

COMPUTER TASK GROUP INC  
Form 10-Q  
October 23, 2013  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 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 27, 2013

OR

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

For the Transition period from to  
Commission File No. 1-9410

COMPUTER TASK GROUP, INCORPORATED  
(Exact name of registrant as specified in its charter)

New York

(State of incorporation)

800 Delaware Avenue, Buffalo, New York

(Address of principal executive offices)

16-0912632

(I.R.S. Employer Identification No.)

14209

(Zip Code)

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

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 x NO "

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO "

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.

Large accelerated filer " Accelerated filer x

Non-accelerated filer " (Do not check if a smaller reporting company) Smaller reporting company "

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Title of each class	Shares outstanding at
Common stock, par value \$.01 per share	October 18, 2013
	18,593,826

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## 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. 27, 2013	Sept. 28, 2012	Sept. 27, 2013	Sept. 28, 2012
Revenue	\$100,689	\$106,418	\$316,301	\$316,490
Direct costs	79,506	83,283	249,872	248,608
Selling, general and administrative expenses	15,129	16,812	47,794	49,817
Operating income	6,054	6,323	18,635	18,065
Interest and other income	25	33	44	130
Non-taxable life insurance proceeds	—	—	—	423
Interest and other expense	116	101	350	287
Income before income taxes	5,963	6,255	18,329	18,331
Provision for income taxes	2,100	2,442	6,354	7,035
Net income	\$3,863	\$3,813	\$11,975	\$11,296
Net income per share:				
Basic	\$0.25	\$0.25	\$0.78	\$0.75
Diluted	\$0.23	\$0.23	\$0.70	\$0.67
Weighted average shares outstanding:				
Basic	15,356	15,075	15,415	15,123
Diluted	16,923	16,800	17,029	16,807
Cash dividend declared per share	\$0.05	\$—	\$0.15	\$—

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

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COMPUTER TASK GROUP, INCORPORATED  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (amounts in thousands)  
 (Unaudited)

	For the Quarter Ended		For the Three Quarters Ended	
	Sept. 27, 2013	Sept. 28, 2012	Sept. 27, 2013	Sept. 28, 2012
Net Income	\$3,863	\$3,813	\$11,975	\$11,296
Foreign currency adjustment	654	538	357	(40 )
Change in pension loss, net of taxes of \$15 and \$30 in the 2013 and 2012 third quarters, respectively, and \$52 and \$88 in the first three quarters of 2013 and 2012, respectively	(119 )	9	34	151
Comprehensive income	\$4,398	\$4,360	\$12,366	\$11,407

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

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CONDENSED CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except share balances)

(Unaudited)

	Sept. 27, 2013	Dec. 31, 2012
Assets		
Current Assets:		
Cash and cash equivalents	\$31,532	\$40,614
Accounts receivable, net of allowances of \$868 and \$862 in 2013 and 2012, respectively	75,242	70,459
Prepaid and other current assets	2,206	1,450
Deferred income taxes	1,098	1,145
Total current assets	110,078	113,668
Property, equipment and capitalized software, net	7,837	6,916
Goodwill	37,999	35,678
Deferred income taxes	6,691	6,435
Other assets	4,311	2,871
Investments	896	637
Total assets	\$167,812	\$166,205
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	\$9,976	\$10,170
Accrued compensation	28,222	32,162
Advance billings on contracts	1,640	2,481
Dividend payable	751	—
Other current liabilities	3,904	4,747
Income taxes payable	—	641
Total current liabilities	44,493	50,201
Deferred compensation benefits	12,690	12,847
Other long-term liabilities	419	376
Total liabilities	57,602	63,424
Shareholders' Equity:		
Common stock, par value \$0.01 per share, 150,000,000 shares authorized; 27,017,824 shares issued	270	270
Capital in excess of par value	121,640	119,183
Retained earnings	109,333	99,644
Less: Treasury stock of 8,409,563 and 8,276,014 shares at cost, in 2013 and 2012, respectively	(55,382)	(50,302)
Stock Trusts of 3,363,351 shares at cost in both periods	(55,083)	(55,083)
Other	(279)	(251)
Accumulated other comprehensive loss	(10,289)	(10,680)
Total shareholders' equity	110,210	102,781
Total liabilities and shareholders' equity	\$167,812	\$166,205

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



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COMPUTER TASK GROUP, INCORPORATED  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(amounts in thousands)  
(Unaudited)

	For the Three Quarters Ended	
	Sept. 27, 2013	Sept. 28, 2012
Cash flow from operating activities:		
Net income	\$11,975	\$11,296
Adjustments:		
Depreciation and amortization expense	1,976	1,976
Equity-based compensation expense	1,914	1,595
Deferred income taxes	(304)	) 1,030
Deferred compensation	99	199
Changes in assets and liabilities:		
Increase in accounts receivable	(2,969)	) (2,777)
Increase in prepaid and other current assets	(675)	) (332)
(Increase) decrease in other assets	(1,440)	) 35
Decrease in accounts payable	(2,320)	) (1,142)
Decrease in accrued compensation	(4,178)	) (1,013)
Decrease in income taxes payable	(884)	) (1,433)
Decrease in advance billings on contracts	(1,169)	) (248)
Increase (decrease) in other current liabilities	(1,172)	) 562
Increase (decrease) in other long-term liabilities	(38)	) 10
Net cash provided by operating activities	815	9,758
Cash flow from investing activities:		
Acquisition of business, net of cash received	(2,488)	) —
Additions to property and equipment	(1,683)	) (1,090)
Additions to capitalized software	(1,167)	) —
Deferred compensation plan investments, net	(269)	) (112)
Net cash used in investing activities	(5,607)	) (1,202)
Cash flow from financing activities:		
Proceeds from stock option plan exercises	386	725
Excess tax benefits from equity-based compensation	973	1,747
Proceeds from Employee Stock Purchase Plan	286	222
Change in cash overdraft, net	763	(49)
Dividends paid	(1,526)	) —
Purchase of stock for treasury	(5,315)	) (4,155)
Net cash used in financing activities	(4,433)	) (1,510)
Effect of exchange rates on cash and cash equivalents	143	(48)
Net increase (decrease) in cash and cash equivalents	(9,082)	) 6,998
Cash and cash equivalents at beginning of year	40,614	22,414
Cash and cash equivalents at end of quarter	\$31,532	\$29,412

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





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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 comprehensive income, and cash flows for the periods presented.

The Company's fiscal year-end is December 31. During the year, the quarters generally consist of a 13-week fiscal quarter where the last day of each of the first three quarters is a Friday. The 2013 third quarter began on June 29, 2013 and ended on September 27, 2013. The 2012 third quarter began on June 30, 2012 and ended September 28, 2012. There were 63 billable days in both the third quarters of 2013 and 2012, and 190 and 191 billable days in the first three quarters of 2013 and 2012, respectively.

2. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

These condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (“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. There are no unconsolidated entities, or off-balance sheet arrangements other than certain guarantees supporting office leases or the performance under government contracts in the Company's European operations. All inter-company accounts and transactions have been eliminated.

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. Such estimates include, but are not limited to, the valuation of goodwill and other intangible assets, valuation allowances for deferred tax assets, actuarial assumptions including discount rates and expected rates of return on assets, as applicable, for the Company's defined benefit and postretirement benefit plans, the allowance for doubtful accounts receivable, assumptions underlying stock option valuation, investment valuation, legal matters, other contingencies, and progress toward completion and direct profit or loss on contracts. Management believes that the information and disclosures provided herein are adequate to present fairly the condensed consolidated financial position, results of operations and comprehensive income, 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 IT services to its clients. These services include IT Solutions and IT Staffing. 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.

IT solutions and IT staffing revenue as a percentage of total revenue for the quarter and three quarters ended September 27, 2013 and September 28, 2012 was as follows:

	For the Quarter Ended	For the Three Quarters Ended
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	Sept. 27, 2013	%	Sept. 28, 2012	%	Sept. 27, 2013	%	Sept. 28, 2012	%
IT solutions	39.7	%	41.5	%	39.3	%	40.8	%
IT staffing	60.3	%	58.5	%	60.7	%	59.2	%
Total	100.0	%	100.0	%	100.0	%	100.0	%

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The Company promotes a significant portion of its services through four vertical market focus areas: Healthcare (which includes services provided to healthcare providers, health insurers, and life sciences companies), Technology Service Providers, Financial Services, and Energy. The Company focuses on these four 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 remainder of CTG's revenue is derived from general markets.

CTG's revenue by vertical market for the quarter and three quarters ended September 27, 2013 and September 28, 2012 was as follows:

	For the Quarter Ended		For the Three Quarters Ended					
	Sept. 27, 2013	Sept. 28, 2012	Sept. 27, 2013	Sept. 28, 2012	Sept. 27, 2013	Sept. 28, 2012	Sept. 27, 2013	Sept. 28, 2012
Healthcare	31.4	% 33.5	% 31.9	% 32.8	%	%	%	%
Technology service providers	26.6	% 30.3	% 28.5	% 31.0	%	%	%	%
Financial services	6.7	% 5.9	% 6.5	% 6.0	%	%	%	%
Energy	6.1	% 5.8	% 6.0	% 5.9	%	%	%	%
General markets	29.2	% 24.5	% 27.1	% 24.3	%	%	%	%
Total	100.0	% 100.0	%	%	%	%	%	%