

COMPUTER TASK GROUP INC
Form 11-K
June 27, 2007

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 11-K

**ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the year ended: December 31, 2006

**TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from ___ to ___

Commission file number: 1-9410

COMPUTER TASK GROUP INCORPORATED
401(k) RETIREMENT PLAN
(Full title of the Plan)

COMPUTER TASK GROUP INCORPORATED
(Name of issuer of the securities held pursuant to the Plan)

800 Delaware Avenue
Buffalo, New York 14209
(Address of principal executive office of the issuer)

FINANCIAL STATEMENTS

COMPUTER TASK GROUP, INC.

401(k) RETIREMENT PLAN

DECEMBER 31, 2006

with

REPORT OF INDEPENDENT REGISTERED

PUBLIC ACCOUNTING FIRM

COMPUTER TASK GROUP, INC.

401(k) RETIREMENT PLAN

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**REPORT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM**

To the Participants and Administrator of

Computer Task Group, Inc.

401(k) Retirement Plan

We have audited the accompanying statements of net assets available for plan benefits of Computer Task Group, Inc. 401(k) Retirement Plan as of December 31, 2006 and 2005, and the related statements of changes in net assets available for plan benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for plan benefits of Computer Task Group, Inc. 401(k) Retirement Plan as of December 31, 2006 and 2005, and the changes in net assets available for plan benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements for the year ended December 31, 2006 and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ Freed Maxick & Battaglia, CPAs, PC

Buffalo, New York

June 27, 2007

COMPUTER TASK GROUP, INC. 401(k) RETIREMENT PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR PLAN BENEFITS

December 31,

| ASSETS | 2006 | <u>2005</u> |
|---|-----------------------|----------------|
| Investments at market value: | | |
| Shares of registered investment companies | \$ 115,803,846 | \$ 104,037,834 |
| Common Collective Trust | 10,626,291 | 10,269,692 |
| Employer securities | 991,686 | 838,192 |
| Participant loans | 1,369,907 | 1,236,682 |
| | 128,791,730 | 116,382,400 |
| Receivables: | | |
| Employer contributions | 345 | 267 |
| Net assets available for plan benefits at fair value | 128,792,075 | 116,382,667 |
| Adjustment from fair value to contract value for interest in collective trust relating to fully benefit-responsive investment contracts | 172,021 | 149,171 |
| Net assets available for plan benefits | \$ 128,964,096 | \$ 116,531,838 |

See accompanying notes.

COMPUTER TASK GROUP, INC. 401(k) RETIREMENT PLAN**STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR PLAN BENEFITS****For the Years Ended December 31,**

| | 2006 | <u>2005</u> |
|---|-----------------------|----------------|
| Sources of net assets: | | |
| Employee contributions | \$ 11,568,992 | \$ 10,335,454 |
| Employer contributions | 2,404,265 | 2,098,021 |
| Interest and dividend income | 6,345,480 | 4,734,281 |
| Realized gain (loss) on investment transactions | 19,797 | (128,893) |
| Unrealized gain on investment transactions | 8,068,403 | 2,166,325 |
| Total sources of net assets | 28,406,937 | 19,205,188 |
| Applications of net assets: | | |
| Termination benefits and withdrawal payments | 15,962,631 | 15,613,618 |
| Administrative expenses | 12,048 | 8,860 |
| Total applications of net assets | 15,974,679 | 15,622,478 |
| Increase in net assets | 12,432,258 | 3,582,710 |
| Net assets available for plan benefits: | | |
| Beginning of year | 116,531,838 | 112,949,128 |
| End of year | \$ 128,964,096 | \$ 116,531,838 |

See accompanying notes.



COMPUTER TASK GROUP, INC. 401(k) RETIREMENT PLAN

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. - DESCRIPTION OF THE PLAN

The following description of the Computer Task Group, Inc. 401(k) Retirement Plan (the Plan) provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

General - The Plan is a defined contribution plan with salary reduction features as permitted under Section 401(k) of the Internal Revenue Code. The Plan is funded by employee and employer contributions and covers substantially all employees of Computer Task Group, Inc. (CTG) who complete one hour of service. Broker commissions associated with investment transactions are paid by the Plan. The assets of the Plan are maintained in mutual funds, a common collective trust fund and employer stock held by MFS Retirement Services (MFS). Reliance Trust Company is the trustee of the Plan. The Plan is subject to the provisions of the Employee Retirement Income Security Act (ERISA).

Contributions - The Plan provides for employee pre-tax contributions of 1% to 30% of salary, up to the maximum annual limitations allowed by the Internal Revenue Code. Participants who have attained age 50 before the end of the Plan year are eligible to make catch-up contributions. The Company may contribute one-half of each participant's elective contribution, not to exceed 2% of compensation for employees who work at least 1 hour during the Plan year. In addition, the Plan may contribute a discretionary supplemental matching contribution. The supplemental matching contribution is equal to one-half of each participant's elective contribution greater than 4%, but less than or equal to 6% of compensation for employees who work at least 1,000 hours during the Plan year, and complete one year of service. Participants may also contribute amounts representing distributions from other qualified defined benefit or defined contribution plans. Participants direct the investment of their contributions into various investment options offered by the Plan. Participants may change their investment allocation on a daily basis.

Vesting - Participants are vested immediately in their contributions plus actual earnings or less actual losses thereon. Participants become 20% vested in employer contributions after two years, 50% after three years of service and fully vested after four years of service. Should the Plan be deemed top-heavy, an alternate vesting schedule will apply for those top-heavy years.

Plan Termination - Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of plan termination, participants would become 100 percent vested in their employer contributions.

Forfeitures - Amounts forfeited by participants are used to reduce future employer contributions. For the year ended December 31, 2006, forfeited nonvested accounts totaled \$548,214 (\$426,564 - 2005).

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. - DESCRIPTION OF THE PLAN (CONTINUED)

Participant Loans - Participants may borrow from their fund accounts a minimum of \$1,000 up to a maximum of \$50,000 or 50% of their vested account balance, whichever is less. Loan terms range from 1-5 years and may exceed five years for the purchase of a primary residence. The loans are secured by the balance in the participant's account and bear interest at a rate commensurate with local prevailing rates as determined by the Plan administrator. Principal and interest is paid ratably through payroll deductions.

Participant Accounts - Each participant's account is credited with the participant's contribution and allocations of (a) the Company's contribution and, (b) Plan earnings or losses, and charged with an allocation of administrative expenses. Allocations are based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

Withdrawals and Distributions - Unless a participant elects otherwise, distributions will be made as soon as practical after a participant's normal retirement date or actual retirement date occurs. The normal retirement date is the date upon which a participant reaches age 65.

Participants may receive their accumulated vested benefits held by the Plan's trustee upon termination of employment or elect to keep their vested balance in the Plan until the earlier of normal retirement age, death, or disability, if their account balance is in excess of \$1,000. If the participant elects to keep their vested interest in the Plan, the participant's account will continue to receive its share of earnings and losses.

Participants who attained age 59-1/2, but who are not separated from service, may withdraw from the Plan up to 100% of the value of their non-forfeitable interest in the Plan by request.

NOTE 2. - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The accounts of the Plan are maintained on an accrual basis of accounting. Certain expenses incurred by the plan administrator, investment manager, and trustee for their services and costs in administering the Plan are paid directly by the Company.

As described in Financial Accounting Standards Board Staff Position, FSP AAG INV-1 and SOP 94-4-1, *Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans (the FSP)*, investments contracts held by a defined-contribution plan are required to be reported at fair value. However, contract value is the relevant measurement attribute for that portion of the net assets available for benefits of a defined-contribution plan attributable to fully benefit responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the term of the plan. The Plan invests in investment contracts through a collective trust. As required by the FSP, the Statement of Net Assets Available for Benefits presents the fair value of the investment in the collective trust as well as the adjustment of the investment in the collective trust from fair value to contract value relating to the investment contracts. The Statement of Changes in Net Assets Available for Benefits is prepared on a contract value basis. The requirements of the FSP have been applied retroactively to the Statement of Net Assets Available for Benefits as of December 31, 2005 presented for comparative purposes. Adoption of the FSP had no effect on the Statement of Changes in Net Assets Available for Benefits for any period presented.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2. - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Estimates - The process of preparing financial statements requires management to use estimates and assumptions that affect certain types of assets, liabilities and changes therein. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, actual results may differ from estimated amounts.

Investment Valuation and Income Recognition - The Plan invests principally in various mutual funds, a common collective trust fund and unitized common stock of Computer Task Group, Inc. All investments are presented at market value based upon quoted market prices. Shares of mutual funds are valued at the net asset value of shares held by the Plan at year end. The Plan's interest in the collective trust is valued at fair value based on information reported by the investment advisor using the audited financial statements of the collective trust at year end. Participant loans are valued at their outstanding balances, which approximates fair value. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Risks and Uncertainties - The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statement of net assets available for benefits.

Payment of Benefits - Benefits are recorded when paid.

Income Taxes - The Internal Revenue Service has issued a favorable determination letter dated October 11, 2002 on the tax status of the Plan. Although the Plan has been amended since receiving the determination letter, the Plan administrator and the Plan's tax counsel believe that the Plan is designed and is currently being operated in compliance with the applicable requirements of the Internal Revenue Code. Accordingly, income taxes have not been provided for in the accompanying financial statements as applicable federal and state regulations exempt the Plan and related trust fund from such taxes.

NOTE 3. - INVESTMENTS

The following presents investments that represent 5% or more of the Plan's net assets:

| | <u>December 31,</u> | |
|---------------------------------------|---------------------|--------------------|
| | 2006 | <u>2005</u> |
| MFS Growth Allocation A | \$ 28,646,518 | \$ 28,553,528 |
| MFS Value A | \$ 16,395,523 | \$ 14,875,414 |
| MFS Moderate Allocation A | \$ 13,223,105 | \$ 11,373,810 |
| Fidelity Low-Priced Stock | \$ 10,898,117 | \$ 10,396,855 |
| MFS Fixed Fund | \$ 10,626,291 | \$ 10,269,692 |
| Templeton Foreign A | \$ 7,864,454 | \$ 6,905,526 |
| MFS Research Bond A | \$ 7,781,746 | \$ 7,969,284 |
| American Funds Growth Fund of America | \$ 7,353,642 | \$ 6,344,332 |

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COMPUTER TASK GROUP, INC. 401(k) RETIREMENT PLAN**NOTES TO THE FINANCIAL STATEMENTS****NOTE 3. - INVESTMENTS (CONTINUED)**

The Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value by \$8,088,200 for the year ended December 31, 2006 (\$2,037,432 - 2005) as follows:

| | 2006 | 2005 |
|---|--------------|--------------|
| Shares of registered investment companies | \$ 8,220,719 | \$ 2,378,736 |

| | | |
|------------------------------|--------------|--------------|
| Common collective trust fund | (1,192) | (618) |
| Employer securities | (131,327) | (340,686) |
| Total appreciation | \$ 8,088,200 | \$ 2,037,432 |

NOTE 4. - PARTY-IN-INTEREST TRANSACTIONS

The Plan investments are shares of mutual funds managed by MFS. MFS is the trustee as defined by the Plan and, therefore, these transactions qualify as party-in-interest. Fees paid by the Plan for the investment management services amounted to \$12,048 for the year ended December 31, 2006 (\$8,860 - 2005). The Plan also invests in employer securities through the CTG, Inc. unitized common stock fund.

CTG, Inc. is the Plan sponsor, and therefore, transactions qualify as party-in-interest. Investment income from investments sponsored by MFS and CTG, Inc. amounted to \$8,802,481 for the year ended December 31, 2006 (\$3,537,155 - 2005).

NOTE 5. - RECONCILIATION OF FINANCIAL STATEMENTS TO FORM 5500

The following is a reconciliation of net assets available for benefits per the financial statements to the Form 5500:

| | 2006 | 2005 |
|---|----------------|----------------|
| Net assets available for plan benefits per the financial statements | \$ 128,964,096 | \$ 116,531,838 |
| Adjustment from fair value to contract value for fully benefit responsive investment contract | (172,021) | (149,171) |
| Net assets available for plan | \$ 128,792,075 | \$ 116,382,667 |

| | | | | | |
|-----------------------|--|--|--|--|--|
| benefits per the form | | | | | |
| 5500 | | | | | |

COMPUTER TASK GROUP, INC. 401(k) RETIREMENT PLAN**SCHEDULE OF ASSETS HELD FOR INVESTMENT PURPOSES****December 31, 2006**

| <u>Identity of Issuer</u> | <u>Description of Investment</u> | <u>Fair Market Value</u> |
|-----------------------------------|---|------------------------------|
| MFS* | MFS Growth Allocation A | \$ 28,646,518 |
| MFS* | MFS Value A | 16,395,523 |
| MFS* | MFS Moderate Allocation A | 13,223,105 |
| Fidelity Management Trust Fund | Fidelity Low Priced Stock | 10,898,117 |
| MFS* | MFS Fixed Fund | 10,626,291 |
| Templeton | Templeton Foreign A | 7,864,454 |
| MFS* | MFS Research Bond A | 7,781,746 |
| American Funds | American Funds Growth Fund of America | 7,353,642 |
| Dreyfus | Dreyfus Basic S&P 500 Index | 4,675,848 |
| American Funds | American Funds Amcap | 3,688,703 |
| Lords Abbett | Lord Abbett Mid Cap Value A | 3,244,505 |
| Royce | Royce Low Priced Stock | 2,691,986 |
| MFS* | MFS Aggressive Growth Allocation A | 2,667,082 |
| MFS* | MFS Conservative Allocation A | 2,319,982 |
| Franklin | Franklin Small-Mid Cap Growth A | 2,159,416 |
| American Funds | American Fund Europacific | 2,153,224 |
| CTG* | CTG Stock Fund | 991,686 |
| MFS* | MFS Money Market | 39,995 |
| CTG 401(k) Retirement Plan* | Participant Loan Fund (interest rates ranging from 5%-10%) | 1,369,907 |
| | | \$ 128,791,730 |

*The above named institution is a party-in-interest.

Signatures

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

COMPUTER TASK GROUP, INCORPORATED 401(k) RETIREMENT PLAN

By: /s/ Peter P. Radetich

Date: June 27, 2007

Name: Peter P. Radetich

Title: Member, Retirement Plan Committee

Exhibit Index

Exhibit No.

Description

Exhibit 23

Consent of Independent Registered Public Accounting Firm