



# ciber

## Third Quarter Financial Report

September 30, 2002



## **COMPANY OVERVIEW**

CIBER, Inc. and its subsidiaries provide information technology (IT) system integration consulting and other services and to a lesser extent, resell certain hardware and software products. Our clients consist primarily of Fortune 500 and middle market companies across most major industries and governmental agencies. We operate from 60 branch offices across the United States, Canada and Europe. At June 30, 2002, we had approximately 5,500 employees.

We began operations in 1974 to assist companies in need of computer programming support. In the mid-1980s, we initiated a growth strategy that included expanding our range of computer-related services, developing a professional sales force and selectively acquiring established complementary companies. We continue to expand and modify our service offerings to address changes in customer demands and rapidly changing technology. In addition, we look to form strategic alliances with select package software and hardware vendors to stay at the leading edge of technology advances, to develop new business and to generate additional revenue.

Our principal executive offices are located at 5251 DTC Parkway, Suite 1400, Greenwood Village, CO, 80111. Our Internet address is [www.ciber.com](http://www.ciber.com). CIBER is traded on the New York Stock Exchange with the market symbol: CBR.

CIBER currently has two reportable segments, Custom Solutions and Package Solutions. The Custom Solutions segment primarily includes our CIBER custom branch offices and our CIBER Solution Partners European operations. Our Package Solutions segment is comprised of our CIBER Enterprise Solutions Division and our subsidiary DigiTerra, Inc.

### **CIBER Custom Solutions**

Our CIBER custom branch operations provide IT project solutions and IT staffing in custom developed software environments. Each branch office has local leadership, sales, recruiting and delivery capabilities. Our branch office network is integral to our business strategy. Through the branch office network, we can (1) offer a broad range of consulting services on a local basis, (2) respond to changing market demands for IT services through a variety of contacts in many industries and geographic areas and (3) maintain a quality professional staff because of our nationwide reputation and our training programs. Our strategy is to leverage our long-standing staffing relationships to win strategic consulting and/or project solutions and systems integration business.

The migration toward a more solutions-based business model has resulted from our efforts to (1) create significant thought leadership in leading technologies through our National Practices, (2) establish a consultative sales methodology that enhances our ability to identify, pursue and close solutions-based business, and (3) improve our solutions delivery capability by continuing to refine our project management and delivery methodology. Our National Practices, which support the local sales and delivery functions, include: Enterprise Application Integration, Business Intelligence, Internet Solutions, Infrastructure and Security, Wireless Integration, Outsourcing, and Managed Services.



While 68% of our operations are directed at commercial clientele, 32% of our custom branch operations have a focus on state and federal government organizations. Our State Government Practice has a number of specialty focus areas, including: health and human services; public health; law and justice, and motor vehicles, among others. Our Federal Government Practice initiatives include: defense/aerospace; outsourcing; human resource and financial management systems; and strategy and enterprise services.

Our Custom Solutions reporting segment also includes our CIBER Solution Partners European operations, which are based in Eindhoven, the Netherlands. In 2001 we opened new offices in Germany and Hungary. Solution Partners provides custom-based solutions on various software platforms as well as SAP and Microsoft implementation consulting and other e-business solutions.

### **CIBER Package Solutions**

Our CIBER Enterprise Solutions Division (CES) provides consulting services to support software from enterprise solutions vendors including Oracle, PeopleSoft and SAP. CES supports the Customer Relationship Management (CRM) offerings of these enterprise partners, and in addition, provides services for users of independent CRM software, such as Siebel and Onyx. CES is an Oracle Certified Solutions Partner, a PeopleSoft Certified Consulting Partner as well as an SAP Services Partner. CES has vertical expertise in healthcare, higher education, public sector, telecommunications and manufacturing, among others.

DigiTerra, Inc. primarily provides middle-market companies with packaged software assessment, planning and implementation services, with an emphasis on software from J. D. Edwards and Lawson, as well as several Supply Chain Management (SCM) products. DigiTerra is a J. D. Edwards Consulting Alliance Partner. DigiTerra's Technology Solutions Practice helps clients select, configure and design IT platform-related solutions and is an authorized reseller of selected hardware and software products from IBM, Hewlett-Packard, Sun Microsystems and Intermecc.

BER, Inc.  
 Operating Results Analysis  
 Quarter & Nine Months Ended September 30, 2002

*Dollars in thousands, except for Billing Rate and Annual*

Revenue Per Consultant	Sequential Quarters				Quarter over Quarter				Year over Year			
	Q2 '02		Q3 '02		Q3 '01		Q3 '02		9 Mos. 9/30/01		9 Mos. 9/30/02	
Company Total	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Consulting Services	\$ 148,662	95.88	\$ 152,839	95.93	\$ 119,380	93.30	\$ 152,839	95.93	\$ 390,462	94.35	\$ 429,244	95.62
Other Revenue	6,395	4.12	6,486	4.07	8,571	6.70	6,486	4.07	23,362	5.65	19,671	4.38
Total Revenue	155,057	100.00	159,325	100.00	127,951	100.00	159,325	100.00	413,824	100.00	448,915	100.00
Gross Profit-Services	43,575	29.31	43,867	28.70	35,270	29.54	43,867	28.70	118,189	30.27	122,991	28.65
Gross Profit-Other	1,888	29.53	2,049	31.60	3,045	35.52	2,049	31.60	9,241	39.55	6,521	33.15
Total Gross Profit	45,463	29.32	45,916	28.82	38,315	29.95	45,916	28.82	127,430	30.79	129,512	28.85
Selling, General & Administrative Expenses	38,750	24.99	37,414	23.48	36,378	28.43	37,414	23.48	116,322	28.11	111,260	24.78
Other Charges	1,024	0.66	-	0.00	-	0.00	-	0.00	406	0.10	1,024	0.23
Operating Income before amortization expense	5,689	3.67	8,502	5.34	1,937	1.51	8,502	5.34	10,702	2.59	17,228	3.84
Amortization Expense	18	0.01	319	0.20	3,036	2.37	319	0.20	9,126	2.21	519	0.12
Other Income (Expense)	(308)	(0.20)	(677)	(0.43)	192	0.15	(677)	(0.43)	610	0.15	(1,164)	(0.26)
Income Before Taxes	5,363	3.46	7,506	4.71	(907)	(0.71)	7,506	4.71	2,186	0.53	15,544	3.46
Provision for Income Taxes	2,147	1.38	3,102	1.95	(316)	(0.25)	3,102	1.95	837	0.20	6,317	1.41
Net Income	3,216	2.07	4,404	2.76	(591)	(0.46)	4,404	2.76	1,349	0.33	9,227	2.06
<b>Performance Metrics</b>												
Ending Billable Headcount	4,760		4,783		3,652		4,783		3,652		4,783	
Overhead Employees	743		681		633		681		633		681	
Billable / OH Ratio	6.4		7.0		5.8		7.0		5.8		7.0	
Billing Rate	\$ 75.79		\$ 73.43		\$ 79.64		\$ 73.43		\$ 79.48		\$ 75.32	
Utilization	89.4%		89.2%		84.2%		89.2%		86.1%		88.4%	
Annual Rev Per Consultant	\$ 140,933		\$ 136,239		\$ 139,478		\$ 134,406		\$ 142,339		\$ 138,492	
<b>Corporate/Intersegment Eliminations</b>												
Total Revenue	\$ (778)	0.00	\$ (1,063)	0.00	\$ (431)	0.00	\$ (1,063)	0.00	\$ (1,450)	0.00	\$ (2,511)	0.00
Total Gross Profit	(94)	0.00	(106)	0.00	97	0.00	(106)	0.00	(235)	0.00	(407)	0.00
Selling, General & Administrative Expenses	5,978	3.86	6,791	4.26	5,190	4.06	6,791	4.26	11,186	2.70	17,533	3.91
Other Charges	1,024	0.66	-	0.00	-	0.00	-	0.00	406	0.10	1,024	0.23
Operating Income before amortization expense	(7,096)	(4.58)	(6,897)	(4.33)	(5,093)	(3.98)	(6,897)	(4.33)	(11,827)	(2.86)	(18,964)	(4.22)
Amortization Expense	18	0.01	319	0.20	3,036	2.37	319	0.20	9,126	2.21	519	0.12
Other Income (Expense)	(308)	(0.20)	(677)	(0.43)	192	0.15	(677)	(0.43)	610	0.15	(1,164)	(0.26)
Income Before Taxes	(8,446)	(5.45)	(7,893)	(4.95)	(7,937)	(6.20)	(7,893)	(4.95)	(20,749)	(5.01)	(21,672)	(4.83)
<b>Custom Solutions Segment</b>												
Consulting Services	\$ 127,458	97.05	\$ 133,222	97.23	\$ 93,931	94.03	\$ 133,222	97.23	\$ 305,659	95.09	\$ 367,743	96.91
Other Revenue	3,876	2.95	3,798	2.77	5,968	5.97	3,798	2.77	15,797	4.91	11,715	3.09
Total Revenue	131,334	100.00	137,020	100.00	99,899	100.00	137,020	100.00	321,456	100.00	379,457	100.00
Gross Profit-Services	36,882	28.94	37,130	27.87	26,441	28.15	37,130	27.87	88,168	28.85	103,809	28.23
Gross Profit-Other	475	12.27	444	11.72	446	7.47	444	11.72	1,679	10.63	1,440	12.29
Total Gross Profit	37,357	28.44	37,574	27.42	26,886	26.91	37,574	27.42	89,847	27.95	105,248	27.74
Selling, General & Administrative Expenses	24,419	18.59	23,430	17.10	20,987	21.01	23,430	17.10	68,080	21.18	70,381	18.55
Operating Income	12,938	9.85	14,144	10.32	5,900	5.91	14,144	10.32	21,767	6.77	34,867	9.19
<b>Performance Metrics</b>												
Ending Billable Headcount	4,301		4,368		3,121		4,368		3,121		4,368	
Overhead Employees	527		458		389		458		389		458	
Billable / OH Ratio	8.2		9.5		8.0		9.5		8.0		9.5	
Billing Rate	\$ 67.81		\$ 66.72		\$ 67.84		\$ 66.72		\$ 67.65		\$ 67.32	
Utilization	92.2%		91.2%		87.2%		91.2%		89.2%		91.4%	
Annual Rev Per Consultant	\$ 130,043		\$ 126,565		\$ 123,045		\$ 122,124		\$ 125,515		\$ 127,983	
<b>Package Solutions Segment</b>												
Consulting Services	\$ 21,982	89.72	\$ 20,681	88.50	\$ 25,880	90.86	\$ 20,681	88.50	\$ 86,255	91.94	\$ 64,012	88.94
Other Revenue	2,519	10.28	2,687	11.50	2,603	9.14	2,687	11.50	7,563	8.06	7,957	11.06
Total Revenue	24,501	100.00	23,368	100.00	28,483	100.00	23,368	100.00	93,818	100.00	71,969	100.00
Gross Profit-Services	6,774	30.82	6,843	33.09	8,733	33.74	6,843	33.09	30,257	35.08	19,593	30.61
Gross Profit-Other	1,426	56.60	1,603	59.67	2,599	99.85	1,603	59.67	7,559	99.95	5,077	63.81
Total Gross Profit	8,200	33.47	8,446	36.15	11,331	39.78	8,446	36.15	37,816	40.31	24,670	34.28
Selling, General & Administrative Expenses	8,353	34.09	7,192	30.78	10,202	35.82	7,192	30.78	37,054	39.50	23,345	32.44
Operating Income	(154)	(0.63)	1,255	5.37	1,130	3.97	1,255	5.37	762	0.81	1,325	1.84
<b>Performance Metrics</b>												
Ending Headcount	459		415		531		415		531		415	
Overhead Employees	91		85		118		85		118		85	
Billable / OH Ratio	5.0		4.9		4.5		4.9		4.5		4.9	
Billing Rate	\$ 147.92		\$ 147.59		\$ 152.11		\$ 147.59		\$ 153.71		\$ 147.38	
Utilization	63.8%		66.8%		65.2%		66.8%		66.5%		63.3%	
Annual Rev Per Consultant	\$ 196,295		\$ 205,067		\$ 206,285		\$ 205,067		\$ 212,612		\$ 194,046	



## Third Quarter Highlights

### Company Total

- **Revenue** for the quarter totaled \$159.3 million, an increase of 25.3% compared to \$128 million reported in the September 2001 quarter, and a 3% sequential increase compared to the \$155 million reported in the June quarter. Incremental revenue from the DCI acquisition, which closed at the end of April 2002, helped us achieve that growth in the quarter. For the nine months, revenue totaled \$448.9 million, compared to \$413.8 million for the first nine months of 2001.
- **Gross profit-services** as a percentage of sales for the quarter decreased by approximately 60 basis points compared to the second quarter due, in part, to lower utilization resulting from more holidays in the quarter. Excluding the impact of the holidays in both quarters, third quarter utilization actually improved compared to the second quarter.
- **Selling, general and administrative expenses** as a percentage of sales decreased for the quarter by 151 basis points and in dollars decreased by \$1.3 million compared to the second quarter. Corporate SG&A actually increased during the quarter by approximately \$800 thousand, due to \$1.5 million in costs associated with CIBER's sponsorship of the International Golf Tournament, and offset partially by lower medical insurance claims in the quarter. Our custom and package segments each reduced SG&A by approximately \$1 million in the quarter. The SG&A decrease in our custom segment was due largely to cost savings associated with the integration of Decision Consultants. In our package segment the decrease was a combination of lower payroll costs, less office rent and lower bad debt expense.
- **Operating Income before amortization expense** totaled \$8.5 million for the quarter, an increase of 49% compared to the \$5.7 million reported in the second quarter, and an increase of over 400% compared to \$1.9 million reported in the third quarter of 2001.
- **Earnings per share** for the quarter totaled \$.07, compared to \$.05 reported in the June quarter. For the first nine months of the year, earnings totaled \$.15 per share.

### CIBER Custom Solutions Segment

- **Revenue** from CIBER Custom Solutions totaled \$133.2 million for the quarter, an increase of 37.2% compared to \$99.9 million reported in the September 2001 quarter, and a 4.3% sequential increase compared to the \$127.5 million reported in the June quarter. Incremental revenue from acquisitions closed in the fourth quarter of 2001 (Metamor) and in the first half of 2002 (Decision Consultants, Inc.) contributed to both the sequential and year over year increases. For the nine months, revenue totaled \$379.5 million, compared to \$321.5 million for the first nine months of 2001, an increase of 18%.



- **Gross profit-services** as a percentage of services revenue decreased for the quarter by approximately 107 basis points to 27.9%, compared to 28.4% for the second quarter of 2002. Lower utilization resulting from more holidays in the quarter plus a full quarter of slightly lower margin DCI operations caused the decline.
- **Operating Income** totaled \$14.1 million for the quarter, an increase of 9% compared to the \$12.9 million reported in the second quarter, due primarily to the decrease in SG&A as analyzed above.
- **Billable Headcount** increased by 1.5% during the quarter ending with 4,368 billable consultants, compared to 4,301 as of June 30<sup>th</sup>. This is the second quarter in a row that the custom solutions segment has experienced organic billable headcount growth.
- **Utilization** for the quarter was 91.2%, which is lower than the 92.2% reported for the June quarter, however, excluding the holiday weeks in both quarters, utilization actually improved by .5%.
- **Billable to Overhead ratio** improved dramatically during the quarter to 9.5 consultants per overhead employee compared to 8.2 in the June quarter. Consolidation of DCI and CIBER offices in the quarter was a major driver for this improvement.
- **Average Billing Rate** per hour for the quarter was \$66.72 compared to \$67.81 in the second quarter. Third quarter included a full three months of DCI and second quarter saw a spike in rates that have returned to a more normal rate.

### **CIBER Package Solutions Segment**

- **Revenue** from CIBER Package Solutions totaled \$23.4 million for the quarter, a decrease of 18% compared to \$28.5 million reported in the September 2001 quarter, and a 4.6% sequential decrease compared to \$24.5 million reported in the June quarter.
- **Gross profit-services** as a percentage of services revenue increased for the quarter by approximately 227 basis points to 33.09%, compared to 30.82% for the second quarter of 2002. Higher utilization resulting from headcount reductions initiated during the second quarter drove this improvement.
- **Operating Income** totaled \$1.3 million for the quarter, compared to \$154 thousand loss reported in the second quarter. Better utilization and lower SG&A were the reasons for this improvement. Also significant is the quarter over quarter and year over year improvement in operating income. The cost cutting initiative that began late in the third quarter of 2001 is proving to be critical to the package business' success. Comparing the first nine months of 2001 to the same period in 2001, gross profit declined by approximately \$13 million, however, SG&A expenses were cut by nearly \$14 million, resulting in a 74% increase in operating income.



- **Billable Headcount** decreased by nearly 10% during the quarter ending with 415 billable consultants, compared to 459 as of June 30<sup>th</sup>. The decrease was the result of our effort to control expenses and keep utilization at an acceptable level given current revenue levels.
  
- **Utilization** for the quarter was 66.8%, which is higher than the 63.8% reported for the June quarter, and is directly tied to our decrease in billable headcount.
  
- **Average Billing Rate** per hour for the quarter was \$147.59 compared to \$147.92 in the second quarter. The rate increase was due to the fact that short term, lower rate projects were completed in the second quarter and rates have stabilized in the third quarter.

## **FORWARD LOOKING STATEMENT**

Except for the historical information and discussions contained herein, statements contained in this report may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially, as discussed in the company's filings with the Securities and Exchange Commission. CIBER and the CIBER logo are trademarks or registered trademarks of CIBER, Inc.