will be recorded as a reduction of our reported interest expense. The combined fair value of these swaps at December 31, 2006, was approximately \$303,000.

### Foreign Exchange Forward Contracts

We transact business in foreign currencies and from time to time, we will enter into foreign exchange forward contracts to offset the risk associated with the effects of certain foreign currency exposures. Increases or decreases in our foreign currency exposures are offset by gains or losses on the forward contracts, to mitigate the possibility of foreign currency transaction gains or losses. These foreign currency exposures typically arise from inter-company transactions, such as loans, between foreign entities and/or CIBER, Inc. 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. We recorded net gains of \$376,000 and \$748,000 in 2004 and 2005, respectively; while net losses of \$311,000, were recorded in 2006. We have an outstanding Euro/GBP foreign currency forward contract at December 31, 2006, with notional amounts of 11.5 million/ 7.8million. This contract matures in March 2007 and had a fair value of approximately \$69,000 at December 31, 2006.

We manage credit risk related to our cross-currency swap and our foreign exchange forward contracts through careful selection of the financial institution utilized as the counterparty.

#### Fair Value of Other Financial Instruments

The carrying values of our cash and cash equivalents, accounts receivable and accounts payable approximate their fair values due to their short-term nature. The book value of the borrowings under our bank line of credit approximate its fair value due to the variable interest rate on the borrowings. At December 31, 2006, the book value of our \$8.7 million bank term loans also approximate their fair value based on interest rates at December 31, 2006. The estimated fair value of our \$175 million of Debentures at December 31, 2005 and 2006, was approximately \$149.0 million and \$162.8 million, respectively, based on their trading prices.

### (13) Income Taxes

Income tax expense consists of the following:

	Year Ended December 31,		
	2004	2005	2006
	(In thousands)		
Current:			
Federal	\$ 2,945	\$ 2,471	\$ 1,190
State and local	1,203	1,435	1,234
Foreign	3,391	3,212	5,357
	7,539	7,118	7,781
Deferred:			
Federal	8,503	5,812	6,167
State and local	2,041	1,530	1,362
Foreign	(389 )	(562 )	(1,939 )
	10,155	6,780	5,590
Income tax expense	\$ 17,694	\$ 13,898	\$ 13,371

U.S. and foreign income before income taxes are as follows:

	Year Ended December 31,		
	2004	2005	2006
	(In thousands)		
United States	\$ 40,393	\$ 31,351	\$ 27,732
Foreign	7,002	7,254	10,374
	\$ 47,395	\$ 38,605	\$ 38,106



Income tax expense differs from the amounts computed by applying the statutory U.S. federal income tax rate to income before income taxes as a result of the following:

	<b>Year Ended December 31,</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<b>(In thousands)</b>		
Income tax expense at the federal statutory rate of 35%	\$ 16,588	\$ 13,512	\$ 13,337
Increase (decrease) resulting from:			
State income taxes, net of federal income tax benefit	2,109	1,927	1,687
Nondeductible other costs	907	767	929
Federal research credit	(2,641 )	(2,403 )	(1,185 )
Prior year return adjustments			(1,022 )
Other	731	95	(375 )
Income tax expense	\$ 17,694	\$ 13,898	\$ 13,371

Our policy is to establish reserves for taxes that may become payable in future years as a result of an examination by tax authorities. In accordance with Statement of Financial Accounting Standards No. 5 ( SFAS 5 ), Accounting for Contingencies, we establish the reserves based upon our assessment of the exposure associated with certain tax positions. The tax reserves are analyzed periodically and adjusted, as events occur to warrant adjustment to the reserves, such as when the statutory period for assessing tax on a given tax return or period expires, the reserve associated with that period is reduced. In addition, the adjustment to the reserve may reflect additional exposure based on current calculations. Similarly, if tax authorities provide administrative guidance or a decision is rendered in the courts, appropriate adjustments will be made to the tax reserve. At both December 31, 2005 and 2006, we have recorded a tax reserve of \$2.5 million that is included in other accrued expenses and liabilities on the consolidated balance sheet.

The components of the net deferred tax asset or liability are as follows:

	<b>December 31,</b>	<b>2006</b>
	<b>2005</b>	
	<b>(In thousands)</b>	
Deferred tax assets:		
Accrued expenses	\$ 4,800	\$ 5,581
Federal tax credit carryforwards	4,288	5,789
U.S. net operating loss carryforwards	5,553	2,605
Foreign net operating loss carryforwards	8,640	12,412
Other	155	509
Total gross deferred tax assets	23,436	26,896
Less valuation allowance for Foreign NOL s	(6,106 )	(9,017 )
Deferred tax assets, net	17,330	17,879
Deferred tax liabilities:		
Capitalized software	(1,017 )	(1,368 )
Intangible assets	(28,656 )	(33,760 )
Other	(920 )	(1,260 )
Total gross deferred tax liabilities	(30,593 )	(36,388 )
Net deferred tax liability	\$ (13,263 )	\$ (18,509 )
Balance sheet classification of deferred taxes:		
Deferred tax asset current	\$ 4,603	\$ 3,748
Deferred tax asset long-term	913	4,427
Deferred tax liability long-term	(18,779 )	(26,684 )
Net deferred tax liability	\$ (13,263 )	\$ (18,509 )

Based on our evaluation of current and anticipated future taxable income, we believe sufficient taxable income will be generated to realize the net deferred tax assets.

At December 31, 2006, we have approximately \$7.5 million of net operating loss ( NOL ) carryforwards for U.S. Federal tax purposes resulting from acquisitions. Annual usage of these U.S. NOL s are limited under U.S. tax rules, however, they do not begin to expire until 2022. There is no valuation allowance for U.S. NOL s as we expect to fully utilize them. At December 31, 2006, we also have approximately \$37.9 million of foreign NOL s of which approximately \$24.2 million were pre-acquisition NOL s. We have recorded a valuation allowance for over 70% of the foreign NOL s due to the uncertainty over our ability to utilize them. Less than 1% of the foreign NOL s may expire. Any additional realized benefit from any pre-acquisition NOL s will be recorded as a reduction of goodwill.

We do not provide for U.S. income taxes on the undistributed earnings of our foreign subsidiaries, as we consider these to be permanently reinvested in the operations of such subsidiaries. At December 31, 2006, these undistributed earnings totaled approximately \$68.4 million. If some of these earnings were distributed, some countries may impose withholding taxes; in addition, as foreign taxes have previously been paid on these earnings, we would expect to be entitled to a U.S. foreign tax credit that would reduce the U.S. taxes owed on such distribution. As such, it is not practicable to determine the net amount of the related unrecognized U. S. deferred tax liability.

We are routinely subject to examination by various domestic and foreign tax authorities. The outcome of tax audits is always uncertain and could result in significant cash tax payments that could be material. Tax audits may take long periods of time to ultimately resolve. We do not believe the outcome of any tax audit at December 31, 2006, will have a material adverse effect on our consolidated financial position or results of operations.

#### **(14) 401(k) Savings Plan**

Almost all of our U.S. employees are eligible to participate in our 401(k) savings plan. The Company matches a portion of the employee contribution. Vesting in the Company matching contribution occurs over six years. Forfeitures reduce the Company matching contributions. We record forfeitures when a participant s employment ends. We recorded expense of \$3.6 million, \$4.5 million and \$4.0 million in 2004, 2005 and 2006, respectively, related to this plan.

#### **(15) 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 during the year ended December 31, 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 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 year ended December 31, 2006, was approximately \$1.3 million and \$1.1 million 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 year ended December 31, 2006, were each \$0.02 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. For the year ended December 31, 2006, approximately \$1.0 million of our share-based compensation cost was recognized in Selling, General and Administrative Expense and the remainder, or approximately \$481,000, was recognized in Cost of Consulting Services.

A summary of our recorded share-based compensation follows:

	Year Ended December 31, 2004                      2005                      2006 (In thousands)		
Total share-based compensation cost before taxes	\$ 56	\$ 179	\$ 1,519
Income tax benefit related to share-based compensation	22	72	283
Total share-based compensation included in net income	\$ 34	\$ 107	\$ 1,236

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).

	Year Ended December 31, 2004                      2005 (In thousands, except per share data)	
Net income, as reported	\$ 29,701	\$ 24,707
Deduct: Share-based compensation cost determined under the fair value based method, net of related tax effects	(7,322 )	(9,032 )
Pro forma net income	\$ 22,379	\$ 15,675
Earnings per share basic:		
As reported	\$ 0.49	\$ 0.40
Pro forma	\$ 0.37	\$ 0.25
Earnings per share diluted:		
As reported	\$ 0.45	\$ 0.38
Pro forma	\$ 0.35	\$ 0.25

Our pro forma share-based compensation cost for the years ended December 31, 2004 and 2005, was considerably higher than our share-based compensation cost for the year ended December 31, 2006. This was primarily related to our acceleration of the vesting on approximately 962,000 and 2.6 million employee stock options during the years ended December 31, 2004 and 2005, respectively. 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 December 31, 2006, there are approximately 1,167,000 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. Compensation expense for grants of common stock to non-employee directors were \$56,000, \$125,000 and \$182,000 for the years ended December 31, 2004, 2005 and 2006, respectively, and are included in our total recorded share-based compensation costs.

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 have contractual terms ranging from four to 10 years; all 2004 Plan options must expire no later than 10 years from the date of grant.

At December 31, 2006, there were approximately 10,219,000 shares of CIBER common stock reserved for outstanding and available future grants under our stock option plans.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing method. Compensation costs related to options with graded vesting are recognized on a straight-line basis over the vesting period. The expected life for options with a contractual life of 10 years is derived from historical data pertaining to option exercises and employee terminations. The expected life for options with a contractual life of less than 10 years is derived using the SEC's shortcut method, as we did not have any historical data pertaining to options with contractual lives of less than 10 years upon which to base an expected term assumption. 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 experience and expected future changes. A summary of the weighted average assumptions used for options granted follows:

	Year Ended December 31,					
	2004		2005		2006	
Expected life	5 years		5 years		4.1 years	
Risk-free interest rate	3.40	%	4.12	%	4.77	%
Expected volatility	47	%	50	%	38	%
Dividend yield	0	%	0	%	0	%

A summary of stock option activity for 2006 is presented below:

	Number of Options (Options in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
<b>Outstanding at January 1, 2006</b>	9,397	\$ 8.10		
Granted	897	\$ 6.41		
Exercised	(371 )	\$ 4.95		
Expired or cancelled	(851 )	\$ 10.44		
Forfeited	(20 )	\$ 6.49		
<b>Outstanding at December 31, 2006</b>	9,052	\$ 7.84	6.1	\$ 5,187,431
<b>Exercisable at December 31, 2006</b>	8,283	\$ 7.97	6.0	\$ 4,883,467

The weighted average grant-date fair value of options granted during the years ended December 31, 2004, 2005 and 2006, was \$3.94, \$3.53 and \$2.36, respectively. 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 years ended December 31, 2004, 2005 and 2006, was approximately \$2.4 million, \$666,000 and \$655,000, respectively.

For the year ended December 31, 2006, cash received from the exercise of stock options was approximately \$1.8 million and the income tax benefit realized from the exercise of stock options was approximately \$222,000. As of December 31, 2006, there was approximately \$1.3 million of total unrecognized compensation cost related to unvested stock options. That cost is expected to be recognized over a weighted average period of 2.0 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 1,333,000 shares are available at December 31, 2006, for future issuances. In 2006, we issued 414,265 shares under our ESPP and the related compensation cost recorded under SFAS No. 123R was approximately \$582,000. In 2005 and 2004, we issued 700,472 and 778,732 shares, respectively, under the ESPP.

#### (16) Shareholders Equity

*Repurchase Program* In 1999, we began a 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 December 2005, the Board of Directors revised the Company's share repurchase program to authorize the Company's management to repurchase our common stock or our Debentures, whichever is determined to be more advantageous. Through December 31, 2006, the Board had approved up to \$12.5 million for repurchases under the revised program. In 2006, we repurchased 1,250,000 shares of common stock at a cost of \$8.1 million. We have not repurchased any of our Debentures under this program as of December 31, 2006. At December 31, 2006, there was approximately \$3.8 million remaining for future repurchases under this program.

*Shelf Registration Statement on Form S-4* At December 31, 2006, we have an effective registration statement on Form S-4, under which 4,373,967 shares of our common stock remain available and which may be used from time to time in connection with future business combinations.



*Shelf Registration Statement on Form S-3* At December 31, 2006, we have an effective registration statement on Form S-3, under which up to 10,000,000 shares of our common stock may be sold in the future. This registration statement enables us to raise funds from the offering of common stock from time to time, subject to market conditions and our capital needs.

*Stock Purchase Rights* On September 21, 1998, CIBER, Inc. paid a dividend of one preferred stock purchase right (a Right ) for each outstanding share of CIBER, Inc. common stock ( Common Stock ). A Right is also attached to all shares of Common Stock issued after the dividend date. Each Right entitles the registered holder to purchase one one-hundredth of a share of Series A Junior Preferred Stock, par value \$0.01, at a purchase price of two hundred fifty dollars, subject to adjustment. The Rights become exercisable ten business days following a public announcement that a person or group has acquired, or has commenced or intends to commence a tender offer for 15% or more of our outstanding Common Stock. In the event the Rights become exercisable, each Right will entitle its holder, other than the Acquiring Person (as defined in the Rights Agreement), to that number of shares of our Common Stock having a market value of two times the exercise price of the Right. In the event the Rights become exercisable because of a merger or certain other business combination, each Right will entitle its holder to purchase common stock of the acquiring company having a market value of two times the exercise price of the Right. If the Rights were fully exercised, the shares issued would cause substantial dilution to the Acquiring Person or the Shareholders of the acquiring company. We can redeem the Rights in their entirety, prior to their becoming exercisable, at \$0.001 per Right. The Rights expire on August 28, 2008, unless extended or earlier redeemed.

#### **(17) Contingencies**

We are routinely involved in legal proceedings, audits, claims and litigation arising in the ordinary course of business. Although, the outcome of such matters is not predictable with assurance, we do not expect that the ultimate outcome of any of these matters, individually or in the aggregate, will have a material adverse effect on our financial condition, results of operations or cash flows. However, depending on the amount and timing, an unfavorable outcome of any such matters could possibly materially affect our future results of operations or cash flow in any particular period.

#### **(18) Business and Credit Concentrations**

Financial instruments that are potentially subject to concentrations of credit risk are cash and cash equivalents and accounts receivable. Our cash and cash equivalents are in high-credit quality short-term investments and held by high-credit qualified financial institutions. Accounts receivable are reviewed on a periodic basis, and an allowance for bad debts is recorded where such amounts are determined to be uncollectible. We do not require collateral from our customers. Our revenue and accounts receivable are principally concentrated with large companies across several industries and governmental entities located throughout the United States and Europe.

#### **(19) 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. geographically-based operations that provide IT services and products in custom-developed software environments. These offices report to a segment based on their primary client focus category (Commercial, Federal or State & Local); however, they also may have clients that fall into another category. For example, a Commercial office may also provide services to a government client. Our India-based operations are considered part of our Commercial Solutions segment. Our U.S. 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, Australia and New Zealand 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. The accounting policies of our reportable segments are the same as those disclosed in the Summary of Significant Accounting Policies in Note 2, except for share-based compensation. Share-based compensation is not charged to operating segments, but rather is recorded as part of corporate expenses. 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.

Our largest client is the various agencies of the U.S. Federal Government, which accounted for approximately 16%, 15% and 14% of our total revenue in 2004, 2005 and 2006, respectively. Revenue from the U.S. Federal Government comprised 97% of our Federal Government Solutions segment's total revenue in 2006. In addition, our State & Local Government Solutions segment had two clients that comprised 22% and 11% of that segment's total revenue in 2006.

The following presents financial information about our reporting segments:

	Year Ended December 31,		
	2004	2005	2006
	(In thousands)		
<b>Total revenue:</b>			
Commercial Solutions	\$ 353,501	\$ 355,523	\$ 356,534
Federal Government Solutions	147,685	159,836	141,286
State & Local Government Solutions	115,493	125,866	141,143
U.S. Package Solutions	88,002	102,864	115,107
European Operations	140,790	214,502	244,262
Inter-segment	(2,450 )	(2,582 )	(2,495 )
Total revenue	\$ 843,021	\$ 956,009	\$ 995,837
<b>Income from operations:</b>			
Commercial Solutions	\$ 29,281	\$ 25,478	\$ 24,782
Federal Government Solutions	19,633	20,306	14,024
State & Local Government Solutions	8,788	5,555	11,657
U.S. Package Solutions	7,974	11,436	8,266
European Operations	9,067	8,550	13,087
Corporate expenses	(19,261 )	(18,711 )	(20,846 )
Total	55,482	52,614	50,970
Amortization of intangibles	(4,214 )	(5,958 )	(5,930 )
Operating income	\$ 51,268	\$ 46,656	\$ 45,040
<b>Other information:</b>			
Total foreign revenue(1)	\$ 144,783	\$ 221,182	\$ 251,384
Total foreign long-lived assets (2)	\$ 158,462	\$ 138,464	\$ 163,394

(1) Represents sales to all foreign clients based on client locations.

(2) This balance includes \$148.6 million, \$130.4 million and \$151.9 million of goodwill and other intangible assets as of December 31, 2004, 2005 and 2006, respectively.

**(20) Supplemental Statement of Cash Flow Information**

Supplemental statement of cash flow information is as follows:

	Year Ended December 31,		
	2004	2005	2006
	(In thousands)		
Acquisitions:			
Fair value of assets recorded, excluding cash	\$ 256,125	\$ 10,742	\$ 10,411
Liabilities recorded	(105,339 )	(915 )	(2,581 )
Minority interest reduction			2,024
Common stock and options issued	(30,458 )	(186 )	
Cash paid for acquisitions, net of cash acquired	\$ 120,328	\$ 9,641	\$ 9,854
Noncash investing and financing activities:			
Note forgiveness as acquisition consideration	\$ 1,174	\$	\$
Value of shares and options issued for acquisitions	30,458	186	
Cash paid for interest	6,845	8,691	8,369
Cash paid for income taxes, net	533	12,226	1,908

**(21) Selected Quarterly Financial Information (Unaudited)**

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
		(In thousands, except per share amounts)				
Year ended December 31, 2005						
Revenue		\$ 239,565	\$ 240,955	\$ 237,385	\$ 238,104	\$ 956,009
Operating income		14,202	13,300	11,330	7,824	46,656
Net income		7,797	6,592	6,761	3,557	24,707
Earnings per share	basic	\$ 0.12	\$ 0.11	\$ 0.11	\$ 0.06	\$ 0.40
Earnings per share	diluted	\$ 0.12	\$ 0.10	\$ 0.11	\$ 0.06	\$ 0.38
Year ended December 31, 2006						
Revenue		\$ 241,743	\$ 249,968	\$ 246,618	\$ 257,508	\$ 995,837
Operating income		9,674	12,874	10,269	12,223	45,040
Net income		4,450	6,752	6,072	7,461	24,735
Earnings per share	basic	\$ 0.07	\$ 0.11	\$ 0.10	\$ 0.12	\$ 0.40
Earnings per share	diluted	\$ 0.07	\$ 0.11	\$ 0.10	\$ 0.12	\$ 0.40

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

Not applicable.

**Item 9A. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures** We have established disclosure controls and procedures to ensure that material information related to the Company, including its consolidated subsidiaries, is made known to the officers who certify the Company's financial reports and to other members of senior management and the Board of Directors. Based on their evaluation as of December 31, 2006, the principal executive officer and principal financial officer of the Company have concluded that the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) are effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, summarized and reported within the time periods specified in SEC rules and forms.

**Management's Report on Internal Control Over Financial Reporting** - Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). CIBER's internal control systems were designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2006, based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control - Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2006. Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006, has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report, which is included elsewhere herein.

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

**Report of Independent Registered Public Accounting Firm**

**The Board of Directors and Shareholders of CIBER, Inc.**

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that CIBER, Inc. and subsidiaries (the Company) maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2006 and 2005, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2006 and our report dated March 7, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Denver, Colorado

March 7, 2007

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**Item 9B. Other Information**

None

**Part III**

The information required by Part III is omitted from this Report on Form 10-K because the Registrant will file a definitive proxy statement for its 2007 Annual Meeting of Shareholders scheduled for May 3, 2007 (the 2007 Proxy Statement ), within 120 days after December 31, 2006, and certain information included therein is incorporated herein by reference.

**Item 10. Directors, Executive Officers and Corporate Governance**

*Corporate Governance Matters*

We have a Code of Business Conduct and Ethics that applies to our principal executive officer, principal financial officer, principal accounting officer, or persons performing similar functions. That code can be found on our website at <http://www.ciber.com>. We also have Corporate Governance Guidelines and charters for the Audit, Compensation and Nominating/Corporate Governance Committees of our Board of Directors. These Guidelines and Charters can also be found on our website <http://www.ciber.com>. Any amendments or waivers to our Code of Ethics will be disclosed, as necessary, on our website at <http://www.ciber.com>. Additionally, copies of our Code of Business Conduct and Ethics and Corporate Governance Guidelines, as well as the Charters for the various Committees of the Board of Directors are available in print to any shareholder that requests them.

As required by Section 303A.12(a) of the Listed Company Manual of the New York Stock Exchange ( NYSE ), the Company has filed with the NYSE the chief executive officer's annual certification regarding compliance with the NYSE's corporate governance listing standards. Additionally, the Company's chief executive officer and chief financial officer certifications required by Section 302 of the Sarbanes-Oxley Act are included as Exhibits 31.1 and 31.2 in this Annual Report on Form 10-K.

The additional information required by this item is incorporated by reference from the sections captioned Directors and Executive Officers, Section 16(a) Beneficial Ownership Reporting Compliance and Corporate Governance Practices in CIBER's 2007 Proxy Statement.

**Item 11. Executive Compensation**

The information required by this item is incorporated by reference from the section captioned Executive Compensation in CIBER's 2007 Proxy Statement.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***Securities Authorized for Issuance under Equity Compensation Plans*

The following table provides information as of December 31, 2006, regarding compensation plans under which our equity securities are authorized for issuance.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (1)	
Equity compensation plans/arrangements approved by shareholders	8,846,000	\$ 7.80	2,500,105	(2)
Equity compensation plans/arrangements not approved by shareholders (3)	206,222	\$ 9.52		
Total	9,052,222	\$ 7.84	2,500,105	

(1) Excludes securities to be issued upon exercise of outstanding options and rights.

(2) Includes 1,166,638 shares remaining available for future grants at December 31, 2006, under our 2004 Incentive Plan plus 1,333,467 shares available for future sales to employees under our Employee Stock Purchase Plan.

(3) Represents shares issued under the SCB Employee Inducement Award Plan.

The additional information required by this item is incorporated by reference from the section captioned "Security Ownership of Certain Beneficial Owners and Management" in CIBER's 2007 Proxy Statement.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this item is incorporated by reference from the section captioned "Certain Relationships and Related Party Transactions" and "Corporate Governance Practices" in CIBER's 2007 Proxy Statement.

**Item 14. Principal Accountant Fees and Services**

The information required by this item is incorporated by reference from the section captioned "Independent Registered Public Accounting Firm" in CIBER's 2007 Proxy Statement.

**Part IV**

**Item 15. Exhibits and Financial Statement Schedules**

(a) (1) Financial Statements

The following financial statements are filed as part of this report:

Report of Independent Registered Public Accounting Firm

Consolidated Statements of Operations Years Ended December 31, 2004, 2005 and 2006

Consolidated Balance Sheets December 31, 2005 and 2006

Consolidated Statements of Shareholders Equity Years Ended December 31, 2004, 2005 and 2006

Consolidated Statements of Cash Flows Years Ended December 31, 2004, 2005 and 2006

Notes to Consolidated Financial Statements

(2) Financial Statement Schedules

None.

(3) Exhibits

The Exhibits filed as part of this Annual Report on Form 10-K are listed on the Exhibit Index immediately preceding such Exhibits, which Exhibit Index is incorporated herein by reference.



**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**CIBER, Inc.**

Date: March 8, 2007

By:

/s/ Mac J. Slingerlend

Mac J. Slingerlend

*Chief Executive Officer, President and Secretary*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ BOBBY G. STEVENSON Bobby G. Stevenson	Chairman of the Board and Founder	March 8, 2007
/s/ MAC J. SLINGERLEND Mac J. Slingerlend	Chief Executive Officer, President, Secretary and Director (Principal Executive Officer)	March 8, 2007
/s/ DAVID G. DURHAM David G. Durham	Chief Financial Officer, Senior Vice President and Treasurer (Principal Financial Officer)	March 8, 2007
/s/ CHRISTOPHER L. LOFFREDO Christopher L. Loffredo	Vice President/Chief Accounting Officer (Principal Accounting Officer)	March 8, 2007
/s/ PETER H. CHEESBROUGH Peter H. Cheesbrough	Director	March 8, 2007
/s/ PAUL A. JACOBS Paul A. Jacobs	Director	March 8, 2007
/s/ ARCHIBALD J. MCGILL Archibald J. McGill	Director	March 8, 2007
/s/ GEORGE A. SISSEL George A. Sissel	Director	March 8, 2007
/s/ JAMES C. SPIRA James C. Spira	Director	March 8, 2007
/s/ JAMES C. WETHERBE James C. Wetherbe	Director	March 8, 2007

## EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference		Date Filed
		Form	File No.	
2.1	First Amendment to Merger Agreement, dated January 20, 2004, among CIBER, Inc., Daphne Acquisition Corporation and SCB Computer Technology, Inc.	POS AM to S-4	333-102780	1/27/2004
3.1	Restated Certificate of Incorporation of CIBER, Inc.	10-Q	001-13103	11/7/2005
3.2	Amended and Restated Bylaws of CIBER, Inc. as adopted February 15, 2001	10-Q	001-13103	5/7/2001
3.3	Amendment to the Amended and Restated Bylaws of CIBER, Inc. as adopted February 18, 2003	10-K	001-13103	3/27/2003
3.4	Amendment to the Amended and Restated Bylaws of CIBER, Inc. as adopted May 3, 2005	8-K	001-13103	5/4/2005
4.1	Form of Common Stock Certificate	S-1	33-74774	2/2/1994
4.2	Rights Agreement, dated as of August 31, 1998, between CIBER, Inc. and UMB Bank, N. A.	8-K	001-13103	9/16/1998
4.3	Amendment to the Rights Agreement, dated as of February 18, 2003, between CIBER, Inc. and UMB Bank, N.A.	10-K	001-13103	3/27/2003
4.4	Indenture, dated as of December 2, 2003, by and between CIBER, Inc. and Wells Fargo Bank Minnesota, National Association, as Trustee	8-K	001-13103	12/2/2003
4.5	Notice to Well Fargo Bank Minnesota, N.A., trustee regarding rights of Debenture holders	10-Q	001-13103	8/8/2005
10.1*	1989 CIBER, Inc. Employee Stock Option Plan	S-1	33-74774	2/2/1994
10.2*	Form of CIBER, Inc. Non-Employee Directors Stock Option Plan	S-1	33-74774	2/2/1994
10.3*	CIBER, Inc. Equity Incentive Plan, amended and restated as of February 15, 2001	10-Q	001-13103	5/7/2001
10.4*	CIBER, Inc. Non-Employee Directors Stock Compensation Plan (as amended July 1, 1997)	10-K	001-13103	9/24/1998
10.5*	Employment Agreement with Mac J. Slingerlend dated March 30, 2005	8-K	001-13103	4/1/2005
10.6*	Employment Agreement with David G. Durham dated January 22, 2001	10-K	001-13103	3/23/2001
10.7*	Employment Agreement with David E. Girard dated August 16, 2005	8-K	001-13103	8/18/2005
10.8*	Form of Change of Control Agreement adopted as of February 18, 2003	10-K	001-13103	3/27/2003
10.9*	Form of Indemnification Agreement adopted as of February 18, 2003	10-K	001-13103	3/27/2003
10.10	Office Building Lease dated as of February 1, 2003 between Building One DTC Limited Partnership as Landlord and CIBER, Inc. as Tenant	10-K	001-13103	3/27/2003
10.11	Voting and Option Agreement dated as of October 24, 2003 between CIBER, Inc. and T. Scott Cobb and T. Scott Cobb, Jr. and Jeffery Cobb	8-K	001-13103	10/30/2003
10.12*	CIBER, Inc. SCB Employment Inducement Award Plan, effective March 1, 2004	S-8	333-113259	3/3/2004
10.13*	CIBER, Inc. 2004 Incentive Plan	S-8	333-115951	5/27/2004
10.14*	Fourth revision to the CIBER, Inc. Salary Continuation Retirement Plan for Mac J. Slingerlend dated as of March 30, 2005	8-K	001-13103	4/1/2005
10.15	Amended and Restated Credit and Security Agreement by and between CIBER, Inc. and Wells Fargo Bank, N.A. dated August 15, 2003	8-K	001-13103	8/20/2003

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Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Date Filed
10.16	First Amendment to Amended and Restated Credit and Security Agreement by and between CIBER, Inc. and Wells Fargo Bank, N.A., dated March 31, 2004	10-Q	001-13103	5/3/2004
10.17	Second Amendment to Amended and Restated Credit and Security Agreement dated as of October 1, 2004 between CIBER, Inc. and Wells Fargo Bank, N.A.	8-K	001-13103	10/7/2004
10.18	Third Amendment to Amended and Restated Credit and Security Agreement dated as of March 31, 2005 between CIBER, Inc. and Wells Fargo Bank, N.A.	8-K	001-13103	4/1/2005
10.19	Fourth Amendment to Amended and Restated Credit and Security Agreement dated as of July 11, 2005 between CIBER, Inc. and Wells Fargo Bank, N.A.	8-K	001-13103	7/12/2005
10.20	Fifth Amendment to Amended and Restated Credit and Security Agreement dated as of December 20, 2005 between CIBER, Inc. and Wells Fargo Bank, N.A.	10-K	001-13103	2/28/2006
10.21	Sixth Amendment to Amended and Restated Credit and Security Agreement dated as of September 19, 2006 between CIBER, Inc. and Wells Fargo Bank, N.A.	8-K	001-13103	9/22/2006
10.22	Share Purchase Agreement relating to Shares of Novasoft AG dated August 27, 2004 between Dr. Georg Konrad and Dr. Laszlo Gotthard as Sellers, and CIBER Holding GmbH (in formation) and CIBER, Inc. as Purchasers	8-K	001-13103	9/2/2004
10.23*	Employment agreement with Wallace W. Birdseye dated January 3, 2007		Filed herewith	
10.24*	Employment agreement with Terje Laugerud dated January 1, 2003	10-K	001-13103	3/14/2005
10.25*	Description of Director Compensation	8-K	001-13103	5/4/2005
10.26	Promissory Note dated as of November 15, 2006 between CIBER, Inc. and Wells Fargo Equipment Finance, Inc.	8-K	001-13103	11/21/2006
10.27	Installment Payment Agreement dated as of November 16, 2006 between CIBER, Inc. and Wells Fargo Equipment Finance, Inc.	8-K	001-13103	11/21/2006
12.1	Computation of Ratio of Earnings to Fixed Charges		Filed herewith	
21.1	List of Subsidiaries of CIBER, Inc.		Filed herewith	
23.1	Consent of Ernst & Young, LLP		Filed herewith	
31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002		Filed herewith	
31.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002		Filed herewith	
32.1	Principal Executive Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002		Furnished	
32.2	Principal Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002		Furnished	
99.1	Reconciliation of Non-GAAP Financial Measures		Filed herewith	

\* Indicates a management contract or compensatory plan or arrangement.