COMPUTER TASK GROUP INC

FORM 10-Q
(Quarterly Report)

Filed 11/12/1996 For Period Ending 9/27/1996

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Sector	Technology
Fiscal Year	12/31

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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 SEPTEMBER 27, 1996

Commission file number 1-9410

Computer Task Group, Incorporated
(Exact name of Registrant as specified in its charter)

New York	16-0912632
(State of incorporation)	(I.R.S. Employer Identification No.)

800 Delaware Avenue, Buffalo, New York	14209
(Address of principal executive offices)	(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
Number of shares of common stock outstanding:

Title of each class	Shares outstanding September 27, 1996
Common stock, par value $.01 per share	10,327,276

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

COMPUTER TASK GROUP, INCORPORATED
CONSOLIDATED STATEMENT OF INCOME
(UNAUDITED)

	Quarter Ended		Three Quarters Ended	
	September 27, 1996	September 29, 1995	September 27, 1996	September 29, 1995
Revenue	$ 89,410	$ 85,609	$ 270,735	$ 252,448
Direct costs	63,295	62,358	193,797	184,414
Selling, general and administrative expenses	21,255	20,000	63,696	58,711
Operating income	4,860	3,251	13,242	9,323
Interest and other income	210	131	930	346
Interest and other expense	(47)	(212)	(1,062)	(1,001)
Income before income taxes	5,023	3,170	13,110	8,668
Income tax expense (benefit)	2,009	(1,988)	5,244	17
Net income	$ 3,014	$ 5,158	$ 7,866	$ 8,651
Net income per share	$ 0.34	$ 0.59	$ 0.89	$ 1.00
Weighted average shares outstanding	8,839	8,685	8,820	8,655
Cash dividend per share	$ -	$ -	$ 0.10	$ 0.10

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

COMPUTER TASK GROUP, INCORPORATED
CONSOLIDATED BALANCE SHEET

	September 27, 1996	December 31, 1995
	(Unaudited)	(Audited)
	(amounts in thousands)	
ASSETS		
Current Assets:		
Cash and temporary cash investments	$ 33,069	$ 16,545
Accounts receivable, net of allowance for doubtful accounts of $859,000	58,993	58,546
Prepaids and other	1,891	1,621
Deferred income taxes	2,058	2,057
Total current assets	96,011	78,769
Property and equipment, net of accumulated depreciation and amortization	14,561	17,981
Acquired intangibles, net of accumulated amortization of $6,152,000 and $5,568,000	4,756	5,526
Deferred income taxes	919	1,969
Other assets	620	521
Total assets	$ 116,867	$ 104,766
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current portion of long-term debt	$ -	$ 2,289
Accounts payable	11,230	9,365
Accrued compensation	19,416	9,961
Income taxes payable	1,429	2,080
Advance billings on contracts	1,258	2,168
Other current liabilities	6,003	3,397
Total current liabilities	39,336	29,260
Long-term debt	-	3,640
Deferred compensation benefits	9,000	8,739
Other long-term liabilities	1,651	1,651
Total liabilities	49,987	43,290
Shareholders' Equity		
Common stock, par value $.01 per share, 25,000,000 shares authorized; 13,458,129 and 13,306,594 shares issued	135	133
Capital in excess of par value	137,181	114,446
Retained earnings	22,700	15,687
Foreign currency adjustment	(2,474)	(1,735)
Less: Treasury stock of 3,130,853 and 3,008,456 shares, at cost	(31,629)	(28,594)
Loans to employees	(336)	(371)
Stock Employee Compensation Trust of 1,830,618 shares, at market value	(56,749)	(36,170)
Minimum pension liability adjustment	(1,948)	(1,920)
Total shareholders' equity	66,880	61,476
Total liabilities and shareholders' equity	$ 116,867	$ 104,766

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

COMPUTER TASK GROUP, INCORPORATED
CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

	Three Quarters Ended September 27, 1996	Three Quarters Ended September 29, 1995
	(Amounts in thousands)	
Cash flows from operating activities:		
Net income	$ 7,866	$ 8,651
Adjustments:		
Depreciation and amortization expense	4,280	4,575
Loss on disposal of property and equipment	406	-
Deferred compensation expense	233	373
Changes in assets and liabilities:		
Increase in accounts receivable	(959)	(6,972)
Increase in prepaids and other	(349)	(642)
Decrease in deferred income taxes	1,049	2,724
(Increase) decrease in other assets	(99)	353
Increase (decrease) in accounts payable	1,920	(1,837)
Increase in accrued compensation	9,340	9,814
Increase (decrease) in income taxes payable	(644)	206
Increase (decrease) in advance billings on contracts	(925)	565
Increase (decrease) in other current liabilities	2,684	(2,132)
Decrease in other long-term liabilities	-	(8)
Net cash provided by operating activities	24,802	15,670
Cash flows from investing activities:		
Additions to property and equipment	(2,196)	(3,374)
Proceeds from disposal of property and equipment	1,474	-
Net cash used in investing activities	(722)	(3,374)
Cash flows from financing activities:		
Net proceeds from short-term borrowings	-	(4,500)
Principal payments on long-term debt	(5,929)	(1,643)
Proceeds from Employee Stock Purchase Plan	490	371
Purchase of treasury stock	(3,035)	(3,150)
Purchase of stock by the Stock Employee Compensation Trust	-	(734)
Proceeds from other stock plans	1,703	4,976
Dividends paid	(853)	(823)
Net cash used in financing activities	(7,624)	(5,503)
Effect of exchange rate changes on cash and temporary cash investments	68	420
Net increase in cash and temporary cash investments	16,524	7,213
Cash and temporary cash investments at beginning of year	16,545	5,112
Cash and temporary cash investments at end of quarter	$ 33,069	$ 12,325

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

COMPUTER TASK GROUP, INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Financial Statements

The consolidated financial statements included herein reflect, in the opinion of the management of Computer Task Group, Incorporated (the Company), all normal recurring adjustments necessary to present fairly the financial position, results of operations and of cash flows for the periods presented.

2. Basis of Presentation

The 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 generally accepted accounting principles have been condensed or omitted pursuant to the SEC rules and regulations. Management believes that the information and disclosures provided herein are adequate to present fairly the financial position, results of operations and of cash flows of the Company. It is suggested that these financial statements 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.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE QUARTER AND THREE QUARTERS ENDED SEPTEMBER 27, 1996

Results of Operations

This document may contain certain forward looking statements concerning the Company's current expectations as to future results. Such statements are made by the Company based upon current assumptions as to the anticipated growth of the industry, price and wage inflation, and the availability of qualified professional staff, and involve a number of risks and uncertainties. As such, actual results may differ materially.

The Company reported third quarter revenue of $89.4 million and net income of $3.0 million and year-to-date revenue of $270.7 million and net income of $7.9 million. Third quarter 1996 revenue of $89.4 million was 4.4 percent greater than third quarter 1995 revenue of $85.6 million. $2.1 million of the increase results from a 2.7 percent increase in revenue from North American operations. The North American increase is primarily attributable to an increase in billable rates from the third quarter of 1995 to the third quarter of 1996. European revenue increased by $1.7 million or 21.5 percent, due to an increase in billable staff of 31.7 percent from the third quarter of 1995 to the third quarter of 1996. IBM continues to be the Company's largest customer, accounting for $26.8 million or 30.0 percent of third quarter 1996 revenue and $76.7 million or 28.3 percent of year-to-date revenue. Revenue from IBM accounted for 24.0 percent and 22.0 percent, respectively, of third quarter and year-to-date 1995 revenue.

Direct costs, defined as costs for billable staff, in the third quarter were $63.3 million or 70.8 percent of revenue compared to $62.4 million or 72.9 percent of revenue in the third quarter of 1995. Direct costs for the 1996 year-to-date period were 71.6 percent of revenue, as compared to 73.1 percent for the 1995 year-to-date period. The decrease in direct costs as a percentage of revenue compared to the third quarter of 1995 and for 1995 year-to-date is primarily due to an increase in billing rates, and an increase in the utilization of professional staff.

Selling, general and administrative expenses were $21.3 million or 23.8 percent of revenue in the third quarter of 1996 compared to $20.0 million or 23.4 percent of revenue in the third quarter of 1995. Selling, general and administrative expenses were $63.7 million or 23.5 percent of revenue for the 1996 year-to-date period as compared to $58.7 or 23.3 percent of revenue for the 1995 year-to-date period.

Operating income was $4.9 million or 5.4 percent of revenue in the third quarter of 1996 compared to $3.3 million or 3.8 percent of revenue in the third quarter of 1995. Operating income was $13.2 million or 4.9 percent of revenue for the 1996 year-to-date period as compared to $9.3 million or 3.7 percent of revenue for the 1995 year-to-date period. The increase is primarily due to the factors discussed above. Operating income from North American operations increased $.7 million or 21.4 percent for the third quarter of 1996 and $2.0 million or 21.7 percent for the 1996 year-to-date period. European operations recorded operating income of $.8 million and $2.2 million, respectively, in the third quarter of 1996 and the 1996 year-to-date period, compared to an operating loss of $.1 million and operating income of $.2 million, respectively, in the third quarter of 1995 and the 1995 year-to-date period.

Income before income taxes increased by $1.8 million from $3.2 million or 3.7 percent of revenue in the third quarter of 1995 to $5.0 million or 5.6 percent of revenue in the third quarter of 1996, and by $4.4 million from $8.7 million or 3.4 percent of revenue for the 1995 year-to-date period to $13.1 million or 4.8 percent of revenue for the 1996 year-to-date period. The provision for income taxes for the third quarter of 1996 was 40 percent, compared to a benefit for the third quarter of 1995. The 1995 benefit was a result of the Company recording a tax benefit of $3.2 million related to losses associated with the Company's European operations. During the third quarter of 1995, the Company completed an assessment of its alternatives for its European operations, including a determination of the value of these operations. Based on this assessment, the Company recorded tax benefits for these losses which were previously recognized for financial reporting purposes. Without this benefit, the tax rate would have approximated 37 percent.

The 1995 rate was reduced primarily due to a decrease in the Company's reserve for potential income tax assessments taken in the third quarter of 1995.

The Company's goal is to continue to increase billable headcount to meet market demand. It is the Company's goal to reduce direct costs as a percentage of revenue and contain selling, general and administrative expenses as the Company grows.

Financial Condition

Cash provided by operations was $24.8 million for the first three quarters of 1996. Net income totaled $7.9 million and non-cash adjustments for depreciation and amortization expense and deferred compensation expense totaled $4.5 million. The $1.0 million or 1.7 percent increase in accounts receivable is primarily a result of the increase in revenue offset by improved accounts receivable turnover. Prepaid assets increased $.3 million due to the prepayment of items that will be expensed throughout the remainder of the year. The $1.9 million increase in accounts payable is primarily due to the timing of payments at quarter end versus the prior year end. Accrued compensation and other current liabilities increased $12.0 million as a result of the timing of the Company's U.S. bi-weekly payroll and due to an increase in the usage of outside contractors by the Company during 1996.

Net property and equipment decreased $3.4 million. Additions to property and equipment were $2.2 million offset by year-to-date depreciation of $3.7 million and disposals of $1.9 million. The Company has no material commitments for capital expenditures at September 27, 1996. Net acquired intangibles decreased $.8 million, caused by year-to-date amortization of $.6 million and $.2 million in translation adjustments.

Financing activities used $7.6 million of cash for the first three quarters of 1996. The Company repaid $5.9 million of long-term debt to reduce its outstanding balances at September 27, 1996 to zero. At September 27, 1996, the Company's current ratio is 2.4 to 1.

During the first three quarters of 1996, the Company received $.5 million from employees for 20,800 shares of stock purchased under the Employee Stock Purchase Plan. The Company also received $1.7 million for the exercise of stock options. Payments totaling $3.0 million were made for the purchase of stock for treasury. The Company paid an annual dividend of $.10 per share totaling $853,000 in May 1996.

The Company has approximately $54 million in aggregate lines of credit which are renewable annually at various times throughout the year.

PART II. OTHER INFORMATION

Item 6 - Exhibits

Exhibit	Description	Page
11.	Statement re: computation of earnings per share	9
27.	Financial Data Schedule	11

* * * * * * *

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COMPUTER TASK GROUP, INCORPORATED

By: /s/ James R. Boldt

James R. Boldt
Principal Accounting and
Financial Officer

Title: Vice President - Finance

Date: November 11, 1996

EXHIBIT 11

COMPUTER TASK GROUP, INCORPORATED

Computation of fully diluted earnings per share under treasury stock method set forth in Accounting Principles Board Opinion No. 15.

COMPUTATION OF FULLY DILUTED EARNINGS PER SHARE

UNDER TREASURY STOCK METHOD SET FORTH IN ACCOUNTING PRINCIPLES BOARD OPINION NO. 15

(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)

(UNAUDITED)

	Quarter Ended		Three Quarters Ended	
	September 27, 1996	September 29, 1995	September 27, 1996	September 29, 1995
Average number of shares outstanding during period	10,300	10,009	10,317	9,890
Adjusted for: Shares under stock options plans	370	306	334	368
Shares held by Stock Employee Compensation Trust	(1,831)	(1,630)	(1,831)	(1,603)
Number of shares on which primary earnings per share is based	8,839	8,685	8,820	8,655
Net income for the period	$ 3,014	$ 5,158	$ 7,866	$ 8,651
Primary earnings per share	$ 0.34	$ 0.59	$ 0.89	$ 1.00
Fully diluted earnings per share*	$ 0.34	$ 0.59	$ 0.89	$ 1.00

* The number of shares on which fully diluted earnings per share is based is substantially equal to the number of shares on which primary earnings per share is based.

ARTICLE 5

CIK: 0000023111

NAME: COMPUTER TASK GROUP, INC.

MULTIPLIER: 1

PERIOD TYPE	9 MOS
FISCAL YEAR END	DEC 31 1996
PERIOD START	JAN 01 1996
PERIOD END	SEP 27 1996
CASH	33,069,000
SECURITIES	0
RECEIVABLES	59,852,000
ALLOWANCES	859,000
INVENTORY	0
CURRENT ASSETS	96,011,000
PP&E	50,550,000
DEPRECIATION	35,989,000
TOTAL ASSETS	116,867,000
CURRENT LIABILITIES	39,336,000
BONDS	0
COMMON	135,000
PREFERRED MANDATORY	0
PREFERRED	0
OTHER SE	66,745,000
TOTAL LIABILITY AND EQUITY	116,867,000
SALES	0
TOTAL REVENUES	270,735,000
CGS	0
TOTAL COSTS	193,797,000
OTHER EXPENSES	63,696,000
LOSS PROVISION	0
INTEREST EXPENSE	636,000
INCOME PRETAX	13,110,000
INCOME TAX	5,244,000
INCOME CONTINUING	0
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	7,866,000
EPS PRIMARY	0.89
EPS DILUTED	0.89

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