CIBER INC
Form 10-K
March 05, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2008

Commission File Number 001-13103

CIBER, INC.

(Exact name of registrant as specified in its charter)

Delaware	**38-2046833**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6363 South Fiddler s Green Circle, Suite 1400, Greenwood Village, Colorado	**80111**
(Address of Principal Executive Offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of class	**Name of exchange on which registered**
Common Stock, $0.01 par value	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act**: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
o Yes x No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
o Yes x No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

o Large accelerated filer	x Accelerated filer
o Non-accelerated filer (Do not check if a smaller reporting company)	o Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). o Yes x No

The aggregate market value of the outstanding voting stock held by non-affiliates of the registrant as of June 30, 2008, was $332,814,921, based on the closing price of the registrant s Common Stock of $6.21 per share reported on the New York Stock Exchange on such date.

As of February 27, 2009, there were 67,885,788 shares of the registrant s Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Registrant s 2009 Annual Meeting of Shareholders to be held on May 4, 2009, are incorporated by reference into Part III of this Report.

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Part I

Disclosure Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 relating to our operations, results of operations and other matters that are based on our current expectations, estimates, forecasts and projections. Words, such as anticipate, believe, could, expect, estimate, intend, may, opportunity, plan, potential, project, should, and will and similar expressions, are intended to identify forward-looking statements. For example, we make certain forward-looking statements regarding our current estimates for revenue and profitability for certain of our business units for 2009. These statements are not guarantees and involve risks, uncertainties and assumptions that are difficult to predict. Actual outcomes and results may differ materially from such forward-looking statements due to a number of factors, including without limitation, the factors set forth in this Annual Report on Form 10-K under the caption Item 1A. Risk Factors. Forward-looking statements are not guarantees of performance and speak only as of the date they are made, and we undertake no obligation to publicly update any forward-looking statements in light of new information or future events. Undue reliance should not be placed on such forward-looking statements.

In this Annual Report on Form 10-K, we use the terms CIBER, we, the Company, our and us to refer to CIBER, Inc. and its subsidiaries. Al references to years, unless otherwise noted, refer to our fiscal year, which ends on December 31.

Item 1. Business

Overview

CIBER is a diversified, system integration and information technology (IT) services consulting firm, with approximately 8,300 employees and consultants and total revenue of approximately $1.2 billion in 2008. We operate in a geographically-based business model from over 100 offices in 18 countries. CIBER helps clients achieve their business goals by building, integrating and supporting mission-critical applications and systems for optimized quality, increased business value, faster time-to-market and reduced total cost of operations. Our clients consist primarily of governmental agencies and Fortune 1000 and middle market companies across most major industries.

Services and Operations

We organize our operations by the nature of their services, client base and geography. We have five reportable segments, which are our primary operating divisions, and for the year ended December 31, 2008, our percentage of total revenue by division was as follows:

2008

	Revenue %
Commercial	32%
Europe	35%
State & Local Government	12%
Federal Government	11%
Enterprise Solutions	10%

Commercial

CIBER s Commercial division provides IT project solutions and IT staffing in custom-developed software environments, including application development and maintenance, outsourcing and staffing services primarily to our U.S. commercial customers. We provide the full range of application portfolio management support, including analysis, design, development, testing, implementation and maintenance of business applications.

A key differentiator for our Commercial division is the strength of our local relationships. Our U.S. geographically-based business model enables us to provide local accountability, which is the cornerstone of many of our long-standing client relationships. From this model, the Commercial division has developed expertise in a variety of verticals, including the automotive, manufacturing, services, retail, financial and telecommunications industries, as well as its strategic practices.

The Commercial division s key horizontal niches are its strategic practices - Enterprise Application Integration, Security and Application Outsourcing. The Enterprise Application Integration Practice provides services to integrate data and applications for companies and organizations to deliver fully functional business solutions. We blend our proprietary tools, standardized processes and skilled resources in enterprise architecture, business performance management, enterprise information management, master data management and service-oriented and event-driven architecture to help our clients leverage information for optimal business value.

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The Security Practice provides assessment and remediation services, as well as managed security services that include intrusion monitoring and incident response. In 2008, this strategic practice expanded its capabilities for security outsourcing to include 24/7 security event management and security operations. These highly-focused strategic practices provide high-end consultants, best practices, methodologies and repeatable solutions to our clients.

Our delivery capabilities span service-oriented architectures, including J2EE and ..NET, as well as traditional client/server and mainframe development. We also offer portal development, wireless and mobility applications and managed content services. Our strength lies in architecture frameworks and development, managed content services for integrating unstructured content into business processes, and alternative delivery channels such as mobility and wireless.

In addition, our IT Outsourcing (ITO) Practice delivers a robust set of mature offerings that span the entire spectrum of infrastructure and IT operations services. We primarily focus on IT infrastructure as a complement to CIBER s application software skills. We engage at the data center level, call center support, server migration, security monitoring and related services. In 2008, we aggressively expanded our direct-selling model by implementing a progressive, branch-led field sales program that resulted in increased wins while enabling us to further focus on extending our service offering portfolio and delivery capabilities. We were able to significantly grow our help desk business, our data center footprint, our India-based delivery operations and our globally-managed services platforms. In addition, we became SAP Global Hosting and Global Application Partners and increased our international business in Europe.

Our Enterprise Application Integration, Security and Application Outsourcing Practices, as well as our ITO Practice, have established seamless supporting capabilities at our Global Solution Centers in India and in the U.S., which greatly increases our delivery potential for the future.

Europe

Our CIBER Europe division, headquartered in the United Kingdom, provides a broad range of business and technical consulting services that include package implementation, application development, systems integration and support services, as well as our own Customer Relationship Management software products. In recent years, our Europe division has undertaken a number of initiatives to expand its portfolio of services offered, specifically in the areas of outsourcing, hosting and managed services. To support this, we have two operational data centers, one in the United Kingdom and one in the Netherlands. In addition, we have established a disaster recovery facility in Spain. These initiatives have helped CIBER Europe earn recognition as a full-line service provider, able to offer a range of services covering the full IT solution lifecycle.

Key geographies for our Europe division include the Netherlands, the United Kingdom, Germany and the Scandinavian region consisting of Norway, Sweden, Denmark and Finland, which in total accounted for approximately 86% of the Europe division s total revenues in 2008. Additionally, Europe had strong revenue growth from Russia, Spain, China, Australia and New Zealand. CIBER Europe has expertise in the following industry verticals: manufacturing, chemical and pharmaceutical, retail, healthcare, energy and utilities, public sector, publishing and media. Another key driver of our growth is a focus on developing and providing repeatable solutions that minimize cost and dramatically improve speed-to-market. CIBER Europe has template solutions for a number of markets, including sophisticated engineering, retail, aerospace and defense, sport and leisure, and not-for-profit and charitable organizations.

Our partner relationships in Europe and Asia Pacific include SAP and Microsoft, with SAP-related solutions and services accounting for 60% to 65% of our total revenue in 2008. Our Europe division works closely with SAP in many countries as an Alliance Partner and Value-added Reseller, as well as a Special Expertise Partner for SAP Industry Solutions in automotive, retail and chemicals.

State & Local Government

CIBER s State & Local Government division primarily provides custom solutions that are similar to our Commercial division s offerings. However, our State & Local Government division s clients consist of each of the 50 states over the past three years, over 235 cities, and more than 155 counties, as well as hundreds of other quasi-governmental entities, such as school districts and utilities.

Our State & Local Government division differentiates itself through the strength of its local relationships, combined with strategic practices that offer repeatable solutions focusing on the needs of specific government vertical areas. Key verticals for this division include health and human services, labor and workforce development, K-12 education, transportation, public health, law and justice and environmental services. Increasingly, the State & Local Government division is also cross-selling projects with our Enterprise Solutions division, and leverages the horizontal expertise of our Enterprise Application Integration, Security and ITO practices.

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Federal Government

Our Federal Government division provides a range of custom IT solutions and support to defense and civilian agencies of the U.S. federal government, including specialized strategic staffing, security assessments, legacy modernization services, data warehousing solutions and help desk support. In the aggregate, the various agencies of the U.S. federal government represent our largest client and accounted for approximately 11% of our total revenue in 2008.

Beginning in 2007, the Federal Government division initiated a plan to build the requisite compliance and other infrastructure components to compete more effectively in the Federal prime contract market. The division has significantly upgraded its infrastructure capabilities during 2008 and is now positioned to pursue new prime contract business.

The Federal Government division is aligned along a customer focus to allow each operating group to provide a full set of capabilities to customers with common missions, goals and requirements, and to create synergies within the groups. The alignment also allows us to build on the relationships we have built with clients. These customer-focused groups consist of Civilian Technology Solutions, Defense Technology Systems and Defense and Intelligence. CIBER operates as both a prime vendor and a subcontractor within this division. A key differentiator for our Federal Government division is its strong client referrals driven by the expertise and high quality of our employees.

Enterprise Solutions

Our Enterprise Solutions division provides consulting services to support multi-package Enterprise Resource Planning (ERP) solutions for customers in the U.S. from vendors including SAP, Oracle (including PeopleSoft and JD Edwards) and Lawson, as well as several supply chain and education management products. We have vertical expertise in the public sector, education, healthcare, retail, manufacturing, grower management, food and beverage and supply chain execution. Our Enterprise Solutions division frequently works with our Commercial and State & Local Government divisions, leveraging the local relationships of these groups to cross-sell opportunities in ERP solutions, along with services provided by the other segments. Our ability to offer cost effective solutions to the public sector, in partnership with our other divisions, for leading software vendors, clearly positions CIBER as a valued, impartial partner to our clients.

We are a SAP Services Alliance Partner and a Special Expertise Partner to SAP in various industries. Our comprehensive SAP solutions include implementations and upgrades, extensions, integrations and customizations. In our SAP Commercial Practice we focus on verticals such as mining, metals, manufacturing, financial services and aerospace and defense. Our retail, apparel and footwear verticals have been successful enough to create our SAP Retail/Apparel and Footwear Practice. The SAP Public Sector Practice focuses on delivering solutions to state and local governments, including K-12 school systems.

We are an Oracle Certified Advantage Partner and a strategic partner to Oracle in several key industries such as the public sector, higher education, healthcare and food and beverage. Our Oracle, PeopleSoft and JD Edwards solutions involve building, integrating and supporting mission critical systems for real-time enterprises.

We are a Certified Lawson Consulting Partner, providing full functional, technical implementation and project management support. Our Lawson specific expertise focuses on change leadership, business process calibration, strategic visioning and knowledge transfer.

Additionally, this division s Technology Solutions Group Practice focuses on providing customers with the best infrastructure on which to deploy their mission critical business applications, and we are an authorized reseller of certain technology products, primarily from IBM. Services in this group include assessment, selection, configuration, installation, server consolidation, performance evaluation and system architecture design.

Financial Information about Segments and Geographic Areas

The information required by these items is incorporated herein by reference to Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 12 of the Notes to our Consolidated Financial Statements included under Financial Statements and Supplementary Data of this Annual Report.

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Clients

Our clients consist primarily of Fortune 1000 and middle market companies across most major industries, as well as governmental agencies in the U.S. and abroad. These organizations typically have significant IT budgets and frequently depend on outside consultants to help achieve their business and IT objectives. In 2008, we estimate our approximate percentage of total revenue by client industry was:

Industry	%
Government	25%
Manufacturing/high tech	17%
Financial	14%
Retail	8%
Healthcare/pharmaceutical	8%
Telecommunications	6%
Automotive	5%
Education	4%
Services and other	13%

Certain clients account for a significant portion of our revenue. Our largest client, the various agencies of the U.S. federal government, collectively accounted for approximately 14%, 12% and 11% of total revenue in 2006, 2007 and 2008, respectively. No other client accounted for more than 4% of our total revenue in 2008. In addition, our five largest clients (including the various agencies of the U.S. federal government as one client) accounted for, in the aggregate, approximately 20% of our total revenue in 2008. By division, the largest client for each of our respective divisions accounted for the following percentage of each division s 2008 total revenues: Commercial - 7%; Europe - 4%; State & Local Government - 28%; Federal Government - 99%; and Enterprise Solutions - 6%.

Client retention and turnover is highly dependent upon the type of solution we are providing. Many of our client relationships in which we are providing a custom solution have continued for many years. Each year, most of the services revenue in our Commercial, Federal Government and State & Local Government divisions comes from clients for whom we have previously provided services. With services related to package software solutions, which includes our Enterprise Solutions division, as well as a large part of our Europe division, client engagements most typically involve a large enterprise software implementation over a period of six to eighteen months. Typically, once package software implementations are completed, future consulting services revenues from that client are minimal and, as a result, client turnover is high.

Typically, both our commercial and government clients may cancel their contracts or reduce their use of our services on short notice. If any significant client terminates its relationship with us or substantially decreases its use of our services, it could have a material adverse affect on our financial condition and results of operations.

Acquisitions/Business Combinations

Since the late-1980s, CIBER has executed a strategy of growth and diversification that included expanding our range of IT-related services, developing a professional sales force and selectively acquiring established complementary companies. Since our initial public offering in March of 1994, we have completed over 60 business combinations. In the past several years, our acquisition strategy has centered upon our need to further augment business segments with additional vertical areas of expertise, consultants or geographic reach. Our acquisition strategy

has been central to our ability to expand our business model in the following areas:

- *Increased project-based capabilities* - We have expanded our project-based delivery capabilities by adding expertise around SAP, Oracle (which now includes PeopleSoft and JD Edwards) and other ERP packages. In addition to acquiring project-based ERP capabilities, we have developed internal project level expertise in delivery of custom software applications, application maintenance and technology outsourcing services. This combination of acquired and organically-developed project delivery capabilities has resulted in a shift in our mix of business to project-based work from staff supplementation services.

- *Established significant public sector presence* - Our acquisitions have enabled us to become an established firm in the public sector, providing services to all 50 states over the past three years, over 235 cities and more than 155 counties, as well as hundreds of other quasi-governmental entities, such as school districts and utilities and to the U.S. federal government. Our public sector clients, including those in Europe, accounted for approximately 25% of our total revenue in 2008.

- *Expanded geographic presence* - Acquisitions have also allowed us to expand our geographic footprint to include a significant European presence. Beginning with our first foreign acquisition in the Netherlands in 1999, and most recently our

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2008 acquisition of a Norwegian SAP consultancy, we have expanded our international operations to include approximately 35 foreign offices located in 11 European countries, plus China, Australia and New Zealand.

Competition

The IT services industry is extremely competitive and characterized by continuous changes in customer requirements and improvements in technologies. Our competition varies significantly from city to city, as well as by the type of service provided. Our principal competitors include Accenture Ltd., BearingPoint, Inc., CACI International, Inc., CGI Group Inc. and MAXIMUS, Inc. We also compete with privately-held local and regional IT consulting firms, as well as the service divisions of various software developers. In addition, we must frequently compete with a client s own internal IT staff.

Our industry is being impacted by the growing use of lower-cost offshore delivery capabilities (primarily India). There can be no assurance that we will be able to continue to compete successfully with existing or future competitors or that competition will not have a materially adverse effect on our results of operations and financial condition.

Our Competitive Strengths

We believe that our corporate strengths, identified below, position us to respond to the long-term trends, changing demands and competition within our principal markets.

- *Long-term Client Relationships* **-** We have been in business since 1974 and a prominent first-year client, Ford Motor Company, remains one of our top five clients today in terms of annual revenue. This relationship exemplifies the kind of long-term commitment that we have toward our clients and speaks to the quality and breadth of the services that we provide.

- *Competitive Pricing Model* - Our pricing structure is very competitive relative to the level of our service offerings. Because of the efficient overhead structure of our branch office operations and the high utilization of our billable consulting staff, we are able to offer our clients a pricing model that is very competitive. We believe that, on average, our hourly billing rates are significantly lower than the rates of our national competitors for similar services.

- *Scale of Operations* **-** The competitive landscape for the delivery of IT services is highly fragmented. In almost every major market we compete with larger national and international publicly-held firms, as well as a host of smaller regional and local privately-held firms. For the past several years, large clients have attempted to consolidate the purchasing of IT services and work with fewer firms. Because of the relatively large scale of our operations, we have been able to compete effectively to remain a vendor to these large clients. Our success has come at the expense of local and regional competitors that currently lack the scale to compete successfully for this work.

- *Balanced Business Model* **-** We have developed a business model that allows us to provide superior, leading-edge services that are routinely updated to meet the current needs of our clients. We have developed a reputation for thought leadership in industry verticals within each of our divisions.

- *Breadth of Service Offering* - We offer a broad range of services to our clients in both the private and public sectors, including staff supplementation services, custom application development services, implementation of ERP packages, application maintenance outsourcing services, resale of certain hardware and software products, managed hosting and call center support. We believe that having this broad delivery capacity is often a competitive advantage, particularly when competing against smaller local and regional firms.

- *Optimized Delivery Methodology* **-** Our proprietary Optimized Delivery Model (ODM) is designed to determine the right mix of client and CIBER resources and the appropriate work site for an engagement, as well as balance the cost of the resources and the complexity of managing a diverse and distributed team. Our approach minimizes resource costs and maximizes delivery effectiveness for the benefit of the client. The approach consists of a series of steps to profile the customer s business drivers and capabilities, create alternative resource scenarios and formalize governance around delivering the work. The output of these efforts is a recommended delivery model that is optimized to balance the client s resource costs with the risks and constraints of distributed delivery teams. The overall ODM process has been effective in our pursuit of project engagements and use of the methodology has become a distinct competitive advantage.

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Employees

As of December 31, 2008, we had approximately 8,300 employees and consultants. We routinely supplement our employee consulting staff with the use of contractors. At December 31, 2008, we had approximately 7,250 billable consultants, of which approximately 1,375 were contractors. None of our employees are subject to a collective bargaining arrangement. We have employment agreements with our executive officers and certain other employees. We believe our relations with our employees are good.

Our future success depends in part on our ability to hire and retain adequately trained personnel who can address the changing and increasingly sophisticated IT needs of our clients. Our ongoing personnel needs arise from turnover, which is generally high in the industry, and client needs for consultants trained in the newest software and hardware technologies. Historically, competition for personnel in the IT services industry has been significant. We have had in the past, and expect at some point in the future to have, difficulty attracting and retaining an optimal level of qualified consultants. There can be no assurance that we will be successful in attracting and retaining the personnel we require to conduct and expand our operations successfully. Because of this, the recruitment of skilled consultants is a critical element to our success. We have an internal staff of recruiters devoted to meeting our personnel requirements.

Seasonality

We experience a moderate amount of seasonality. Typically, our billable hours, which directly affect our revenue and profitability, decrease in the second half of the year, especially during the fourth quarter, due to the large number of holidays and vacation time taken by our billable consultants. As a result, our operating income as a percentage of revenue is generally the lowest in the fourth quarter of each calendar year.

Available Information

The Internet address of our website is http://www.ciber.com. On the Investor Relations section of our website, we make available free of charge our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to those reports, as soon as reasonably practical after the reports are electronically filed with or furnished to the Securities and Exchange Commission (the SEC) pursuant to Section 13(a) or 15(d) of the Exchange Act.

Item 1A. Risk Factors

We operate in a dynamic and rapidly changing economic and technological environment that involves numerous risks and uncertainties, many of which are driven by factors that we cannot control or predict. The following section describes some, but not all, of the factors that could have a material adverse affect on our business, financial condition, results of operations and the market price of our common stock.

If the economic downturn continues or is prolonged, it would likely continue to negatively affect our clients and their levels of spending and have a materially adverse affect on our revenues, results of operations and financial condition.

Our results of operations are affected by the level of business activity of our clients, which in turn is affected by the regional and global economic conditions in which they operate. Many economists have determined that the U.S. economy and the global economy have entered into a recession as a result of the deterioration in the credit markets and the related financial crisis, as well as a variety of other factors. The economic downturn, particularly in the U.S. and Western Europe, has and may continue to result in reductions in technology and other discretionary spending by some of our clients, which has and may continue to result in reductions in the growth of our new business, as well as reductions in our existing business. In the fourth quarter of 2008, we experienced slowing across our business units. As a result, we took steps to reduce overhead costs, which we expect will benefit us in 2009. Reduced demand for IT services has also led to increased price competition and the potential for us to enter into contracts that produce lower profit margins. Continued disruption and volatility of the financial markets likely would limit our customers access to financing needed for operations. These circumstances could lead some of our clients to delay, cancel or scale back their IT projects or IT spending, to seek lower pricing or extended payment terms, to delay payments due to us and, as occurred with several clients in 2008, to enter into bankruptcy or liquidation. In the event our clients are or continue to be affected by these events, our revenues, results of operations and financial condition may be materially adversely affected, any of which may also adversely affect our access to capital.

The volatile world economic and market conditions also produced negative effects on our results of operations in the fourth quarter of 2008 due to, among other things, adverse changes in foreign currency rates and such negative effects may continue. Approximately one-third of our 2008 consolidated revenue was from our Europe division and derived in foreign currencies. Changes in the values of these foreign currencies against the U.S. dollar affects the reported amounts of our foreign revenues, expenses, assets and liabilities.

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Significant strengthening of the U.S. dollar against currencies like the Great Britain Pound and the Euro negatively impacted our fourth quarter 2008 revenues by approximately 4% as compared to our third quarter 2008. In addition, we have transactions with clients, as well as inter-company transactions between our subsidiaries that cross currencies and expose us to foreign currency gains and losses. For example, in the fourth quarter of 2008 we recorded foreign currency losses of approximately $1.0 million on inter-company transactions. These types of events are difficult to predict and may be expected to recur. Accordingly, we could experience material losses in revenues and earnings due to fluctuations in foreign currency rates.

Termination of a contract by a significant client and/or cancellation with short notice (due to bankruptcy or otherwise) would reduce our revenue and profitability and adversely affect our financial condition.

Our five largest clients accounted for approximately 20% of our revenue in 2008. The various agencies of the U.S. federal government represent our largest client, accounting for approximately 11% of total revenue in 2008, while no other client accounted for more than 4% of our total revenue in 2008. During 2008, our revenue and profitability were adversely affected by the bankruptcy of several of our clients. Our clients typically retain us on a non-exclusive, engagement-by-engagement basis. Most individual client assignments are from three to twelve months; however, many of our client relationships have continued for many years. Although they may be subject to penalty provisions, clients may generally cancel a contract at any time with short notice. Under many contracts, clients may reduce or delay their use of our services without penalty. These terminations, reductions or delays could result from factors unrelated to our work product or the progress of the project, but could be related to business or financial conditions of the client, changes in client strategies or the economy generally. When contracts are terminated, for whatever reason, we lose the associated revenues and we may not be able to eliminate associated costs in a timely manner. Consequently, our profit margins may be adversely affected.

If we are unable to collect our receivables, our results of operations and cash flows could be adversely affected.

Our business depends on our ability to successfully obtain payment from our clients for the amounts they owe us for work performed. We evaluate the financial condition of our clients and usually bill and collect on relatively short cycles. We maintain allowances against receivables, but actual losses on client balances could differ from those that we currently anticipate and as a result, we might need to adjust our allowances. There is no guarantee that we will accurately assess the creditworthiness of our clients. In addition, timely collection of client balances depends on our ability to complete our contractual commitments and bill and collect our contracted revenues. If we are unable to meet our contractual requirements, we might experience delays in the collection of and/or be unable to collect our client balances, and if this occurs, our results of operations and cash flows could be adversely affected.

Our current level of indebtedness places restrictions upon our business and we face the risk of breaching the financial covenants in our Revolving Credit Facility.

Our $60.0 million unsecured bank revolving line of credit was replaced in early 2008 with a $200.0 million senior secured reducing revolving credit facility (Revolving Credit Facility) that expires on February 11, 2011. As of December 31, 2008, we had $165.7 million of outstanding indebtedness under our Revolving Credit Facility. We obtained the Revolving Credit Facility to provide funds for our working capital and general corporate needs, including the repurchase of our convertible senior subordinated debentures, which we completed as of December 15, 2008. Substantially all of our assets secure the Revolving Credit Facility.

The Revolving Credit Facility contains specific limitations on the incurrence of additional indebtedness and liens, stock repurchases, investments, guarantees, mergers, dispositions and acquisitions, and a prohibition on the payment of any dividends. Additionally, the Revolving Credit Facility requires CIBER to maintain specified financial covenants, including a maximum consolidated total leverage ratio, a maximum senior leverage ratio and a minimum interest coverage ratio. On occasion, we have experienced instances of covenant non-compliance under our previous bank revolving line of credit that were waived by our lender. If we fail to comply with any debt covenants in the future, however, we may not be able to obtain a waiver and we may not be able to borrow additional funds when and if it becomes necessary. We may also incur higher borrowing costs (including higher interest rates) and face more restrictive covenants, and the lenders could accelerate all amounts outstanding to be immediately due and payable.

During 2008, we have been in compliance with the financial covenants of our Revolving Credit Facility. These financial covenants tighten in 2009 and as a result, we chose to sell shares of CIBER common stock in early 2009 resulting in net proceeds of approximately $20.6 million that were used to pay down a portion of our Revolving Credit Facility. The net proceeds from the sale also reduced the amount available to us under the Revolving Credit Facility to approximately $179.4 million. Given the current global economic downturn there is an increased risk regarding our ability to maintain compliance with these debt covenants through 2009.

The aggregate commitments under the Revolving Credit Facility reduce by $7.5 million each quarter end beginning on March 31, 2009, and continuing through December 31, 2010. The Revolving Credit Facility matures on February 11, 2011, at which time the remaining maximum credit available will terminate and all outstanding balances must be repaid in full. In the past, we have been

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successful in generating sufficient cash flow from operations to reduce our indebtedness; however, that does not mean that we will be successful in doing so in the future. If we are unable to repay outstanding balances that exceed our maximum credit available as the aggregate commitments under the Revolving Credit Facility are reduced, we will be in default unless we can obtain a waiver or amendment.

At our choice, our borrowings under the Revolving Credit Facility bear interest at rates calculated in reference to either the Wells Fargo prime lending rate (prime) plus a margin that ranges from 0.00% to 0.25%, or a London Interbank Offered Rate (LIBOR) for one to six month maturities, plus a margin that ranges from 0.75% to 1.75%. At December 31, 2008, our weighted average interest rate on our outstanding borrowings was 3.08%. To the extent that further disruptions in the credit markets lead to an increase in the prime rate or LIBOR, we would incur increased interest expense that likely would negatively impact our results of operations and financial condition.

We are permitted to use $5.0 million per year under our Revolving Credit Facility for acquisitions, and our Iteamic acquisition in January 2009 used up most of this capacity for 2009. Any acquisitions using cash beyond this amount in 2009 would require an amendment to the Revolving Credit Facility.

We could incur losses due to an impairment in the carrying value of our goodwill.

We have recorded a significant amount of goodwill on our consolidated balance sheet as a result of numerous acquisitions. At December 31, 2008, the carrying value of our goodwill was $439.1 million. The carrying value of goodwill represents the fair value of an acquired business in excess of identifiable assets and liabilities as of the acquisition date. Under U.S. generally accepted accounting principles, we are required to test goodwill for impairment annually and do so during the second quarter of each year, as well on an interim basis to the extent that factors or indicators become apparent that could reduce the fair value of any of our business units below its book value. These determinations are based in part on several factors, including our judgments regarding the cash flow potential of each of our business units and involve projections that are inherently subject to change based on future events. A significant downward revision in the fair value of one or more of our business units that causes the carrying value to exceed the fair value, as determined based on discounted future cash flows of the related business, will cause goodwill to be considered impaired and would result in a non-cash charge in our consolidated statement of operations.

In December 2008, we performed an interim test for goodwill impairment. We considered the significant decline in our stock price, causing our market capitalization to fall significantly below our book value, as well as our competitors stock prices and market and economic conditions generally, to be indicative of a triggering event for the impairment test. This interim goodwill impairment analysis did not result in an impairment charge. The forecasts utilized in the discounted cash flow analysis as part of our December 2008 interim impairment test assumes future growth in each of our reporting units during the next five years and beyond. Our Federal and Enterprise Solutions business units had decreases in their operating income or losses during 2008. We expect this trend to change in future periods based on developments in these businesses in recent periods. If these business units can t obtain, or we determine at a later date that we no longer expect them to obtain the projected levels of profitability, future impairment tests may result in an impairment charge. There can be no assurances that these business units will be able to achieve our estimated levels of profitability.

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

We have continued to expand our international operations and estimate that our foreign offices currently represent approximately 36% of our total revenue. We operate in 17 foreign countries. Due to our international operations, we are subject to a number of financial and operational risks that may adversely affect our revenue and profitability, including:

- the costs and difficulties relating to managing geographically diverse operations;
- foreign currency exchange rate fluctuations (discussed in more detail below);
- differences in, and uncertainties arising from changes in, foreign business culture and practices;
- restrictions on the movement of cash and the repatriation of earnings;
- multiple and possibly overlapping or conflicting tax laws;
- the costs of complying with a wide variety of national and local laws;
- operating losses incurred in certain countries and the non-deductibility of those losses for tax purposes; and
- differences in, and uncertainties arising from changes in legal, labor, political and economic conditions, as well as international trade regulations and restrictions, and tariffs.

The revenues and expenses of our international operations generally are denominated in local currencies. Accordingly, we are subject to exchange rate fluctuations between such local currencies and the U.S. dollar. These exchange rate fluctuations subject us to currency translation risk with respect to the reported results of our international operations and the cost of potential acquisitions. There can be no assurance that we will not experience fluctuations in financial results from our operations outside of the U.S., and there can be no assurance that we will be able, contractually or otherwise, to reduce the currency risks associated with our international operations. We manage our exposure to changes in foreign currency exchange rates through our normal operating and financing activities and, when deemed appropriate, with derivative financial instruments. There is no assurance that we will continue to use such financial instruments in the future or that any such use will be successful in managing or controlling foreign currency risks. In January and February 2009, our major foreign currency rates continued to be negative in terms of the U.S. dollar showing a weighted average decline of 10-15% from our average rates in 2008. Assuming that these foreign currency rates remain at this level throughout 2009, we estimate this would negatively impact our 2009 total revenue by approximately $50 million and would also reduce our earnings per share by approximately $0.01 per quarter in 2009.

We depend on contracts with various federal, state and local government agencies for a significant portion of our revenue, and if the spending policies or budget priorities of these agencies change, we could lose revenue.

In 2008, approximately 25% of our revenue was from public sector clients, including federal, state, local and foreign governments and agencies. The market for our services depends largely on federal and state legislative programs and the budgetary capability to support programs, including the continuance of existing programs. These programs can be modified or amended at any time by acts of such governments. The various agencies of the U.S. federal government collectively represent our largest customer accounting for 11% of our total revenue in 2008. In addition, changes in federal initiatives or in the level of federal spending due to budgetary or deficit considerations may have a significant impact on our future financial performance, as may curtailment of the federal government s use of consulting and technology services firms, the adoption of new laws or regulations that affect companies providing services to the federal government and potential delays in the government appropriation process.

Additionally, government contracts contain provisions and are subject to laws and regulations that provide government clients with rights and remedies not typically found in commercial contracts. Among other things, governments may terminate contracts with short notice for convenience, as well as for default, and cancel multi-year contracts if funds become unavailable.

Our quarterly revenues, operating results and profitability will vary from quarter to quarter, which may result in increased volatility in the price of our securities.

Our quarterly revenues, operating results and profitability have varied in the past and, in the future are likely to vary significantly from quarter to quarter, making them difficult to predict. This may lead to volatility in the price of our securities. Some of the factors that are likely to cause these variations are:

- the business decisions of our clients regarding the use of our services;
- the stage of completion of existing projects and/or their termination;
- client satisfaction with our services;
- our clients financial ability to pay for our services;
- our ability to properly manage and execute client projects, especially those under fixed-price arrangements;

- our ability to properly price fixed-price contracts to provide for adequate profits;
- our ability to maintain our profit margins and manage costs, including those for personnel and support services;
- acquisition and integration costs related to possible acquisitions of other businesses;
- changes in, or the application of changes in, accounting principles or pronouncements under U.S. generally accepted accounting principles;
- changes in significant accounting estimates;
- changes in interest rates on our debts;
- currency exchange rate fluctuations;
- changes in estimates, accruals or payments of variable compensation to our employees; and
- global, regional and local economic and political conditions and related risks.

Our profit margin, and therefore our profitability, is largely a function of the rates we charge for our services and the utilization rate, or chargeability, of our consultants. Accordingly, if we are not able to maintain the rates we charge for our services or an appropriate

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utilization rate for our consultants, we will not be able to sustain our profit margin and our profitability will suffer. A number of factors affect the rates we charge for our services, including:

- our clients perception of our ability to add value through our services;
- changes in our pricing policies or those of our competitors;
- the introduction of new products or services by us or our competitors;
- the use of globally-sourced, lower-cost service delivery capabilities by our competitors and our clients; and
- economic conditions in the U.S. and abroad.

Additionally, a number of factors affect our utilization rates, such as:

- seasonality, including number of workdays and holiday and summer vacations;
- our ability to transition consultants quickly from completed projects to new engagements;
- our ability to forecast demand for our services and thereby maintain an appropriately balanced and sized workforce; and
- our ability to manage employee turnover.

Our business could be adversely affected if our clients are not satisfied with our services, and we could face damage to our professional reputation and/or legal liability.

As a professional services firm, we depend largely on our relationships with our clients and our reputation for high-quality professional services and integrity to attract and retain clients. Additionally, many of our engagements involve projects that are critical to the operations of our clients businesses. If a client is not satisfied with the quality of work performed by us or a subcontractor, or with the type of services or solutions delivered, we could incur additional costs to address the situation, the profitability of that work might be impaired, and the client s dissatisfaction with our services could damage our ability to obtain additional work from that client. In addition, negative publicity related to our client relationships, regardless of its accuracy, may further damage our business by affecting our ability to compete for new contracts with current and prospective clients.

If we do not meet our contractual obligations to a client, it could subject us to legal liability. Our contracts typically include provisions to limit our exposure to legal claims relating to our services and the applications we develop; however, these provisions may not protect us, or may not be enforceable under some circumstances or under the laws of some jurisdictions. We may enter into non-standard agreements because we perceive an important economic opportunity or because our personnel did not adequately adhere to our guidelines. We may find ourselves committed to providing services that we are unable to deliver or whose delivery will cause us financial loss. If we cannot or do not fulfill our obligations, we could face legal liability. Although we maintain professional liability insurance, the policy limits may not be adequate to provide protection against all potential liabilities. In addition, if we were to fail to properly deliver on a project, we may not be able to collect any related accounts receivable or could even be required to refund amounts paid by the client.

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We may experience declines in revenue and profitability if we do not accurately estimate the cost of a large engagement conducted on a fixed-price basis.

Although the percentage may vary from year to year, we estimate that approximately 20-25% of our total services revenue in 2008 was from engagements performed in accordance with fixed-price contracts. When making a proposal or managing a fixed-price engagement, we rely on our estimates of costs and timing for delivering our services. These estimates reflect our best judgment regarding the efficiencies of our methodologies and consultants as we plan to apply them to the engagement. Some fixed-price engagements are long-term contracts of three to five years and estimating future year costs on such engagements is extremely difficult and subject to additional risks. Losses, if any, on fixed-price contracts are recognized when the loss is determined. Any increased or unexpected costs or unanticipated delays in connection with the performance of fixed-price contracts, including delays caused by factors outside of our control, could make these contracts less profitable or unprofitable and may affect the amount of revenue reported in any period. For example, in 2008 our Enterprise Solutions division produced an operating loss for the year due in part to poor results from certain fixed-price contracts. In addition, these risks may be heightened by the current difficult economic conditions.

A privacy breach could adversely affect our business.

The protection of client, employee and company data is critical to the Company. The regulatory environment surrounding information security and privacy is increasingly demanding, with the frequent imposition of new and constantly changing requirements. In addition, our clients have a high expectation that we will adequately protect their confidential information. A significant breach of customer, employee or company data could damage our reputation, as well as result in lost revenue, significant remediation or indemnification costs, fines or lawsuits.

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

Our success depends on our ability to develop and implement technology services and solutions that anticipate and keep pace with rapid and continuing changes in technology, industry standards and client preferences. We may not be successful in anticipating or responding to these developments on a timely basis, and our offerings may not be successful in the marketplace. In addition, services, solutions and technologies developed by current or future competitors may make our service or solution offerings uncompetitive or obsolete. Any one of these circumstances could have a materially adverse effect on our ability to obtain and successfully complete client engagements.

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Unfavorable government audits could require us to adjust previously reported operating results, to forego anticipated revenue and subject us to penalties and sanctions.

The government agencies we contract with generally have the authority to audit and review our contracts with them. As part of that process, the government agency reviews our performance on the contract, our pricing practices, our cost structure and our compliance with applicable laws, regulations and standards. An audit of our work, including an audit of work performed by companies we have acquired or may acquire, could result in a substantial adjustment to our previously reported operating results. For example, any costs that were originally reimbursed could be subsequently disallowed. In this case, cash we have already collected may have to be refunded and operating margins may be reduced.

If a government audit uncovers improper or illegal activities by us, or we otherwise determine that these activities have occurred, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines and suspension or disqualification from doing business with the government. Any unfavorable determination could adversely affect our ability to bid for new work with one or more jurisdictions.

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

Our business involves the delivery of professional services and is highly labor intensive. Our future success depends upon our ability to continue to attract, train, effectively motivate and retain highly-skilled technical, managerial, sales and marketing personnel. Although we invest significant resources in recruiting and retaining employees, there is often considerable competition for certain personnel in the IT services industry and as a result, employee turnover is generally high. From time to time, we have trouble locating enough highly-qualified candidates that are in our desired geographic locations, with the required specific expertise or at the desired compensation levels. The inability to attract and retain qualified employees in sufficient numbers could have a serious negative effect on us, including our ability to obtain and successfully complete important client engagements and thus, maintain or increase our revenues. Such conditions could also force us to resort to the use of higher-priced subcontractors, which would adversely affect the profitability of the related engagement.

In addition, we believe that there are certain key employees within the organization, primarily in the senior management team, who are important for us to meet our objectives. Due to the competitive employment nature of our industry, there is a risk that we will not be able to retain these key employees. The loss of one or more key employees could adversely affect our continued growth. In addition, uncertainty created by turnover of key employees could result in reduced confidence in our financial performance, which could cause fluctuations in the price of our securities and result in further turnover of our employees.

The IT services industry is highly competitive, and we may not be able to compete effectively.

We operate in a highly competitive industry that includes a large number of participants. We believe that we currently compete principally with other IT professional services firms, technology vendors and the internal information systems groups of our clients. Many of the companies that provide services in our industry have significantly greater financial, technical and marketing resources than we do. Our marketplace is experiencing rapid changes in its competitive landscape. Some of our competitors have sought access to public and private capital and others have merged or consolidated with better-capitalized partners. Larger and better-capitalized competitors have enhanced abilities to compete for market share generally and our clients specifically, in some cases, through significant economic incentives to clients to secure contracts. These

competitors may also be better able to compete for skilled professionals by offering them large compensation incentives.

One or more of our competitors may develop and implement methodologies that result in superior productivity and price reductions without adversely affecting their profit margins. In addition, there are relatively few barriers to entry into our industry. As a result, we have faced and expect to continue to face, competition from new entrants into our market. We may be unable to compete successfully with current or future competitors, and our revenue and profitability may be adversely affected.

We have adopted anti-takeover defenses that could make it difficult for another company to acquire control of CIBER or limit the price investors might be willing to pay for our stock, thus affecting the market price of our securities.

We have adopted a Rights Agreement, commonly known as a poison pill, under which each stockholder of the Company holds one share purchase right, which we refer to as a Right, for each share of Company common stock held. The Rights become exercisable upon the occurrence of certain events and may make the acquisition of our Company more difficult and expensive. In addition our certificate of incorporation and bylaws each contain provisions that may make the acquisition of our Company more difficult without the approval of our board of directors, including a provision that gives our board of directors the ability to issue preferred stock and determine the rights and designations of the preferred stock at any time without stockholder approval. The rights of the holders of our common stock will be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued

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in the future. The issuance of preferred stock by our board of directors pursuant to our certificate of incorporation could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from acquiring, a majority of the outstanding voting stock of CIBER. In addition, the staggered terms of our board of directors could have the effect of delaying or deferring a change in control. These provisions could limit the price that investors might be willing to pay in the future for our securities, and as a result, the price of our securities could decline.

The above factors and certain provisions of the Delaware General Corporation Law may have the effect of deterring hostile takeovers or otherwise delaying or preventing changes in the control or management of CIBER; this could adversely affect transactions in which our stockholders might otherwise receive a premium over the then-current market price for their CIBER securities.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate office is located at 6363 South Fiddler s Green Circle, Suite 1400, Greenwood Village, Colorado 80111, where we, along with our Denver area operations, occupy approximately 77,000 square feet under a lease that expires in December 2018. Generally, we provide our services at client locations and therefore, our office locations are primarily used for sales and other administrative functions. At December 31, 2008, we had lease obligations for approximately 715,000 square feet of office space in approximately 100 locations.

We believe our facilities are adequate for our current level of operations.

Item 3. Legal Proceedings

The Company is 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 materially adverse effect on our financial condition, results of operations or cash flows.

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

No matters were submitted to a vote of our shareholders during the fourth quarter of 2008.

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Part II

Item 5. Market for Registrant s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Market Information, Holders and Dividends

Our common stock is listed on the New York Stock Exchange under the symbol CBR. The table below sets forth, for the periods indicated, the low and high sales price per share of our common stock.

	Year Ended December 31, 2007		Year Ended December 31, 2008	
	Low	**High**	**Low**	**High**
First Quarter	$ 6.43	$ 7.91	$ 4.20	$ 6.20
Second Quarter	7.82	9.03	4.60	7.50
Third Quarter	6.69	8.45	5.57	8.97
Fourth Quarter	5.83	8.15	2.95	7.10

The closing price of our common stock on February 17, 2009, was $3.90. As of February 17, 2009, there were 2,835 registered holders of record of our common stock. We estimate there are approximately 12,200 beneficial owners of our common stock.

Our policy is to retain our earnings to support the growth of our business. Accordingly, we have never paid cash dividends on our common stock and have no present plans to do so. In addition, pursuant to the terms of our Revolving Credit Facility, we are prohibited from paying dividends on our stock.

Securities Authorized for Issuance under Equity Compensation Plans

Information regarding securities authorized for issuance under our equity compensation plans can be found under Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Recent Sales of Unregistered Securities and Use of Proceeds from Registered Securities

None

Purchases of Equity Securities by the Issuer

The following table sets forth the information required regarding repurchases of our equity securities made during the three months ended December 31, 2008.

Period (1)	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that can be Purchased Under the Program (2)(3)
October 2008	100,000	$ 5.89	100,000	$ 5,524,000
November 2008				5,524,000
December 2008				5,524,000
Total	100,000	$ 5.89	100,000	

(1) Calendar month

(2) As of end of month indicated

(3) CIBER has had a common stock share repurchase program since 1999, under which we have repurchased approximately 22.4 million shares for a total cost of $191.2 million, and that has been amended from time to time by our Board of Directors. Under the most recent authorization in February 2008, approximately $5.5 million remained available at December 31, 2008 (see above table).

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Performance Graph

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among CIBER, Inc., The S&P 500 Index

And A Peer Group

The Company utilized a self-constructed Peer Group to better align itself with industry competition. Our Peer Group includes: Accenture Ltd., BearingPoint, Inc., CACI International, Inc., CGI Group Inc. and MAXIMUS, Inc.

Corresponding index value and common stock price values are given below:

Cumulative Total Return

	12/03	12/04	12/05	12/06	12/07	12/08
CIBER, Inc.	100.00	111.32	76.21	78.29	70.55	55.54
S & P 500	100.00	110.88	116.33	134.70	142.10	89.53
Peer Group	100.00	102.47	109.66	129.59	129.10	113.15
CIBER, Inc. Closing Stock Price	$ 8.66	$ 9.64	$ 6.60	$ 6.78	$ 6.11	$ 4.81

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Item 6. Selected Financial Data

We have derived the selected consolidated financial data presented below from our Consolidated Financial Statements and the related Notes. This information should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our Consolidated Financial Statements and related Notes, included under Financial Statements and Supplementary Data of this Annual Report.

	As of and for the Year Ended December 31,				
	2004	2005	2006	2007	2008
	(In thousands, except per share data)				
Statement of Operations Data:					
Revenue	$ 843,021	$ 956,009	$ 995,837	$ 1,081,975	$ 1,191,567
Gross profit	232,174	257,177	266,079	292,459	324,480
Selling, general and administrative expenses	176,692	204,563	215,109	232,119	264,268
Operating income	51,268	46,656	45,040	54,520	53,938
Net income	29,701	24,707	24,735	29,026	29,956
Earnings Per Share:					
Basic	$ 0.49	$ 0.40	$ 0.40	$ 0.47	$ 0.50
Diluted	0.45	0.38	0.40	0.47	0.50
Weighted Average Shares Outstanding:					
Basic	60,701	62,536	61,925	61,207	60,092
Diluted	74,642	68,296	62,357	61,924	60,389
Balance Sheet Data:					
Working capital	$ 138,871	$ 147,382	$ 140,757	$ 175,780	$ 167,988
Total assets	758,672	744,567	779,679	849,113	797,520
Long-term debt, current portion	2,400	2,000	3,602	9,108	2,002
Long-term debt, non-current portion(1)	225,504	217,638	192,092	201,810	165,710
Total shareholders equity	377,663	376,607	416,122	454,559	452,430
Shares outstanding, net of treasury	62,542	62,047	61,753	60,747	60,085

(1) Please see Note 15 to the Consolidated Financial Statements included herein for a discussion of our February 2009 offering of common shares and the use of the net proceeds from that offering to pay down a portion of our long-term debt.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with our Consolidated Financial Statements and related Notes included elsewhere in this Annual Report on Form 10-K. This section also contains forward-looking statements and should be read in conjunction with the section of this report titled Disclosure Regarding Forward-Looking Statements.

Business and Industry Overview

CIBER provides IT system integration consulting and other IT services primarily to governmental agencies and Fortune 1000 and middle market companies across most major industries. From offices located throughout the United States and Europe, as well as Eastern Asia, Australia and New Zealand, we provide our clients with a broad range of IT services, including custom and package software development, maintenance, implementation and integration. To a lesser extent, we also resell certain IT hardware and software products.

Our reportable segments are our five primary operating divisions, which are organized internally primarily by the nature of their services, client base and geography. They consist of our Europe division, which includes Eastern Asia, Australia and New Zealand, and our four domestic divisions, which consist of Commercial, State & Local Government, Federal Government and Enterprise Solutions (formerly U.S. ERP/Package Solutions). Our Europe division provides a broad range of IT consulting services, including package software implementation, application development, systems integration and support services, with SAP-related solutions and services accounting for 60% to 65% of Europe s total revenue in 2008. Our Commercial, State & Local Government and Federal Government divisions comprise our U.S. geographically-based operations that provide IT services and products in custom-developed software environments. These offices report to a division based on their primary client focus category (Commercial, State & Local Government or Federal Government); however, they 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 segment.

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Our Enterprise Solutions division primarily provides enterprise software implementation services, including ERP and supply chain management software from software vendors such as Oracle, SAP and Lawson for U.S. customers.

We recognize the majority of our services revenue under time-and-material contracts as hours and costs are incurred. Under fixed-price contracts, which currently make up approximately 20-25% of our services revenue, our revenue is fixed under the contract, while our costs to complete our obligations under the contract are variable. As a result, our profitability on fixed-price contracts can vary significantly and occasionally can even be a loss. Changes in our services revenue is primarily a function of hours worked on revenue-generating activities and, to a lesser extent, changes in our average rate per hour and changes in contract mix. Hours worked on revenue producing activities vary with the number of consultants employed and their utilization level. Utilization represents the percentage of time worked on revenue producing engagements divided by the standard hours available (i.e., 40 hours per week). Our average utilization rates are higher in our Commercial, State & Local Government and Federal Government divisions (typically around 85% to 90%) as compared to our Europe and Enterprise Solutions divisions (typically around 75% to 80%). With time-and-materials contracts, higher consultant utilization results in increased revenue; however, with fixed-price contracts, it results in higher costs and lower gross profit margins because our revenue is fixed. We actively manage both our number of consultants and our overall utilization levels. If we determine we have excess available resources that we cannot place on billable assignments in the near future, we consider reducing those resources. As a result, during the last three years, most of our consultant turnover has been from involuntary termination of employment.

The hourly rate we charge for our services varies based on the level of the consultant involved, the particular expertise of the consultant and the geographic area. Our typical time-and-materials hourly rates range from $50 to $200 per hour and, on average, are generally highest in our Enterprise Solutions division and lowest in our Federal Government division. We also have fixed-priced projects, as well as engagements whose pricing is based on cost-plus or level-of-efforts. For such projects, where our revenue is not directly based on hours incurred, our realized rate per hour will vary significantly depending on success or overages on such projects. In addition, our foreign revenue and costs of revenue, as reported in U.S. dollars, are impacted by changes in currency exchange rates.

Selling, general and administrative (SG&A) costs as a percentage of revenue vary by business segment. Close to 60% of our overall SG&A expenses are typically for personnel costs for our branch office personnel, which includes our branch management, consulting staff management, sales and recruiting personnel and administrative staff, as well as our corporate office support staff and management personnel. Although these costs are not immediately affected by changes in revenue, there is often a relatively short-term correlation between these SG&A salary expenses and revenue. Additionally, as we bid on larger and longer projects, the sales cycle and related sales costs have been increasing. Finally, our European SG&A costs, like their revenues, are also subject to changes in currency exchange-rates. As a result of the above, we analyze changes in our SG&A expenses in terms of the relationship between these costs and revenue (expressed as a percentage of revenue) rather than total dollars or percentage change in the total dollars.

Other revenue includes resale of third-party IT hardware and software products, sales of proprietary software and commissions on sales of IT products. Our sales of IT hardware and software generally involve IT network infrastructure. The gross profit margin on consolidated other revenues is typically in the range of 30% to 50%. This is a blend of low-margin hardware sales (typically a 5% to 10% gross margin), mid-margin software sales (typically a 20% to 40% gross margin) and higher-margin product commissions and proprietary software sales. Depending on the mix of these business activities, gross profit margin on other revenue will fluctuate.

The market demand for CIBER s services is heavily dependent on IT spending by major corporations, organizations and government entities in the markets and regions that we serve. The pace of technology change and changes in business requirements and practices of our clients all have a significant impact on the demand for the services that we provide.

Impacts of Share-Based Compensation

Share-based compensation cost is included as part of our corporate expenses and is recognized in either Cost of Consulting Services or in SG&A expenses, as appropriate. The table below summarizes the amounts recorded in the Consolidated Statement of Operations for share-based compensation:

	Year Ended December 31,		
	2006	2007	2008
	(In thousands)		
Cost of consulting services	$ 481	$ 534	$ 769
Selling, general and administrative expense	1,038	2,073	2,670
Total share-based compensation cost before taxes	1,519	2,607	3,439
Income tax benefit related to share-based compensation	(283)	(646)	(833)
Total share-based compensation included in net income	$ 1,236	$ 1,961	$ 2,606

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Comparison of the Years Ended December 31, 2008 and 2007   Consolidated

Our Europe division comprised 35% of our total revenues in 2008 as compared to 30% in 2007. Our Europe division operates primarily in Western Europe but also has offices in China, Russia, Australia and New Zealand. As such these operations transact business in local currencies of the countries in with they operate. In 2008, approximately 51% of our Europe division s revenue is denominated in Euro s, approximately 20% is denominated in Great Britain Pounds (GBP) and the balance comes from a number of other currencies. Changes in the exchange rates between these foreign currencies and the U.S. dollar affect the reported amounts of our assets, liabilities, revenues and expenses. For financial reporting purposes, the assets and liabilities of our foreign operations are translated into U.S. dollars at current exchange rates at period end and revenues and expenses are translated at average exchange rates for the period.

In U.S. dollar terms, currency rates were favorable for CIBER during the first 3 quarters of 2008. During the fourth quarter of 2008, we saw significant declines in foreign exchange rates as compared to the U.S. dollar. The balance sheet rates at December 31, 2008, declined by 5% for the Euro and 27% for the GBP as compared to last year. This had a significant impact on our reported balance sheet year over year. Despite the significant decline in exchange rates vs. the U.S. dollar in the fourth quarter, our weighted average exchange rates for the 2008 year increased by approximately 6% over 2007, resulting in approximately $19 million of additional revenues in 2008. In January and February 2009, our major foreign currency rates continued to be negative in terms of the U.S. dollar showing a weighted average decline of 10-15% from our average rates in 2008. Assuming that these foreign currency rates remain at this level throughout 2009, we estimate this would negatively impact our 2009 total revenue by approximately $50 million and would also reduce our earnings per share by approximately $0.01 per quarter in 2009.

The following table sets forth certain Consolidated Statement of Operations data in dollars and expressed as a percentage of revenue:

	Year Ended December 31,			
	2007		2008	
	(Dollars in thousands, except billing rate)			
Consulting services	$ 1,024,172	94.7%	$ 1,133,233	95.1%
Other revenue	57,803	5.3	58,334	4.9
Total revenue	1,081,975	100.0	1,191,567	100.0
Gross profit consulting services	269,057	26.3	303,427	26.8
Gross profit other revenue	23,402	40.5	21,053	36.1
Gross profit total	292,459	27.0	324,480	27.2
SG&A expenses	232,119	21.5	264,268	22.2
Operating income	54,520	5.0	53,938	4.5
Net income	29,026	2.7	29,956	2.5
Average hourly billing rate	$ 83		$ 87	
Consultant utilization	84%		87%	
Average billable headcount	7,220		7,395	

Revenue. Total revenue for the year ended December 31, 2008, increased 10% compared to total revenue for the year ended December 31, 2007. We are a global company; therefore, our revenue is denominated in multiple currencies and may be significantly affected by currency exchange-rate fluctuations. The U.S. dollar weakened in the first half of 2008 and strengthened during the last half of 2008 against many currencies; however, overall the U.S. dollar was weaker against many currencies during 2008 as compared to 2007, resulting in favorable

currency translation and greater reported U.S. dollar revenues in the current year. Foreign currency rate changes resulted in approximately $19.3 million, or almost 2%, of additional reported revenue in 2008 over 2007. Additionally, small acquisitions completed in both our Enterprise Solutions and Europe divisions contributed incremental revenue of approximately $18.0 million to the current year results. Excluding the favorable currency translation effects and the incremental revenue from acquisitions, our total revenue for the year ended December 31, 2008, increased 7% from total revenue reported for the year ended December 31, 2007, primarily due to increased SAP software-related services in Europe, as well as increased consulting services revenue in our Commercial division. Our 2008 results, most notably in the fourth quarter, were adversely affected by the worsening global economic conditions. During the fourth quarter of 2008, we began to experience client reductions in the use of our services, as well as clients delaying starts on new projects and seeking price reductions. Additionally, billable headcount was down to approximately 7,250 at

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December 31, 2008, as compared to our average billable headcount of 7,395 for the 2008 fiscal year and compared to 7,325 as of December 31, 2007.

Revenue by segment/division was as follows:

	Year Ended December 31,		
	2007	2008	% change
	(In thousands)		
Commercial	$ 365,555	$ 389,089	6.4%
Europe	319,886	417,287	30.4
State & Local Government	140,347	142,287	1.4
Federal Government	137,268	127,391	(7.2)
Enterprise Solutions	124,007	122,244	(1.4)
Inter-segment	(5,088)	(6,731)	n/m
Total revenue	$ 1,081,975	$ 1,191,567	10.1%

n/m = not meaningful

- Commercial revenue increased 6% in the current year mainly due to several sizable contract wins, additional work on other existing contracts and improved productivity. Unfortunately, we have seen some of this work subsequently cancelled due to the current economic environment; thus, we do not anticipate this level of revenue growth for 2009 in the Commercial division.

- The performance of our Europe division during 2008 represented its best revenue results to date. In the current year, Europe represented approximately 35% of our consolidated revenue, up from 30% of consolidated revenue in 2007. These results were in part due to approximately $19.3 million related to favorable foreign currency fluctuations, as well as approximately $8.0 million of incremental revenue from several small acquisitions in late 2007 and the first half of 2008. Excluding these items, our Europe division grew approximately 22% resulting from continued strong sales of SAP implementation services in almost all of our major operating territories, as well as many of our smaller territories. Despite the strong revenue growth of 2008, the Europe division slowed in the fourth quarter of 2008 due to the deteriorating economic environment, including two client bankruptcies in late 2008 and strength in the U.S. dollar against a number of currencies. Although we presently expect revenue to be flat in this division in 2009 as compared to 2008 on a local currency basis, assuming foreign currency rates remain at current levels, we estimate a 10-15% decline in revenue in this division upon translation into U.S. dollars.

- State & Local Government revenue growth was driven primarily by increased volumes at one of our largest clients, as well as increased revenue from a few new projects and additional work on existing contracts, most of which was offset by lower revenues following the successful completion of the Pennsylvania Turnpike Commission project.

- Federal Government revenue declined mainly due to the expiration of one of our larger, long-term contracts that was subsequently awarded to a qualified small business. CIBER has similarly lost several contracts in recent years because we do not qualify as a small business; therefore, we have been precluded from bidding on the renewal business. We initially obtained these contracts through acquisitions of qualified small businesses that were originally awarded these contracts. We submitted proposals on a number of projects in the current year where we

would serve as either the prime contractor or a subcontractor, but initially the presidential election and more recently, the current economic environment, have delayed decisions to award and start projects funded by the federal government; thus, we have been unsuccessful in replacing our expired contracts. The Federal Government division did have a high number of contract renewals during the current year, of which a sizable majority was won. For 2009, this division is focused on business development and building backlog for future years.

- Included in the Enterprise Solutions division revenue for the current year is approximately $10.0 million of incremental revenue associated with an acquisition completed in September 2007. Excluding that acquisition, our Enterprise Solutions division revenue shrunk over 9% in 2008, compared to 2007. Our U.S. SAP practice had a particularly challenging year as their revenue decreased by $8.3 million, or 20%, compared to 2007. This decrease was partially offset by revenue growth in our Oracle Higher Education and Lawson practices. In 2009, we expect this division to maintain revenues consistent with 2008.

Gross Profit. In total, our gross profit margin improved 20 basis points to 27.2% for the year ended December 31, 2008, compared to 27.0% for the same period in 2007. Gross profit margin on consulting services revenue, which grew by 50 basis points, accounted for

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the increase. Strong consulting services margin improvements in our Commercial, State & Local Government and Federal Government divisions were responsible. An increased focus on the pursuit of higher-margin business, project pricing and delivery improvement has helped to achieve these results. Europe experienced a 40 basis point decrease in its services gross profit margin in the current year due to a shift in the mix of its service offerings toward longer, fixed-term contracts that are more secure yet earn lower gross margins. The Enterprise Solutions division had a substantial decrease in its services gross margin for the year ended December 31, 2008, related to several large completed projects that have not yet been successfully replaced, resulting in poor consultant utilization during the year. In addition, the margins in the Enterprise Solutions division were hurt by several lower-margin fixed-price projects. Current year margins on other revenue have declined to 36.1% from 40.5% for 2007 related to profit margins being squeezed by hardware and software manufacturers. Our Commercial and Europe divisions are our largest segments; therefore, changes in their margins tend to greatly dictate our consolidated results. For the year ended December 31, 2008, margin gains in our Commercial division were mostly offset by Europe s gross margin decreases, resulting in a slight improvement in gross margin over the prior year.

Selling, general and administrative. As a percentage of revenue, SG&A expenses increased to 22.2% for the year ended December 31, 2008, compared to 21.5% for the year ended December 31, 2007. Over 50 basis points of the increase can be attributed to a $6.1 million increase in our provision for doubtful receivables between 2007 and 2008. The remaining 20 basis points related to increased costs in the Enterprise Solutions, State & Local Government and Federal Government divisions. The Enterprise Solutions division s SG&A costs increased due to infrastructure and sales-related costs from a mid-2007 acquisition. The State & Local Government and Federal Government divisions SG&A costs increased due to infrastructure investments made to establish a new practice in an existing office and costs incurred to further our ability to bid on large projects as a prime contractor, respectively. All of the above were partially offset by Europe s continuing efforts to drive down their relative SG&A spending, despite increased bad debt costs during the current year.

Operating income. As a result of the increased SG&A expenses as a percentage of revenue, our operating income decreased 50 basis points to 4.5% for the year ended December 31, 2008, compared to 5.0% for the year ended December 31, 2007.

Operating income by segment/division was as follows:

	Year Ended December 31, 2007	Year Ended December 31, 2008	% change	2007 % of revenue*	2008 % of revenue*
	(In thousands)				
Commercial	$ 29,034	$ 35,524	22.4%	7.9%	9.1%
Europe	19,455	30,213	55.3	6.1	7.2
State & Local Government	12,342	11,666	(5.5)	8.8	8.2
Federal Government	11,031	8,682	(21.3)	8.0	6.8
Enterprise Solutions	11,361	(486)	(104.3)	9.2	(0.4)
Corporate expenses	(22,883)	(25,387)	(10.9)	(2.1)	(2.1)
Total	60,340	60,212	(0.2)%	5.6	5.0
Amortization of intangibles	(5,820)	(6,274)		(0.6)	(0.5)
Operating income	$ 54,520	$ 53,938		5.0%	4.5%

*Divisions calculated as a % of division revenue, all other calculated as a % of total revenue

- The Commercial division s operating income percentage increased 120 basis points due to the division making a strong improvement in gross profit margin on services revenue, some of which was offset by increased SG&A costs as a percentage of revenue. The gross profit margin improvement was due to better pricing on newer engagements, as well as efficient staff utilization.

- Europe operating income improved 110 basis points, primarily due to a reduction in SG&A expenses as a percentage of revenue that was attained from operating leverage achieved on higher revenue volumes and reduced overhead personnel costs as a percentage of sales, which were partially offset by higher bad debt expenses. The improvement in SG&A as a percentage of revenue was partially offset by decreased gross profit margins due to a shift in product mix. Europe had fewer high-margin software sales in 2008, as well as increased revenues from lower-margin, long-term outsourcing contracts and increased costs to build additional outsourcing infrastructure.

- State & Local Government operating income decreased due to increased SG&A costs related to salaries for delivery infrastructure enhancements and increased recruiting costs, which were partially offset by improved margins resulting from pursuing higher-margin business.

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- The Federal Government division s operating income was down because increased SG&A expenses for operations infrastructure enhancements related to obtaining certifications for prime contractor bidding status more than offset the improvement in this division s consulting services margin.

- The Enterprise Solutions division had an operating loss in the current year compared to a 9.2% operating income percentage in 2007, primarily due to several large SAP projects coming to completion that have not yet been replaced, resulting in lower revenue and lower consultant utilization, as well as lower or negative margins on a couple of fixed-price SAP projects. Additionally, the division incurred increased SG&A costs, some of which are due to increased infrastructure costs from a 2007 acquisition, increased SAP sales costs on reduced levels of revenue and a bad debt expense resulting from client bankruptcy. As indicated above, our Enterprise Solutions division was negatively impacted by losses in our domestic SAP practice in 2008. As a result, during the second half of 2008, we made a number of significant changes to our domestic SAP practice including, restructured leadership, refocused marketing and delivery efforts, as well as implementation of a number of cost reduction measures. We expect these changes will help improve this division s financial performance in 2009.

- Corporate expenses increased by $2.5 million, primarily as a result of increased share-based compensation costs, lower 401(k) forfeitures and increased operational support costs.

Interest expense. Interest expense increased $1.6 million during the year ended December 31, 2008, compared to the year ended December 31, 2007, primarily resulting from higher-cost borrowings under our Revolving Credit Facility that have been utilized to fund repurchases of our lower-cost, fixed-rate convertible senior subordinated debentures (Debentures). Our weighted average interest rate under our Revolving Credit Facility was 3.08% on December 31, 2008, which at present, is only slightly higher than the 2.875% fixed-rate we paid on the retired Debentures. For 2009, interest costs under our Revolving Credit Facility will be variable based on changes in the market rates.

Other expense, net. Other expense, net was $1.5 million in 2008, compared to $1.8 million in 2007. Foreign exchange losses were $1.4 million higher in 2008 than in 2007; however, the increased losses were more than offset by a $1.2 million increase in our net gain on the retirement of our Debentures in 2008, as well as a $0.7 million reduction in minority interest expenses in the current year.

Income taxes. Our effective tax rates decreased to 32.0% for the year ended December 31, 2008, compared to 36.3% for the year ended December 31, 2007, primarily due to a higher proportion of income being generated in lower tax jurisdictions. Our Europe division tends to have a lower effective tax rate than our domestic operations. In addition, in 2008 Europe benefitted from lower statutory rates in several countries, as well as having profitable operations in all territories. Europe contributed 56% of our total income before taxes for the year ended December 31, 2008, as compared to 29% during the same period of the prior year. During the fourth quarter of 2008, the U.S. Federal Research and Experimentation tax credit was extended to 2008. Thus, we recorded the estimated full-year benefit of the R&E credit during the fourth quarter of 2008.

Comparison of the Years Ended December 31, 2007 and 2006 Consolidated

The following table sets forth certain Consolidated Statement of Operations data in dollars and expressed as a percentage of revenue:

	Year Ended December 31,			
	2006		2007	
	(Dollars in thousands, except billing rate)			
Consulting services	$ 938,568	94.2%	$ 1,024,172	94.7%
Other revenue	57,269	5.8	57,803	5.3
Total revenue	995,837	100.0	1,081,975	100.0
Gross profit consulting services	234,658	25.0	269,057	26.3
Gross profit other revenue	31,421	54.9	23,402	40.5
Gross profit total	266,079	26.7	292,459	27.0
SG&A expenses	215,109	21.6	232,119	21.5
Operating income	45,040	4.5	54,520	5.0
Net income	24,735	2.5	29,026	2.7
Average hourly billing rate	$ 79		$ 83	
Consultant utilization	85%		84%	
Average billable headcount	7,180		7,220	

Revenue. Total revenue for the year ended December 31, 2007, increased 9% compared to total revenue for the year ended December 31, 2006. We are a global company; therefore, our revenue is denominated in multiple currencies and may be significantly

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affected by currency exchange-rate fluctuations. Throughout 2007, the U.S. dollar weakened against many currencies, resulting in favorable currency translation and greater reported U.S. dollar revenues. For the year ended December 31, 2007, the weak U.S. dollar resulted in an additional $28.8 million of reported revenue over the year ended December 31, 2006. Additionally, a fourth quarter 2007 acquisition completed in Europe and the domestic SAP acquisition completed in September 2007, plus two second quarter 2006 European acquisitions contributed incremental revenue of approximately $7.5 million to the current year results. Excluding the favorable currency translation effects and the incremental revenue from acquisitions, our total revenue for the year ended December 31, 2007, increased 5% from total revenue reported for the year ended December 31, 2006, primarily due to increased SAP software-related services in Europe.

Revenue by segment/division was as follows:

	Year Ended December 31,		
	2006	2007	% change
	(In thousands)		
Commercial	$ 356,534	$ 365,555	2.5%
Europe	244,262	319,886	31.0
State & Local Government	141,143	140,347	(0.6)
Federal Government	141,286	137,268	(2.8)
Enterprise Solutions	115,107	124,007	7.7
Inter-segment	(2,495)	(5,088)	n/m
Total revenue	$ 995,837	$ 1,081,975	8.6%

n/m = not meaningful

- Commercial division revenue increased during the comparable years due to a couple of new, large clients and engagement wins led by growth in our Boston, Washington D.C. and Seattle offices. This division can be characterized in 2007 as providing stable contributions, but lacking significant growth. Moving ahead, we are working to position this division to be more successful in gaining market share.

- $28.8 million of the $75.6 million increase in our Europe division revenue was due to favorable foreign currency fluctuations. Additionally, Europe had another $2.7 million of incremental revenue from small acquisitions. Excluding these items, our Europe division grew 18% resulting from strong sales of SAP implementation services in all of our major operating territories, and extending to Australia and New Zealand. In the current year, Europe represents approximately 30% of our consolidated revenue, compared to 24% of consolidated revenue in 2006. For the first time in our history, during the last quarter of 2007, Europe was our largest division for that period.

- State & Local Government division revenue growth for 2007 was driven by incremental revenue from the Pennsylvania Turnpike Commission project that began in mid-2006. However, these gains were more than tempered by a decreasing level of services provided to the City of New Orleans during 2007, which resulted in current year revenues that were almost half of 2006 revenues earned from the City of New Orleans. For 2008, we have realigned this division on a regional basis and plan to emphasize repeatable solutions to stimulate additional growth opportunities.

- The continued revenue decrease in our Federal Government division is due to a very difficult governmental spending environment, illustrated by funding delays for information technology initiatives. Over the past two years, we have had a couple of our larger, long-term Federal contracts expire that we have not been able to replace with similar duration contracts. In 2007, this division focused on qualifying for prime contractor bidding status. When achieved, prime contractor bidding status will increase our growth opportunities.

- Over half of the growth in total revenue in our Enterprise Solutions division, or $4.8 million during the year ended December 31, 2007, was related to an acquisition completed in September 2007. Excluding that acquisition, our Enterprise Solutions division grew over 3% in 2007, compared to 2006. Software-related services, primarily for SAP products, are up approximately 7% this year; however, this was partially offset by reduced product commission revenue. Our sales of IBM products have slowed as customers have delayed their orders for some IBM product lines that are in the process of turning over. We expect our product commission revenues to improve once the new products are released.

Gross Profit. In total, our gross profit margin improved 30 basis points to 27.0% for the year ended December 31, 2007, compared to 26.7% for the same period in 2006. Gross profit margin on consulting services revenue, which grew by 130 basis points, accounted for the increase. The increase in gross profit margin reflects a strong consulting services margin improvement in our Enterprise

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Solutions, Europe and Commercial divisions, which increased by 410 basis points, 260 basis points and 100 basis points, respectively. Additionally, Europe s consulting services projects typically have higher gross profit margins compared to similar domestic projects. With Europe delivering a higher percentage of our consolidated revenues, our gross profit margins increase more than if the same revenue was generated domestically. Offsetting the above consulting services margin increases were decreases in consulting services margins of 140 basis points and 80 basis points in our State & Local Government and Federal Government divisions, respectively. The decrease in gross profit margin on other revenue to 40.5% for the year ended December 31, 2007, from 54.9% for the year ended December 31, 2006, was due to reduced margins on software sales primarily in our Europe division, as well as a decrease in high-margin product commission revenue in our Enterprise Solutions division.

Selling, general and administrative. As a percentage of revenue, SG&A expenses improved slightly to 21.5% for the year ended December 31, 2007, compared to 21.6% for the year ended December 31, 2006. Our Europe and State & Local Government divisions led the improvement for the current year with 150 basis point and 130 basis point improvements, respectively, and was aided by more modest decreases in the Enterprise Solutions and Commercial divisions.

Operating income. As a result of the improved total gross profit margin and the slightly reduced SG&A expenses as a percentage of revenue, our operating income improved 50 basis points to 5.0% for the year ended December 31, 2007, compared to 4.5% for the year ended December 31, 2006.

Operating income by segment/division was as follows:

	Year Ended December 31,		%	2006	2007
	2006	2007	change	% of revenue*	% of revenue*
	(In thousands)				
Commercial	$ 24,782	$ 29,034	17.2%	7.0%	7.9%
Europe	13,087	19,455	48.7	5.4	6.1
State & Local Government	11,657	12,342	5.9	8.3	8.8
Federal Government	14,024	11,031	(21.3)	9.9	8.0
Enterprise Solutions	8,266	11,361	37.4	7.2	9.2
Corporate expenses	(20,846)	(22,883)	(9.8)	(2.1)	(2.1)
Total	50,970	60,340	18.4%	5.1	5.6
Amortization of intangibles	(5,930)	(5,820)		(0.6)	(0.6)
Operating income	$ 45,040	$ 54,520		4.5%	5.0%

*Divisions calculated as a % of division revenue, all other calculated as a % of total revenue

- Commercial division operating income percentage for the current year increased as a large, low-margin fixed-priced project ended in late 2006 and our newer engagements have been yielding slightly better margins.

- European division operating income improved primarily due to a reduction in SG&A expenses as a percentage of revenue that was attained from operating leverage achieved on higher revenue volumes. The improvement in SG&A as a percentage of revenue was partially offset by a 70 basis point decrease in gross margin in 2007. Although consulting services margins improved by 260 basis points in 2007 as Europe continued to shift toward more higher-margin services, this was more than offset by decreased margins on other revenue. Margins decreased on other revenue due to lower sales of proprietary software products, as well as pricing pressures on our resale of third-party software products.

- State & Local Government operating income improved in 2007 compared to 2006 primarily related to $1.4 million in reduced SG&A expenses, which more than offset the decrease in gross profit margin on consulting services in this division.

- Federal Government division operating income for 2007 was hurt by lower utilization and some low-margin fixed-price projects, as well as increased SG&A expenses for sales and operations infrastructure enhancements.

- Enterprise Solutions operating income improved considerably given the completion of several low gross profit projects earlier in the current year, as well as improved project delivery. Our improvement in consulting services margins was partially offset by decreased contributions from product commissions in 2007. Additionally, their reduction in SG&A expenses as a percentage of revenue also contributed to the improved operating income margin.

Other income (expense), net. Other expense, net was $1.8 million in 2007, compared to other income, net of $0.4 million in 2006. Minority interest expense increased $1.6 million in 2007 as compared to 2006 and foreign currency transaction activity was a net loss

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of $1.0 million for the year ended December 31, 2007, compared to a net gain of $0.4 million for the prior year. These increased expenses were partially offset by a gain on the retirement of our Debentures of $0.9 million.

Income taxes. Our effective tax rates were 36.3% and 35.1% for the years ended December 31, 2007 and 2006, respectively. The 2006 tax rate was favorably impacted by recording a multi-year benefit from amending certain prior years tax returns because of additional allowable deductions identified, as well as a U.S. Federal Research and Experimentation tax credit. Our effective tax rate in 2007 reflected an increase in our U.S. Federal Research and Experimentation tax credit.

Liquidity and Capital Resources

At December 31, 2008, we had $168.0 million of working capital and a current ratio of 2.2:1, compared to working capital of $175.8 million and a current ratio of 2.1:1 at December 31, 2007. Historically, we have used our operating cash flow and borrowings, as well as periodic sales of our common stock to finance ongoing operations and business combinations. We believe that our cash and cash equivalents, our operating cash flow, proceeds from the sale of our common stock, and our available Revolving Credit Facility will be sufficient to finance our working capital needs through at least the next year.

	Year Ended December 31,		
	2006	2007	2008
		(In thousands)	
Net cash provided by (used in):			
Operating activities	$ 44,805	$ 22,676	$ 90,928
Investing activities	(21,031)	(33,650)	(22,237)
Financing activities	(32,991)	6,097	(48,689)
Effect of foreign exchange rates on cash	1,875	3,275	(2,870)
Net increase (decrease) in cash and cash equivalents	$ (7,342)	$ (1,602)	$ 17,132

Our balance of cash and cash equivalents was $48.8 million at December 31, 2008, compared to a balance of $31.7 million at December 31, 2007. Typically, most of our cash balance is maintained by our European subsidiaries and our domestic cash balances are used daily to reduce our outstanding balance on our Revolving Credit Facility. From time-to-time, as permitted under tax regulations, we may engage in short-term loans between our U.S. parent company and our foreign subsidiaries.

Operating activities. Total accounts receivable decreased to $235.1 million at December 31, 2008, from $269.1 million at December 31, 2007, primarily due to improved collection efforts in the current year end, as evidenced by our total accounts receivable day s sales outstanding (DSO) of 72 days at December 31, 2008, compared to 78 days at December 31, 2007. Changes in accounts receivable have a significant impact on our cash flow. Items that can affect our accounts receivable DSO include: contractual payment terms, client payment patterns (including approval or processing delays and cash management), client mix (public vs. private), fluctuations in the level of IT product sales and the effectiveness of our collection efforts. Many of the individual reasons are outside of our control, and, as a result, it is normal for our DSO to fluctuate from period to period, affecting our liquidity. Our outstanding accounts receivable balance from the City of New Orleans (the City) was approximately $9 million at December 31, 2008, down from $17 million at December 31, 2007. Of our outstanding receivable balance from the City at December 31, 2008, a substantial amount related to work performed following the 2005 hurricane disaster. The City continues to experience administrative complications and FEMA reimbursement delays, which have delayed payment for our services. We continue to work with the City and FEMA on the remaining balance. In addition, we continue to provide a variety of services to the City and based on our communications with the City, we believe we will be able to collect the balance in full.

Accrued compensation and related liabilities increased to $62.4 million at December 31, 2008, from $54.8 million at December 31, 2007, due to increased payroll levels in Europe. Additionally, these balances are subject to the effects from the timing of our normal bi-weekly U.S. payroll cycle. At December 31, 2008, there were 8 days of unpaid wages, compared to 5 days