

COMPUTER TASK GROUP INC
Form 10-Q
November 07, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

**X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 28, 2007**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934
FOR THE TRANSITION PERIOD FROM _____ TO _____**

Commission file number 1-9410

COMPUTER TASK GROUP, INCORPORATED

(Exact name of Registrant as specified in its charter)

New York
(State of incorporation)

16-0912632
(IRS Employer Identification No.)

800 Delaware Avenue, Buffalo, New York
(Address of principal executive offices)

14209
(Zip Code)

Registrant's telephone number, including area code: (716) 882-8000

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (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. Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Title of each class	Shares outstanding at November 1, 2007
Common stock, par value \$.01 per share	19,470,511

PART I. FINANCIAL INFORMATION**Item 1. Financial Statements.****COMPUTER TASK GROUP, INCORPORATED****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(amounts in thousands, except per share data)****(Unaudited)**

	For the Quarter Ended		For the Three Quarters Ended	
	Sept. 28, 2007	Sept. 29, 2006	Sept. 28, 2007	Sept. 29, 2006
Revenue	\$ 80,625	\$ 79,830	\$ 240,781	\$ 249,238
Direct costs	62,347	61,595	187,106	194,178
Selling, general and administrative expenses	16,644	16,493	49,000	50,214
Operating income	1,634	1,742	4,675	4,846
Gain on investments	5		649	
Interest and other income	41	27	169	122
Interest and other expense	(207)	(170)	(592)	(736)
Income before income taxes	1,473	1,599	4,901	4,232
Provision for income taxes	559	767	1,866	1,805
Net income	\$ 914	\$ 832	\$ 3,035	\$ 2,427
Net income per share:				
Basic	\$ 0.06	\$ 0.05	\$ 0.19	\$ 0.15
Diluted	\$ 0.06	\$ 0.05	\$ 0.18	\$ 0.14
Weighted average shares outstanding:				
Basic	16,176	16,349	16,283	16,448
Diluted	16,598	16,653	16,731	16,775

The accompanying notes are an integral part of these condensed consolidated financial statements.

COMPUTER TASK GROUP, INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except share data)

(Unaudited)

	Sept. 28, 2007	December 31, 2006
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 6,037	\$ 4,758
Accounts receivable, net of allowances of \$700 and \$866 in 2007 and 2006, respectively	53,187	52,544
Prepays and other	3,385	2,704
Deferred income taxes	1,290	1,185
Investments		813
Total current assets	63,899	62,004
Property and equipment, net of accumulated depreciation of \$28,522 and \$26,685 in 2007 and 2006, respectively	5,494	5,918
Goodwill	35,678	35,678
Deferred income taxes	5,255	4,990
Other assets	3,149	2,679
Investments	603	448
Total assets	\$ 114,078	\$ 111,717
 <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 7,220	\$ 9,561
Accrued compensation	26,525	23,162
Advance billings on contracts	908	2,047
Other current liabilities	4,256	5,125
Income taxes payable	1,035	455
Total current liabilities	39,944	40,350
Deferred compensation benefits	8,707	8,792
Other long-term liabilities	930	944
Total liabilities	49,581	50,086
 Shareholders' Equity:		
Common stock, par value \$.01 per share, 150,000,000 shares authorized; 27,017,824 shares issued	270	270
Capital in excess of par value	111,715	111,458
Retained earnings	48,270	45,235
Less: Treasury stock of 7,404,173 and 7,019,643 shares at cost, respectively	(36,728)	(35,005)
Stock Trusts of 3,473,782 and 3,622,560 shares at cost, respectively	(55,554)	(56,189)
Accumulated other comprehensive loss	(3,476)	(4,138)
Total shareholders' equity	64,497	61,631
Total liabilities and shareholders' equity	\$ 114,078	\$ 111,717

The accompanying notes are an integral part of these condensed consolidated financial statements.

COMPUTER TASK GROUP, INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)

(Unaudited)

	Three Quarters Ended	
	Sept. 28, 2007	Sept. 29, 2006
Cash flows from operating activities:		
Net income	\$ 3,035	\$ 2,427
Adjustments:		
Depreciation expense	1,858	1,927
Equity-based compensation expense	621	564
Deferred income taxes	(161)	213
Deferred compensation	3	288
Gain on investments	(649)	
Changes in assets and liabilities:		
Decrease in accounts receivable	539	19,661
Increase in prepaids and other	(616)	(1,422)
Increase in other assets	(399)	(666)
Increase in investments	(113)	
Decrease in accounts payable	(846)	(947)
Increase in accrued compensation	2,873	5,632
Increase (decrease) in advance billings on contracts	(1,149)	497
Increase (decrease) in other current liabilities	(974)	698
Increase in income taxes	565	384
Decrease in other long-term liabilities	(14)	(510)
Net cash provided by operating activities	4,573	28,746
Cash flows from investing activities:		
Additions to property and equipment	(1,370)	(1,400)
Proceeds from sales of investments	809	
Proceeds from insurance claim	177	
Proceeds from sales of property and equipment	1	6
Net cash used in investing activities	(383)	(1,394)
Cash flows from financing activities:		
Proceeds from (payments on) revolving debt, net		(23,150)
Change in cash overdraft, net	(1,794)	(2,172)
Proceeds from Employee Stock Purchase Plan	94	112
Purchase of stock for treasury	(1,929)	(1,517)
Excess tax benefits from equity-based compensation	11	19
Proceeds from other plans	372	161
Net cash used in financing activities	(3,246)	(26,547)
Effect of exchange rate changes on cash and cash equivalents	335	222
Net increase in cash and cash equivalents	1,279	1,027
Cash and cash equivalents at beginning of year	4,758	2,248

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Cash and cash equivalents at end of quarter

\$ 6,037 \$ 3,275

The accompanying notes are an integral part of these condensed consolidated financial statements.

COMPUTER TASK GROUP, INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Financial Statements

The condensed consolidated financial statements included herein reflect, in the opinion of the management of Computer Task Group, Incorporated (CTG or the Company), all normal recurring adjustments necessary to present fairly the condensed consolidated financial position, results of operations and cash flows for the periods presented. Certain amounts in the prior period s condensed consolidated financial statements have been reclassified to conform to the current year presentation.

2. Basis of Presentation

The condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to the SEC rules and regulations. The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles requires the Company s management to make estimates, judgments and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Management believes that the information and disclosures provided herein are adequate to present fairly the condensed consolidated financial position, results of operations and cash flows of the Company. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's latest Annual Report on Form 10-K filed with the SEC.

The Company operates in one industry segment, providing Information Technology (IT) services to its clients. These services include IT Staffing and IT Solutions. CTG provides these primary services to all of the markets that it serves. The services provided typically encompass the IT business solution life cycle, including phases for planning, developing, implementing, managing, and ultimately maintaining the IT solution. A typical customer is an organization with large, complex information and data processing requirements. The reduction in the 2006 third quarter staffing headcount from a significant client resulted in the mix of the Company s solutions / staffing revenue increasing to 32% / 68% for the quarter ended September 28, 2007 as compared to 31% / 69% for both the 2007 second quarter and the 2006 third quarter.

The Company promotes a significant portion of its services through three vertical market focus areas: Technology Service Providers, Healthcare (which includes services provided to health care providers, health insurers, and life sciences companies) and Financial Services. The Company focuses on these three vertical areas as it believes that these areas are either higher growth markets than the general IT services market and the general economy, or are areas that provide greater potential for the Company s growth due to the size of the vertical market. The vertical areas of Technology Service Providers, Healthcare, and Financial Services totaled 38%, 25%, and 10% of total consolidated revenue in the 2007 third quarter as compared to 39%, 25%, and 11% of total consolidated revenue in the 2006 third quarter. Outside of these three vertical market focus areas, the Company provides its services to customers in general industries, which totaled 27% of total consolidated revenue in the 2007 third quarter and 25% in the 2006 third quarter.

3. Investments

The Company sold a security during the 2007 first quarter, recording a gain of approximately \$0.6 million on the sale in its condensed consolidated statement of income. At September 28, 2007, the Company s remaining investments consist of assets in the Computer Task Group, Incorporated Non-Qualified Key Employee Deferred Compensation Plan.

4. Net Income Per Share

The basic and diluted earnings per share calculation for the quarter and three quarters ended September 28, 2007 and September 29, 2006 is as follows:

	For the Quarter Ended		For the Three Quarters Ended	
	Sept. 28, 2007	Sept. 29, 2006	Sept. 28, 2007	Sept. 29, 2006
	(amounts in thousands, except per share data)			
Weighted-average number of shares outstanding during period	16,176	16,349	16,283	16,448
Common Stock equivalents incremental shares primarily under stock option plans	422	304	448	327
Number of shares on which diluted earnings per share is based	16,598	16,653	16,731	16,775
Net income	\$ 914	\$ 832	\$ 3,035	\$ 2,427
Net income per share:				
Basic	\$ 0.06	0.05	\$ 0.19	\$ 0.15
Diluted	\$ 0.06	0.05	\$ 0.18	\$ 0.14

Certain options representing approximately 2.1 million and 1.8 million shares of common stock were outstanding at September 28, 2007 and September 29, 2006, respectively, but were not included in the computation of diluted earnings per share as their affect on the computation would have been anti-dilutive.

5. Accumulated Other Comprehensive Loss

The components that make up accumulated other comprehensive loss on the condensed consolidated balance sheets at September 28, 2007 and December 31, 2006 are as follows:

	Sept. 28, 2007	December 31, 2006
	(amounts in thousands)	
Foreign currency adjustment	\$ (2,047)	\$ (3,038)
Pension loss adjustment, net of tax of \$903 in 2007 and \$950 in 2006	(1,429)	(1,476)
Unrealized gain on investments, net of tax of \$239 in 2006		376
Accumulated other comprehensive loss	\$ (3,476)	\$ (4,138)