

COMPUTER TASK GROUP INC
Form 10-Q
July 26, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 1, 2016

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 or other jurisdiction of incorporation or organization)
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

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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 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 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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Title of each class	Shares outstanding at July 22, 2016
Common stock, par value \$.01 per share	16,365,977

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

COMPUTER TASK GROUP, INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(amounts in thousands, except per share data)

(Unaudited)

	For the Quarter Ended		For the Two Quarters Ended	
	July 1, 2016	July 3, 2015	July 1, 2016	July 3, 2015
Revenue	\$83,486	\$94,744	\$169,336	\$192,221
Direct costs	67,574	79,143	138,879	159,315
Selling, general and administrative expenses	14,026	14,485	27,493	29,577
Goodwill impairment	—	—	21,544	—
Operating income (loss)	1,886	1,116	(18,580)	3,329
Interest and other income	7	4	25	45
Interest and other expense	104	46	184	97
Income (loss) before income taxes	1,789	1,074	(18,739)	3,277
Provision for income taxes	530	520	859	1,456
Net income (loss)	\$1,259	\$554	\$(19,598)	\$1,821
Net income (loss) per share:				
Basic	\$0.08	\$0.04	\$(1.26)	\$0.12
Diluted	\$0.08	\$0.03	\$(1.26)	\$0.11
Weighted average shares outstanding:				
Basic	15,584	15,439	15,554	15,423
Diluted	15,789	15,919	15,554	15,923
Cash dividend per common share	\$0.06	\$0.06	\$0.12	\$0.12

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

COMPUTER TASK GROUP, INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(amounts in thousands)

(Unaudited)

	For the Quarter Ended		For the Two Quarters Ended	
	July 1, 2016	July 3, 2015	July 1, 2016	July 3, 2015
Net Income (loss)	\$1,259	\$554	\$(19,598)	\$1,821
Foreign currency adjustment	(511)	422	170	(1,548)
Change in pension loss, net of taxes of \$16 and \$24 in the 2016 and 2015 second quarters, respectively, and \$31 and \$46 in the first two quarters of 2016 and 2015, respectively	179	(108)	(16)	807
Other comprehensive income (loss)	(332)	314	154	(741)
Comprehensive income (loss)	\$927	\$868	\$(19,444)	\$1,080

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 balances)

(Unaudited)

	July 1, 2016	December 31, 2015
Assets		
Current Assets:		
Cash and cash equivalents	\$10,866	\$10,801
Accounts receivable, net of allowances of \$320 and \$377 in 2016 and 2015, respectively	73,969	71,403
Prepaid and other current assets	2,593	1,770
Deferred income taxes	817	804
Total current assets	88,245	84,778
Property, equipment and capitalized software, net	5,904	5,488
Goodwill	15,717	37,231
Deferred income taxes	5,543	5,573
Cash surrender value of life insurance	30,482	29,753
Investments	377	254
Total assets	\$146,268	\$163,077
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	\$7,444	\$8,236
Accrued compensation	17,929	17,541
Advance billings on contracts	1,384	945
Dividend payable	959	925
Other current liabilities	3,957	4,122
Income taxes payable	452	35
Total current liabilities	32,125	31,804
Long-term debt	4,600	1,225
Deferred compensation benefits	11,703	11,904
Other long-term liabilities	494	427
Total liabilities	48,922	45,360
Shareholders' Equity:		
Common stock, par value \$0.01 per share, 150,000,000 shares authorized;		
27,017,824 shares issued in both periods	270	270
Capital in excess of par value	122,740	125,226
Retained earnings	100,252	121,798
Less: Treasury stock of 10,651,847 and 8,014,004 shares at cost, in 2016 and 2015, respectively	(111,430)	(60,275)
Stock Trusts of 0 and 3,264,651 shares at cost, in 2016 and 2015, respectively	—	(54,662)

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Accumulated other comprehensive loss	(14,486)	(14,640)
Total shareholders' equity	97,346	117,717
Total liabilities and shareholders' equity	\$146,268	\$163,077

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)

	For the Two Quarters Ended	
	July 1, 2016	July 3, 2015
Cash flow from operating activities:		
Net income (loss)	\$(19,598)	\$1,821
Adjustments:		
Depreciation and amortization expense	830	1,114
Equity-based compensation expense	824	672
Deferred income taxes	(247)	267
Deferred compensation	183	(338)
Goodwill impairment	21,544	—
Write-off of capitalized software	—	1,140
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(2,319)	2,382
Increase in prepaid and other current assets	(1,082)	(304)
Increase in cash surrender value of life insurance	(891)	(610)
Decrease in accounts payable	(756)	(2,778)
Increase (decrease) in accrued compensation	237	(4,079)
Increase (decrease) in advance billings on contracts	442	(439)
Decrease in other current liabilities	(168)	(1,168)
Increase in income taxes payable	413	120
Increase (decrease) in other long-term liabilities	67	(6)
Net cash used in operating activities		