NOBLE CORP
Form 10-Q
May 02, 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: March 31, 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 number: 000-53604

NOBLE CORPORATION

(Exact name of registrant as specified in its charter)

Switzerland	**98-0619597**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. employer identification number)**

Dorfstrasse 19A, Baar, Switzerland 6340

(Address of principal executive offices) (Zip Code)

Registrant s Telephone Number, Including Area Code: 41 (41) 761-65-55

Commission file number: 001-31306

NOBLE CORPORATION

(Exact name of registrant as specified in its charter)

Cayman Islands	**98-0366361**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. employer identification number)**

Suite 3D, Landmark Square, 64 Earth Close, P.O. Box 31327 George Town, Grand Cayman, Cayman Islands, KY1-1206

(Address of principal executive offices) (Zip Code)

Registrant s Telephone Number, Including Area Code: (345) 938-0293

Indicate by check mark whether each 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 each registrant has submitted electronically and posted on its corporate website, 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 each 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. (Check one):

Noble-Swiss:	Large accelerated filer x	Accelerated filer ¨	Non-accelerated filer ¨	Smaller reporting company ¨
Noble-Cayman:	Large accelerated filer ¨	Accelerated filer ¨	Non-accelerated filer x	Smaller reporting company ¨

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

Number of shares outstanding and trading at April 26, 2013: Noble Corporation (Switzerland) 253,273,925

Number of shares outstanding at April 26, 2013: Noble Corporation (Cayman Islands) 261,245,693

Noble Corporation, a Cayman Islands company and a wholly owned subsidiary of Noble Corporation, a Swiss corporation, meets the conditions set forth in General Instructions H(1) (a) and (b) to Form 10-Q and is therefore filing this Form 10-Q with the reduced disclosure format contemplated by paragraphs (a), (b) and (c) of General Instruction H(2) of Form 10-Q.

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This combined Quarterly Report on Form 10-Q is separately filed by Noble Corporation, a Swiss corporation (Noble-Swiss), and Noble Corporation, a Cayman Islands company (Noble-Cayman). Information in this filing relating to Noble-Cayman is filed by Noble-Swiss and separately by Noble-Cayman on its own behalf. Noble-Cayman makes no representation as to information relating to Noble-Swiss (except as it may relate to Noble-Cayman) or any other affiliate or subsidiary of Noble-Swiss. Since Noble-Cayman meets the conditions specified in General Instructions H(1)(a) and (b) to Form 10-Q, it is permitted to use the reduced disclosure format for wholly owned subsidiaries of reporting companies as stated in General Instructions H(2). Accordingly, Noble-Cayman has omitted from this report the information called for by Item 3 (Quantitative and Qualitative Disclosures about Market Risk) of Part I of Form 10-Q and the following items of Part II of Form 10-Q: Item 2 (Unregistered Sales of Equity Securities and Use of Proceeds) and Item 3 (Defaults upon Senior Securities).

This report should be read in its entirety as it pertains to each Registrant. Except where indicated, the Consolidated Financial Statements and related Notes are combined. References in this Quarterly Report on Form 10-Q to Noble, the Company, we, us, our and words of similar meaning refer collectively to Noble-Swiss and its consolidated subsidiaries, including Noble-Cayman.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

NOBLE CORPORATION (NOBLE-SWISS) AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(In thousands)

(Unaudited)

	March 31, 2013	December 31, 2012
ASSETS		
Current assets		
Cash and cash equivalents	$ 214,528	$ 282,092
Accounts receivable	887,759	743,673
Taxes receivable	115,720	112,423
Prepaid expenses	97,961	43,962
Other current assets	112,597	123,175
Total current assets	1,428,565	1,305,325
Property and equipment, at cost	17,329,558	16,971,666
Accumulated depreciation	(4,144,693)	(3,945,694)
Property and equipment, net	13,184,865	13,025,972
Other assets	276,528	276,477
Total assets	$ 14,889,958	$ 14,607,774
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	$ 319,674	$ 350,147
Accrued payroll and related costs	118,706	132,728
Interest payable	23,701	68,436
Taxes payable	147,557	135,257
Dividends payable	33,340	66,369
Other current liabilities	169,207	158,512
Total current liabilities	812,185	911,449
Long-term debt	4,844,193	4,634,375
Deferred income taxes	223,500	226,045
Other liabilities	347,395	347,615
Total liabilities	6,227,273	6,119,484
Commitments and contingencies		
Shareholders equity		

Shares; 254,014 and 253,348 shares outstanding	712,000	710,130
Treasury shares, at cost; 755 and 589 shares	(27,806)	(21,069)
Additional paid-in capital	92,289	83,531
Retained earnings	7,215,777	7,066,023
Accumulated other comprehensive loss	(112,352)	(115,449)
Total shareholders equity	7,879,908	7,723,166
Noncontrolling interests	782,777	765,124
Total equity	8,662,685	8,488,290
Total liabilities and equity	$ 14,889,958	$ 14,607,774

See accompanying notes to the unaudited consolidated financial statements.

NOBLE CORPORATION (NOBLE-SWISS) AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31,	
	2013	**2012**
Operating revenues		
Contract drilling services	$ 928,737	$ 746,310
Reimbursables	21,174	35,141
Labor contract drilling services	21,054	16,008
Other	10	231
	970,975	797,690
Operating costs and expenses		
Contract drilling services	484,087	420,011
Reimbursables	14,922	30,601
Labor contract drilling services	12,249	9,232
Depreciation and amortization	206,156	171,077
General and administrative	25,570	23,126
Gain on contract extinguishment	(1,800)	
	741,184	654,047
Operating income	229,791	143,643
Other income (expense)		
Interest expense, net of amount capitalized	(27,301)	(10,496)
Interest income and other, net	(425)	1,785
Income before income taxes	202,065	134,932
Income tax provision	(34,352)	(21,589)
Net income	167,713	113,343
Net (income) loss attributable to noncontrolling interests	(17,653)	6,832
Net income attributable to Noble Corporation	$ 150,060	$ 120,175
Net income per share		
Basic	$ 0.59	$ 0.47
Diluted	$ 0.59	$ 0.47

See accompanying notes to the unaudited consolidated financial statements.

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NOBLE CORPORATION (NOBLE-SWISS) AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2013	**2012**
Net income	$ 167,713	$ 113,343
Other comprehensive income (loss), net of tax		
Foreign currency translation adjustments	2,657	(41)
Foreign currency forward contracts	(1,202)	2,417
Amortization of deferred pension plan amounts (net of tax provision of $730 in 2013 and $720 in 2012)	1,642	1,385
Other comprehensive income, net	3,097	3,761
Net comprehensive (income) loss attributable to noncontrolling interests	(17,653)	6,832
Comprehensive income attributable to Noble Corporation	$ 153,157	$ 123,936

See accompanying notes to the unaudited consolidated financial statements.

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NOBLE CORPORATION (NOBLE-SWISS) AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2013	**2012**
Cash flows from operating activities		
Net income	$ 167,713	$ 113,343
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	206,156	171,077
Deferred income taxes	(2,735)	(4,075)
Amortization of share-based compensation	10,155	8,753
Net change in other assets and liabilities	(178,737)	(188,472)
Net cash from operating activities	202,552	100,626
Cash flows from investing activities		
Capital expenditures	(371,990)	(364,883)
Change in accrued capital expenditures	(66,312)	(127,393)
Net cash from investing activities	(438,302)	(492,276)
Cash flows from financing activities		
Net change in borrowings outstanding on bank credit facilities	209,680	(825,000)
Proceeds from issuance of senior notes, net of debt issuance costs		1,186,636
Contributions from joint venture partners		40,000
Financing costs on credit facilities	(1,895)	
Par value reduction/dividend payments	(33,335)	(36,370)
Proceeds from employee stock transactions	473	2,479
Repurchases of employee shares surrendered for taxes	(6,737)	(6,451)
Net cash from financing activities	168,186	361,294
Net change in cash and cash equivalents	(67,564)	(30,356)
Cash and cash equivalents, beginning of period	282,092	239,196
Cash and cash equivalents, end of period	**$ 214,528**	**$ 208,840**

See accompanying notes to the unaudited consolidated financial statements.

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NOBLE CORPORATION (NOBLE-SWISS) AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EQUITY

(In thousands)

(Unaudited)

	Shares Balance	Shares Par Value	Additional Paid-in Capital	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity
Balance at December 31, 2011	**252,639**	**$ 766,595**	**$ 48,356**	**$ 6,676,444**	**$ (10,553)**	**$ (74,321)**	**$ 691,331**	**$ 8,097,852**
Employee related equity activity								
Amortization of share-based compensation			8,753					8,753
Issuance of share-based compensation shares	352	1,067	(1,067)					
Exercise of stock options	113	329	2,292					2,621
Tax benefit of stock options exercised			(142)					(142)
Restricted shares forfeited or repurchased for taxes	(374)	(1,138)	1,138		(6,451)			(6,451)
Net income				120,175			(6,832)	113,343
Par value reduction payments		(29,220)	(7,150)					(36,370)
Equity contribution by joint venture partner							40,000	40,000
Other comprehensive income, net						3,761		3,761
Balance at March 31, 2012	**252,730**	**$ 737,633**	**$ 52,180**	**$ 6,796,619**	**$ (17,004)**	**$ (70,560)**	**$ 724,499**	**$ 8,223,367**
Balance at December 31, 2012	**253,348**	**$ 710,130**	**$ 83,531**	**$ 7,066,023**	**$ (21,069)**	**$ (115,449)**	**$ 765,124**	**$ 8,488,290**
Employee related equity activity								
Amortization of share-based compensation			10,155					10,155
Issuance of share-based compensation shares	592	1,663	(1,649)					14
Exercise of stock options	74	207	1,702					1,909
Tax benefit of stock options exercised			(1,450)					(1,450)
Restricted shares forfeited or repurchased for taxes					(6,737)			(6,737)
Net income				150,060			17,653	167,713
Net change in dividends payable				(306)				(306)
Other comprehensive income, net						3,097		3,097
Balance at March 31, 2013	**254,014**	**$ 712,000**	**$ 92,289**	**$ 7,215,777**	**$ (27,806)**	**$ (112,352)**	**$ 782,777**	**$ 8,662,685**

See accompanying notes to the unaudited consolidated financial statements.

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NOBLE CORPORATION (NOBLE-CAYMAN) AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

(In thousands)

(Unaudited)

	March 31, 2013	December 31, 2012
ASSETS		
Current assets		
Cash and cash equivalents	$ 208,043	$ 277,375
Accounts receivable	887,759	743,673
Taxes receivable	115,567	112,310
Prepaid expenses	95,891	41,232
Other current assets	112,548	122,649
Total current assets	1,419,808	1,297,239
Property and equipment, at cost	17,293,002	16,935,147
Accumulated depreciation	(4,137,112)	(3,938,518)
Property and equipment, net	13,155,890	12,996,629
Other assets	276,611	276,558
Total assets	$ 14,852,309	$ 14,570,426
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	$ 319,190	$ 349,594
Accrued payroll and related costs	107,838	123,936
Interest payable	23,701	68,436
Taxes payable	143,069	130,844
Other current liabilities	169,197	158,499
Total current liabilities	762,995	831,309
Long-term debt	4,844,193	4,634,375
Deferred income taxes	223,500	226,045
Other liabilities	347,395	347,615
Total liabilities	6,178,083	6,039,344
Commitments and contingencies		
Shareholder equity		
Ordinary shares; 261,246 shares outstanding	26,125	26,125
Capital in excess of par value	476,414	470,454
Retained earnings	7,501,262	7,384,828
Accumulated other comprehensive loss	(112,352)	(115,449)
Total shareholder equity	7,891,449	7,765,958

Noncontrolling interests	782,777	765,124
Total equity	8,674,226	8,531,082
Total liabilities and equity	$ 14,852,309	$ 14,570,426

See accompanying notes to the unaudited consolidated financial statements.

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NOBLE CORPORATION (NOBLE-CAYMAN) AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2013	**2012**
Operating revenues		
Contract drilling services	$ 928,737	$ 746,310
Reimbursables	21,174	35,141
Labor contract drilling services	21,054	16,008
Other	10	231
	970,975	797,690
Operating costs and expenses		
Contract drilling services	476,561	415,146
Reimbursables	14,922	30,601
Labor contract drilling services	12,249	9,232
Depreciation and amortization	205,751	170,573
General and administrative	14,843	14,010
Gain on contract extinguishment	(1,800)	
	722,526	639,562
Operating income	248,449	158,128
Other income (expense)		
Interest expense, net of amount capitalized	(27,301)	(10,496)
Interest income and other, net	63	1,399
Income before income taxes	221,211	149,031
Income tax provision	(34,014)	(21,211)
Net income	187,197	127,820
Net (income) loss attributable to noncontrolling interests	(17,653)	6,832
Net income attributable to Noble Corporation	$ 169,544	$ 134,652

See accompanying notes to the unaudited consolidated financial statements.

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NOBLE CORPORATION (NOBLE-CAYMAN) AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2013	**2012**
Net income	$ 187,197	$ 127,820
Other comprehensive income (loss), net of tax		
Foreign currency translation adjustments	2,657	(41)
Foreign currency forward contracts	(1,202)	2,417
Amortization of deferred pension plan amounts (net of tax provision of $730 in 2013 and $720 in 2012)	1,642	1,385
Other comprehensive income, net	3,097	3,761
Net comprehensive (income) loss attributable to noncontrolling interests	(17,653)	6,832
Comprehensive income attributable to Noble Corporation	$ 172,641	$ 138,413

See accompanying notes to the unaudited consolidated financial statements.

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NOBLE CORPORATION (NOBLE-CAYMAN) AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2013	**2012**
Cash flows from operating activities		
Net income	$ 187,197	$ 127,820
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	205,751	170,573
Deferred income taxes	(2,735)	(4,075)
Capital contribution by parent share-based compensation	5,960	5,070
Net change in other assets and liabilities	(181,915)	(190,502)
Net cash from operating activities	214,258	108,886
Cash flows from investing activities		
Capital expenditures	(371,953)	(364,243)
Change in accrued capital expenditures	(66,312)	(127,393)
Net cash from investing activities	(438,265)	(491,636)
Cash flows from financing activities		
Net change in borrowings outstanding on bank credit facilities	209,680	(825,000)
Proceeds from issuance of senior notes, net of debt issuance costs		1,186,636
Contributions from joint venture partners		40,000
Financing costs on credit facilities	(1,895)	
Distributions to parent company, net	(53,110)	(52,727)
Net cash from financing activities	154,675	348,909
Net change in cash and cash equivalents	(69,332)	(33,841)
Cash and cash equivalents, beginning of period	277,375	235,056
Cash and cash equivalents, end of period	**$ 208,043**	**$ 201,215**

See accompanying notes to the unaudited consolidated financial statements.

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NOBLE CORPORATION (NOBLE-CAYMAN) AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EQUITY

(In thousands)

(Unaudited)

	Shares Balance	Shares Par Value	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity
Balance at December 31, 2011	**261,246**	**$ 26,125**	**$ 450,616**	**$ 6,979,882**	**$ (74,321)**	**$ 691,331**	**$ 8,073,633**
Net income				134,652		(6,832)	127,820
Capital contributions by parent share-based compensation			5,070				5,070
Distributions to parent				(52,727)			(52,727)
Noncontrolling interest contributions						40,000	40,000
Other comprehensive income, net					3,761		3,761
Balance at March 31, 2012	**261,246**	**$ 26,125**	**$ 455,686**	**$ 7,061,807**	**$ (70,560)**	**$ 724,499**	**$ 8,197,557**
Balance at December 31, 2012	**261,246**	**$ 26,125**	**$ 470,454**	**$ 7,384,828**	**$ (115,449)**	**$ 765,124**	**$ 8,531,082**
Net income				169,544		17,653	187,197
Capital contributions by parent share-based compensation			5,960				5,960
Distributions to parent				(53,110)			(53,110)
Other comprehensive income, net					3,097		3,097
Balance at March 31, 2013	**261,246**	**$ 26,125**	**$ 476,414**	**$ 7,501,262**	**$ (112,352)**	**$ 782,777**	**$ 8,674,226**

See accompanying notes to the unaudited consolidated financial statements.

NOBLE CORPORATION (NOBLE-SWISS) AND SUBSIDIARIES

NOBLE CORPORATION (NOBLE-CAYMAN) AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unless otherwise indicated, dollar amounts in tables are in thousands, except per share data)

Note 1 Organization and Basis of Presentation

Noble Corporation, a Swiss corporation (Noble-Swiss), is a leading offshore drilling contractor for the oil and gas industry. We perform contract drilling services with our fleet of 79 mobile offshore drilling units located worldwide. We also own one floating production storage and offloading unit. At March 31, 2013, our fleet consisted of 14 semisubmersibles, 14 drillships, 49 jackups and two submersibles, including 11 units under construction as follows:

five dynamically positioned, ultra-deepwater, harsh environment drillships and

six high-specification heavy-duty, harsh environment jackups.

Our global fleet is currently located in the following areas: the United States, Mexico, Brazil, the North Sea, the Mediterranean, West Africa, the Middle East, India, Asia and Australia. Noble and its predecessors have been engaged in the contract drilling of oil and gas wells since 1921.

Noble Corporation, a Cayman Islands company (Noble-Cayman) is a direct, wholly-owned subsidiary of Noble-Swiss, our publicly-traded parent company. Noble-Swiss principal asset is all of the shares of Noble-Cayman. Noble-Cayman has no public equity outstanding. The consolidated financial statements of Noble-Swiss include the accounts of Noble-Cayman, and Noble-Swiss conducts substantially all of its business through Noble-Cayman and its subsidiaries.

The accompanying unaudited consolidated financial statements of Noble-Swiss and Noble-Cayman have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC) as they pertain to Form 10-Q. Accordingly, certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted pursuant to such rules and regulations. The unaudited financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the financial position and results of operations for the interim periods, on a basis consistent with the annual audited consolidated financial statements. All such adjustments are of a recurring nature. The December 31, 2012 Consolidated Balance Sheets presented herein are derived from the December 31, 2012 audited consolidated financial statements. These interim financial statements should be read in conjunction with the consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2012, filed by both Noble-Swiss and Noble-Cayman. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year.

Certain amounts in prior periods have been reclassified to conform to the current year presentation.

Note 2 Consolidated Joint Ventures

We maintain a 50 percent interest in two joint ventures, each with a subsidiary of Royal Dutch Shell, PLC (Shell), that own and operate the two *Bully*-class drillships. We have determined that we are the primary beneficiary for accounting purposes. Accordingly, we consolidate the entities in our consolidated financial statements after eliminating intercompany transactions. Shell s equity interests are presented as noncontrolling interests on our Consolidated Balance Sheets.

In April 2011, the Bully joint venture partners entered into capital contribution agreements whereby capital calls up to a total of $360 million could be made for funds needed to complete the construction of the drillships. All contributions under these agreements have been made.

The combined carrying amount of the *Bully*-class drillships at both March 31, 2013 and December 31, 2012 totaled $1.4 billion. These assets were primarily funded through partner equity contributions. During 2012, these rigs commenced operations. Revenues related to these joint ventures for the three months ended March 31, 2013 and 2012 were $90 million and $6 million, respectively. Net income totaled $37 million for

the three months ended March 31, 2013 as compared to a net loss of $14 million for the three months ended March 31, 2012.

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NOBLE CORPORATION (NOBLE-SWISS) AND SUBSIDIARIES

NOBLE CORPORATION (NOBLE-CAYMAN) AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unless otherwise indicated, dollar amounts in tables are in thousands, except per share data)

Note 3 Share Data

Share capital

The following is a detail of Noble-Swiss share capital as of March 31, 2013 and December 31, 2012:

	March 31, 2013	December 31, 2012
Shares outstanding and trading	**253,259**	**252,759**
Treasury shares	755	589
Total shares outstanding	**254,014**	**253,348**
Treasury shares held for share-based compensation plans	12,136	12,802
Total shares authorized for issuance	**266,150**	**266,150**
Par value per share (in Swiss Francs)	3.15	3.15

Repurchased treasury shares are recorded at cost, and relate to shares surrendered by employees for taxes payable upon the vesting of restricted stock.

Our Board of Directors may further increase Noble-Swiss share capital through the issuance of up to 133.1 million authorized shares without obtaining shareholder approval. The issuance of these authorized shares is subject to certain conditions regarding their use.

In April 2012, our shareholders approved the payment of a dividend aggregating $0.52 per share to be paid in four equal installments. At March 31, 2013, we had $33 million of dividends payable outstanding on this obligation.

In April 2013, our shareholders approved the payment of a dividend aggregating $1.00 per share to be paid in four equal installments currently scheduled for August 2013, November 2013, February 2014 and May 2014. Our Board of Directors has the authority to accelerate the payment of any installment, or portions thereof, at its sole discretion at any time prior to payment of the final installment.

NOBLE CORPORATION (NOBLE-SWISS) AND SUBSIDIARIES

NOBLE CORPORATION (NOBLE-CAYMAN) AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unless otherwise indicated, dollar amounts in tables are in thousands, except per share data)

Earnings per share

The following table sets forth the computation of basic and diluted earnings per share for Noble-Swiss:

	Three months ended March 31,	
	2013	2012
Allocation of net income		
Basic		
Net income attributable to Noble Corporation	$ 150,060	$ 120,175
Earnings allocated to unvested share-based payment awards	(1,667)	(1,126)
Net income to common shareholders basic	$ 148,393	$ 119,049
Diluted		
Net income attributable to Noble Corporation	$ 150,060	$ 120,175
Earnings allocated to unvested share-based payment awards	(1,664)	(1,125)
Net income to common shareholders diluted	$ 148,396	$ 119,050
Weighted average shares outstanding basic	253,073	251,971
Incremental shares issuable from assumed exercise of stock options	268	491
Weighted average shares outstanding diluted	253,341	252,462
Weighted average unvested share-based payment awards	2,844	2,407
Earnings per share		
Basic	$ 0.59	$ 0.47
Diluted	$ 0.59	$ 0.47

Only those items having a dilutive impact on our basic earnings per share are included in diluted earnings per share. For the three months ended March 31, 2013 and 2012, stock options representing approximately 1.0 million and 1.2 million shares, respectively, were excluded from the diluted earnings per share as they were not dilutive.

Note 4 Receivables from Customers

At March 31, 2013, we had receivables of approximately $14 million related to the *Noble Max Smith*, which are being disputed by our customer, Pemex Exploracion y Produccion (Pemex). These receivables have been classified as long-term and are included in Other assets on our Consolidated Balance Sheet. The disputed amounts relate to lost revenues for downtime that occurred after our rig was damaged when one of Pemex s supply boats collided with our rig in 2010. In January 2012, we filed a lawsuit against Pemex in Mexican court seeking recovery of these amounts. While we can make no assurances as to the outcome of this dispute, we believe we are entitled to the disputed amounts.

Note 5 Property and Equipment

Property and equipment, at cost, as of March 31, 2013 and December 31, 2012 consisted of the following:

	March 31, 2013	**December 31, 2012**
Drilling equipment and facilities	$ 14,324,919	$ 14,099,628
Construction in progress	2,817,564	2,677,385
Other	187,075	194,653
Property and equipment, at cost	$ 17,329,558	$ 16,971,666

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Capital expenditures, including capitalized interest, totaled $372 million and $365 million for the three months ended March 31, 2013 and 2012, respectively. Capital expenditures for the first three months of 2013 consisted of the following:

- $138 million for newbuild construction;
- $153 million for major projects, including subsea related expenditures;
- $51 million for other capitalized expenditures, including upgrades and replacements to drilling equipment that generally have a useful life ranging from 3 to 5 years; and
- $30 million in capitalized interest.

Interest is capitalized on construction-in-progress at the weighted average cost of debt outstanding during the period of construction.

Note 6 Debt

Total debt consisted of the following at March 31, 2013 and December 31, 2012:

	March 31, 2013	December 31, 2012
Senior unsecured notes:		
5.875% Senior Notes due 2013	$ 299,994	$ 299,985
7.375% Senior Notes due 2014	249,839	249,799
3.45% Senior Notes due 2015	350,000	350,000
3.05% Senior Notes due 2016	299,955	299,952
2.50% Senior Notes due 2017	299,861	299,852
7.50% Senior Notes due 2019	201,695	201,695
4.90% Senior Notes due 2020	498,929	498,900
4.625% Senior Notes due 2021	399,539	399,527
3.95% Senior Notes due 2022	399,115	399,095
6.20% Senior Notes due 2040	399,892	399,891
6.05% Senior Notes due 2041	397,622	397,613
5.25% Senior Notes due 2042	498,263	498,257
Total senior unsecured notes	4,294,704	4,294,566
Commercial paper program	549,489	339,809
Total long-term debt	$ 4,844,193	$ 4,634,375

Credit Facilities and Commercial Paper Program

We currently have two separate credit facilities with an aggregate maximum available capacity of $2.3 billion, one credit facility matures in 2015 and the other matures in 2017 (together referred to as the Credit Facilities). In January 2013, we increased the maximum amount available under our credit facility maturing in 2015 from $600 million to $800 million and the maximum amount available under our credit facility maturing in 2017 from $1.2 billion to $1.5 billion. We have established a commercial paper program, which allows us to issue up to $1.8 billion in unsecured commercial paper notes. Amounts issued under the commercial paper program are supported by the unused capacity under our Credit Facilities and, as such, are classified as long-term on our Consolidated Balance Sheet. At March 31, 2013, we had approximately $1.75 billion of capacity under the Credit Facilities.

The Credit Facilities provide us with the ability to issue up to $375 million in letters of credit in the aggregate. The issuance of letters of credit does not increase our borrowings outstanding under the Credit Facilities, but it does reduce the amount available. At March 31, 2013, we had no letters of credit issued under the Credit Facilities.

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Senior Unsecured Notes

In February 2012, we issued, through our indirect wholly-owned subsidiary, Noble Holding International Limited (NHIL), $1.2 billion aggregate principal amount of senior notes in three separate tranches, with $300 million of 2.50% Senior Notes due 2017, $400 million of 3.95% Senior Notes due 2022, and $500 million of 5.25% Senior Notes due 2042. The weighted average coupon of all three tranches is 4.13%. The net proceeds of approximately $1.19 billion, after expenses, were primarily used to repay the then outstanding balance on our Credit Facilities.

Our 5.875% Senior Notes mature during the second quarter of 2013. We anticipate using availability under our Credit Facilities or commercial paper program to repay the outstanding balance; therefore, we continue to report the balance as long-term at March 31, 2013.

Covenants

The Credit Facilities are guaranteed by our indirect wholly-owned subsidiaries, NHIL and Noble Drilling Corporation (NDC). The covenants and events of default under the Credit Facilities are substantially similar, and each facility contains a covenant that limits our ratio of debt to total tangible capitalization, as defined in the Credit Facilities, to 0.60. At March 31, 2013, our ratio of debt to total tangible capitalization was approximately 0.36. We were in compliance with all covenants under the Credit Facilities as of March 31, 2013.

In addition to the covenants from the Credit Facilities noted above, the indentures governing our outstanding senior unsecured notes contain covenants that place restrictions on certain merger and consolidation transactions, unless we are the surviving entity or the other party assumes the obligations under the indenture, and on the ability to sell or transfer all or substantially all of our assets. In addition, there are restrictions on incurring or assuming certain liens and sale and lease-back transactions. At March 31, 2013, we were in compliance with all of our debt covenants. We continually monitor compliance with the covenants under our notes and, based on our expectations for 2013, expect to remain in compliance during the year.

Fair Value of Debt

Fair value represents the amount at which an instrument could be exchanged in a current transaction between willing parties. The estimated fair value of our senior notes was based on the quoted market prices for similar issues or on the current rates offered to us for debt of similar remaining maturities (Level 2 measurement).

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The following table presents the estimated fair value of our long-term debt as of March 31, 2013 and December 31, 2012, respectively:

	March 31, 2013		December 31, 2012	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Senior unsecured notes:				
5.875% Senior Notes due 2013	$ 299,994	$ 301,860	$ 299,985	$ 305,594
7.375% Senior Notes due 2014	249,839	265,191	249,799	269,008
3.45% Senior Notes due 2015	350,000	366,445	350,000	368,824
3.05% Senior Notes due 2016	299,955	312,637	299,952	316,268
2.50% Senior Notes due 2017	299,861	307,512	299,852	309,846
7.50% Senior Notes due 2019	201,695	251,615	201,695	249,358
4.90% Senior Notes due 2020	498,929	554,370	498,900	562,530
4.625% Senior Notes due 2021	399,539	435,232	399,527	442,776
3.95% Senior Notes due 2022	399,115	411,413	399,095	422,227
6.20% Senior Notes due 2040	399,892	448,844	399,891	477,327
6.05% Senior Notes due 2041	397,622	441,512	397,613	468,256
5.25% Senior Notes due 2042	498,263	503,988	498,257	533,422
Total senior unsecured notes	4,294,704	4,600,619	4,294,566	4,725,436
Commercial paper program	549,489	549,489	339,809	339,809
Total long-term debt	$ 4,844,193	$ 5,150,108	$ 4,634,375	$ 5,065,245

Note 7 Income Taxes

At December 31, 2012, the reserves for uncertain tax positions totaled $125 million (net of related tax benefits of $10 million). At March 31, 2013, the reserves for uncertain tax positions totaled $125 million (net of related tax benefits of $11 million). If the March 31, 2013 reserves are not realized, the provision for income taxes would be reduced by $125 million.

It is possible that our existing liabilities related to our reserves for uncertain tax positions may increase or decrease in the next 12 months primarily due to the completion of open audits or the expiration of statutes of limitation. However, we cannot reasonably estimate a range of changes in our existing liabilities due to various uncertainties, such as the unresolved nature of various audits.

Note 8 Employee Benefit Plans

Pension costs include the following components:

	Three Months Ended March 31,			
	2013		2012	
	Non-U.S.	U.S.	Non-U.S.	U.S.

Service cost	$ 1,379	$ 2,681	$ 1,123	$ 2,431
Interest cost	1,282	2,262	1,358	2,196
Return on plan assets	(1,471)	(3,276)	(1,346)	(2,793)
Amortization of prior service cost		57		57
Recognized net actuarial loss	405	1,910	200	1,885
Net pension expense	$ 1,595	$ 3,634	$ 1,335	$ 3,776

During the three months ended March 31, 2013 and 2012, we made contributions to our pension plans totaling $3 million and $4 million, respectively.

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Note 9 Derivative Instruments and Hedging Activities

We periodically enter into derivative instruments to manage our exposure to fluctuations in interest rates and foreign currency exchange rates. We have documented policies and procedures to monitor and control the use of derivative instruments. We do not engage in derivative transactions for speculative or trading purposes, nor are we a party to leveraged derivatives.

For foreign currency forward contracts, hedge effectiveness is evaluated at inception based on the matching of critical terms between derivative contracts and the hedged item. Any change in fair value resulting from ineffectiveness is recognized immediately in earnings.

Cash Flow Hedges

Our North Sea and Brazil operations have a significant amount of their cash operating expenses payable in local currencies. To limit the potential risk of currency fluctuations, we periodically enter into forward contracts settling monthly in their respective local currencies, all of which have a maturity of less than 12 months. The forward contract settlements in the remainder of 2013 represent approximately 59 percent of these forecasted local currency requirements. The notional amount of the forward contracts outstanding, expressed in U.S. Dollars, was approximately $124 million at March 31, 2013. Total unrealized loss related to these forward contracts was approximately $1 million as of March 31, 2013 and was recorded as part of Accumulated other comprehensive loss (AOCL).

The balance of the net unrealized loss related to our cash flow hedges included in AOCL and related activity is as follows:

	Three Months Ended March 31,	
	2013	**2012**
Net unrealized loss at beginning of period	$	$ (3,061)
Activity during period:		
Settlement of foreign currency forward contracts during the period		2,118
Net unrealized gain/(loss) on outstanding foreign currency forward contracts	(1,202)	299
Net unrealized loss at end of period	$ (1,202)	$ (644)

Financial Statement Presentation

The following tables, together with Note 10, summarize the financial statement presentation and fair value of our derivative positions as of March 31, 2013 and December 31, 2012:

		Estimated fair value	
	Balance sheet classification	**March 31, 2013**	**December 31, 2012**
Asset derivatives			
Cash flow hedges			

Short-term foreign currency forward contracts	Other current assets	$ 776	$
Liability derivatives			
Cash flow hedges			
Short-term foreign currency forward contracts	Other current liabilities	$ 1,978	$

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To supplement the fair value disclosures in Note 10, the following summarizes the recognized gains and losses of cash flow hedges and non-designated derivatives through AOCL or through other income for the three months ended March 31, 2013 and 2012:

	Gain/(loss) recognized through AOCL		Gain/(loss) reclassified from AOCL to other income		Gain/(loss) recognized through other income	
	2013	2012	2013	2012	2013	2012
Cash flow hedges						
Foreign currency forward contracts	$ (1,202)	$ 299	$	$ 2,118	$	$

Note 10 Fair Value of Financial Instruments

The following table presents the carrying amount and estimated fair value of our financial instruments recognized at fair value on a recurring basis:

		March 31, 2013 Estimated Fair Value Measurements		
	Carrying Amount	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Marketable securities				

1. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

The consolidated financial statements include the accounts of Computer Task Group, Incorporated, and its subsidiaries (the Company or CTG), located primarily in North America and Europe. There are no unconsolidated entities, or off-balance sheet arrangements. All inter-company accounts and transactions have been eliminated. Certain amounts in the prior period s consolidated financial statements have been reclassified to conform to the current year presentation. Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with U.S. generally accepted accounting principles. Such estimates primarily relate to the valuation of goodwill, valuation allowances for deferred tax assets, actuarial assumptions including discount rates and expected rates of return, 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 estimates of progress toward completion and direct profit or loss on contracts. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions. Actual results could differ from those estimates.

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. The Company promotes a significant portion of its services through three vertical market focus areas: Technology Service Providers, Healthcare (which includes services provided to healthcare 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 remainder of CTG s revenue is derived from general markets.

CTG s revenue by vertical market for the years ended December 31, 2008, 2007 and 2006 is as follows:

	2008	2007	2006
Technology service providers	34%	34%	39%
Healthcare	26%	26%	25%
Financial services	8%	11%	10%
General markets	32%	29%	26%
Total	100%	100%	100%

Revenue and Cost Recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, when the services have been rendered, when the price is determinable, and when collectibility of the amounts due is reasonably assured. For time-and-material contracts, revenue is recognized as hours are incurred and costs are expended. For contracts with periodic billing schedules, primarily monthly, revenue is recognized as services are rendered to the customer. Revenue for fixed price contracts is recognized as per the proportional method of accounting using an input-based approach whereby salary and indirect labor costs incurred are measured and compared with the total estimate of costs of such items at completion for a project. Revenue is recognized based upon the percentage of completion calculation of total incurred costs to total estimated costs. The Company infrequently works on fixed-price projects that include significant amounts of material or other non-labor related costs which could distort the

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percent complete within a percentage-of-completion calculation. The Company s estimate of the total labor costs it expects to incur over the term of the contract is based on the nature of the project and our past experience on similar projects, and includes management judgments and estimates which affect the amount of revenue recognized on fixed-price contracts in any accounting period.

The Company s revenue from contracts accounted for under time-and-material, progress billing, and percentage-of-completion methods for the years ended December 31, 2008, 2007 and 2006 is as follows:

	2008	2007	2006
Time-and-material	90%	88%	90%
Progress billing	7%	8%	6%
Percentage-of-completion	3%	4%	4%
Total	100%	100%	100%

As required, the Company includes billable expenses in its accounts as both revenue and direct costs. These billable expenses totaled $8.6 million, $7.9 million, and $9.4 million in 2008, 2007 and 2006, respectively.

Selling, general, and administrative costs are charged to expense as incurred.

Bad debt expense, net of recoveries was approximately $0.1 million, $0.2 million, and $0.0 in 2008, 2007 and 2006, respectively.

Restricted Cash

At December 31, 2008, the Company has restricted use of approximately $0.4 million of its cash and cash equivalents as the funds are held as a guarantee by a financial institution for leased office space.

Fair Value

In September 2006, the Financial Accounting Standards Board (FASB) issued Financial Accounting Standard (FAS) 157, Fair Value Measurements. In February 2008, the FASB issued FASB Staff Position 157-2, Effective Date of FASB Statement No. 157, which provided a one-year deferral of the effective date of FAS 157 for non-financial assets and liabilities (such as goodwill), except those that are recognized or disclosed in the Company s financial statements at fair value at least annually. Accordingly, the Company adopted the provisions of FAS 157 only for its financial assets and liabilities effective January 1, 2008. FAS 157 defines fair value as the exchange price that would be received for an asset or paid for a liability in the principal or most advantageous market for the asset or liability, in an orderly transaction between market participants.

The FAS describes a fair value hierarchy based upon three levels of input, which are:

Level 1 quoted prices in active markets for identical assets or liabilities (observable)

Level 2 inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in inactive markets, or other inputs that are observable or can be supported by observable market data for essentially the full term of the asset or liability (observable)

Level 3 unobservable inputs that are supported by little or no market activity, but are significant to determining the fair value of the asset or liability (unobservable)

The adoption of FAS 157, which the Company applied to its investments balances, had no impact on the Company s consolidated results of operations or financial condition.

Effective January 1, 2008, the Company adopted FAS 159, The Fair Value Option for Financial Assets and Financial Liabilities. This FAS allows an entity to elect an irrevocable option to measure, on a contract by contract basis, specific financial instruments and certain other items that are currently not being measured at fair value. The Company did not elect to apply the fair value provisions of this standard for any specific contracts during the year ended December 31, 2008.

At December 31, 2008 and 2007, the carrying amounts of the Company s cash and cash equivalents ($11.0 million and $4.3 million, respectively) approximated fair value.

Investments

The Company s investments consist of mutual funds which are allocated to the Computer Task Group, Incorporated Non-qualified Key Employee Deferred Compensation Plan. At December 31, 2008, the Company s investment balances for this plan, which are classified as trading securities, totaled $0.6 million. These investment balances are measured at fair value, and the fair value was determined using Level 1 (see Fair Value in note 1) inputs. These investments totaled $0.6 million at December 31, 2007 and were also classified as trading securities.

Unrealized gains and losses on these securities are recorded in earnings, and were nominal in 2008, 2007 and 2006. All other investments consisting of equity securities were sold during 2007 for a gain of approximately $0.6 million.

Property and Equipment

Property and equipment are generally stated at historical cost less accumulated depreciation. Depreciation is computed using the straight-line method based on estimated useful lives of one year to 30 years, and begins after an asset has been put into service. The cost of property or equipment sold or otherwise disposed of, along with related accumulated depreciation, is eliminated from the accounts, and the resulting gain or loss, if any, is reflected in current earnings. Maintenance and repairs are charged to expense when incurred, while significant improvements to existing assets are capitalized.

The Company accounts for capitalized software costs under either Statement of Position (SOP) 98-1 Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, or FAS 86 Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed, according to the intended use of the software. At December 31, 2008, the Company has capitalized a total of approximately $1.4 million for two projects under SOP 98-1 and $0.1 million for one project under FAS 86. During 2008, the Company began to amortize the project accounted for under FAS 86 as it is complete. Amortization for this project totaled less than $0.1 million at December 31, 2008. The capitalized portion of these balances is included in the software balance in note 2, Property and Equipment.

Leases

The Company is obligated under a number of long-term operating leases primarily for the rental of office space, office equipment and automobiles based in Europe. In instances where the Company has negotiated leases that contain rent holidays or escalation clauses, the expense for those leases is recognized monthly on a straight line basis over the term of the lease.

Goodwill

The Company has goodwill on its books which originated from the purchase in 1999 of a healthcare information technology provider. The goodwill balance of $35.7 million is evaluated annually as of the Company s October fiscal month-end, or more frequently if facts and circumstances indicate impairment may

exist. This evaluation, as applicable, is based on estimates and assumptions that may be used to analyze the appraised value of similar transactions from which the goodwill arose, the appraised value of similar companies, or estimates of future discounted cash flows. The estimates and assumptions on which the Company s evaluations are based involve judgments and are based on currently available information, any of which could prove wrong or inaccurate when made, or become wrong or inaccurate as a result of subsequent events.

At the respective measurement dates for 2008, 2007, and 2006, with the assistance of an independent appraisal company, the Company completed its annual valuation of the business to which the Company s goodwill relates. The valuations indicated that the estimated fair value of the business exceeded the carrying value of the business in each period. Additionally, given the declining market conditions during 2008, the Company reviewed its goodwill balance at December 31, 2008 to determine if a triggering event may have occurred which would be an indication of a potential impairment. The Company s review included analyzing the enterprise value of the consolidated company and reconciling it to the carrying value of the Company s business units, including the business unit to which the goodwill relates. The Company also updated the future forecasts and the estimate of the future discounted cash flow analysis for this business unit. In both of these instances, the estimated fair value of the business continued to exceed the carrying value of the business at December 31, 2008. Accordingly, the Company determined that there was no triggering event, and therefore no indication of impairment existed at December 31, 2008. Accordingly, there are no facts or circumstances that arose during 2008, 2007 or 2006 that led management to believe the goodwill was impaired.

Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of by sale are reported at the lower of the carrying amount or fair value less costs to sell. The Company does not have any long-lived assets that are impaired or that it intends to dispose of at December 31, 2008.

Income Taxes

The Company provides for deferred income taxes for the temporary differences between the financial reporting basis and the tax basis of the Company s assets and liabilities. In assessing the realizability of deferred tax assets, management considers within each tax jurisdiction, whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax-planning strategies in making this assessment.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in tax expense.

Equity-Based Compensation

The Company records the fair value of equity-based compensation expense for all equity-based compensation awards granted subsequent to January 1, 2006, and for the unvested portion of previously granted awards outstanding as of that date. The calculated fair value cost of its equity-based compensation awards are recognized in the Company s income statement over the period in which an employee or director is required to provide the services for the award. Compensation cost is not recognized for employees or directors that do not render the requisite services. The Company recognized the expense for equity-based compensation in its 2008, 2007 and 2006 statements of income on a straight-line basis based upon awards that are ultimately expected to vest. See note 9, Equity-Based Compensation.

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Net Income Per Share

Basic and diluted earnings per share (EPS) for the years ended December 31, 2008, 2007, and 2006 are as follows:

For the year ended (amounts in thousands, except per-share data)	Net Income	Weighted Average Shares	Earnings per Share
December 31, 2008			
Basic EPS	$ 7,837	15,328	$ 0.51
Dilutive effect of outstanding equity instruments		550	(0.02)
Diluted EPS	$ 7,837	15,878	$ 0.49
December 31, 2007			
Basic EPS	$ 4,246	16,181	$ 0.26
Dilutive effect of outstanding equity instruments		473	(0.01)
Diluted EPS	$ 4,246	16,654	$ 0.25
December 31, 2006			
Basic EPS	$ 3,495	16,417	$ 0.21
Dilutive effect of outstanding equity instruments		328	
Diluted EPS	$ 3,495	16,745	$ 0.21

Weighted-average shares represent the average number of issued shares less treasury shares and shares held in the Stock Trusts, and for the basic EPS calculations, unvested restricted stock.

Certain options representing 2.0 million, 1.7 million, and 1.8 million shares of common stock were outstanding at December 31, 2008, 2007, and 2006, respectively, but were not included in the computation of diluted earnings per share as their effect on the computation would have been anti-dilutive.

Foreign Currency

The functional currency of the Company s foreign subsidiaries is the applicable local currency. The translation of the applicable foreign currencies into U.S. dollars is performed for assets and liabilities using current exchange rates in effect at the balance sheet date, for equity accounts using historical exchange rates, and for revenue and expense activity using the applicable month s average exchange rates. The Company recorded gains totaling approximately $0.5 million in 2008, and $0 in 2007 and 2006 from foreign currency transactions for balances settled during the year and those balances outstanding between its subsidiaries at year-end.

Cash and Cash Equivalents, and Cash Overdrafts

For purposes of the statement of cash flows, cash and cash equivalents are defined as cash on hand, demand deposits, and short-term, highly liquid investments with a maturity of three months or less. Total cash equivalents at December 31, 2008 and 2007 totaled $7.7 million and $0.6 million, respectively and consisted of overnight interest-bearing deposits. Additionally, as the Company does not fund its bank accounts for the checks it has written until the checks are presented to the bank for payment, the change in cash overdraft, net represents the increase or decrease in outstanding checks year-over-year.

Taxes Collected from Customers

In instances where the Company collects taxes from its customers for remittance to governmental authorities, primarily in its European operations, revenue is not recorded as such taxes are recorded and presented on a net basis.

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Accumulated Other Comprehensive Loss

The components that make up accumulated other comprehensive loss on the consolidated balance sheets at December 31, 2008, 2007, and 2006 are as follows:

(amounts in thousands)	2008	2007	2006
Foreign currency adjustment	$ (3,701)	$ (1,780)	$ (3,038)
Pension loss adjustment, net of tax of $369 in 2008, $458 in 2007 and $950 in 2006	(229)	(404)	(1,476)
Unrealized gain on investments, net of tax of $239 in 2006			376
	$ (3,930)	$ (2,184)	$ (4,138)

For the years ended December 31, 2008, 2007 and 2006, the net tax expense associated with the pension loss adjustment, net was $0.1 million, $0.5 million and $0.1 million, respectively.

Postretirement Benefit Obligations Resulting from Insurance Contracts

In 2006, the Emerging Issues Task Force (EITF) issued EITF 06-04, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements. This EITF requires an entity to account for the liability for the cost of insurance related to the purchase of endorsement split-dollar life insurance arrangements for employees where the policy remains in place after the employee s retirement. The Company adopted this EITF on January 1, 2008. The Company has several endorsement split-dollar life insurance policies for former executives that continued post employment. As required by the EITF, the Company calculated and recorded the present value of the postretirement benefit obligation as an adjustment to retained earnings as of January 1, 2008. This cumulative effect adjustment totaled approximately $82,000.

Recent Accounting Pronouncements

In February 2008, the FASB issued FASB Staff Position 157-2, Effective Date of FASB Statement 157, (FSP 157-2) which provides a one year deferral of the effective date of FAS 157 for non-financial assets and liabilities (such as goodwill), except those that are recognized or disclosed in the Company s financial statements at fair value at least annually. The effective date of FSP 157-2 for the Company is the first quarter of 2009. Although the Company is currently evaluating the effect that the adoption of FSP 157-2 will have on its financial condition or results of operations, it does not believe the impact, if any, will be material.

In December 2008, the FASB issued FASB Staff Position (FSP) FAS 132 (R) 1, Employers Disclosures about Postretirement Benefit Plan Assets, which amends FASB Statement No. 132 (revised 2003), Employers Disclosures about Pensions and Other Postretirement Benefits, to provide guidance on an employer s disclosures about plan assets of a defined benefit pension or other postretirement plan. These disclosures include how investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies, the major categories of plan assets, the inputs and valuation techniques used to measure the fair value of plan assets, the effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets for the period, and significant concentrations of risk within plan assets. The disclosures about plan assets required by this FSP are required for fiscal years ending after December 15, 2009.

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2. Property and Equipment

Property and equipment at December 31, 2008 and 2007 are summarized as follows:

December 31, (amounts in thousands)	**Useful Life** (years)	**2008**	**2007**
Land		$ 378	$ 378
Buildings	30	4,441	4,423
Equipment	2-5	10,328	12,221
Furniture	5-10	4,048	4,926
Software	1-5	6,131	8,751
Leasehold improvements	3-10	3,315	3,941
		28,641	34,640
Less accumulated depreciation		(21,874)	(28,899)
		$ 6,767	$ 5,741

During 2007, the Company received approximately $0.2 million in insurance proceeds related to damage to its corporate headquarters.

3. Debt

During February 2008, prior to its expiration, the Company entered into an amendment of its existing Credit Agreement which extended the term by three years. The Credit Agreement allows the Company to borrow up to $35 million, has a term of three years, and expires in April 2011. The Credit Agreement has interest rates ranging from 0 to 75 basis points over the prime rate and 150 to 225 basis points over LIBOR, and provides certain of the Company s assets as security for outstanding borrowings. The Company is required to meet certain financial covenants in order to maintain borrowings under the Credit Agreement, pay dividends, and make acquisitions. At December 31, 2008 and 2007, there were no amounts outstanding under this Credit Agreement, and the Company was in compliance with these covenants. There was $0.5 million and $0.4 million, respectively, assigned to letters of credit under this Credit Agreement at December 31, 2008 and 2007.

The maximum amounts outstanding under the Credit Agreement during 2008, 2007, and 2006 were $13.8 million, $13.7 million, and $23.9 million, respectively. Average bank borrowings outstanding for the years 2008, 2007, and 2006 were $3.8 million, $5.0 million, and $6.6 million, respectively, and carried weighted-average interest rates of 5.0%, 7.0%, and 7.8%, respectively. The Company incurred commitment fees totaling approximately $0.1 million in each of 2008, 2007 and 2006 relative to the Credit Agreement.

Interest paid during 2008, 2007, and 2006 totaled $0.2 million, $0.4 million, and $0.6 million, respectively.

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4. Income Taxes

The provision for income taxes for 2008, 2007, and 2006 consists of the following:

(amounts in thousands)	2008	2007	2006
Domestic and foreign components of income before income taxes are as follows:			
Domestic	$ 11,798	$ 6,438	$ 4,769
Foreign	1,540	371	1,380
	$ 13,338	$ 6,809	$ 6,149
The provision (benefit) for income taxes consists of:			
Current tax:			
U.S. federal	$ 3,344	$ 1,753	$ 1,208
Foreign	1,191	792	922
U.S. state and local	670	279	208
	5,205	2,824	2,338
Deferred tax:			
U.S. federal	(215)	(132)	(179)
Foreign	357	(8)	353
U.S. state and local	154	(121)	142
	296	(261)	316
	$ 5,501	$ 2,563	$ 2,654
The effective and statutory income tax rate can be reconciled as follows:			
Tax at statutory rate of 34%	$ 4,535	$ 2,315	$ 2,091
State tax, net of federal benefits	560	289	180
Benefit of state net operating losses previously offset by valuation allowances	(27)	(185)	3
Non-taxable income	(606)	(783)	(687)
Non-deductible expenses	919	982	934
Change in estimate primarily related to foreign taxes	407		135
Change in estimate primarily related to state taxes and tax reserves	(128)	65	91
Benefit of foreign net operating losses previously offset by valuation allowances	(56)	(60)	(17)
Tax credits	(79)		
Other, net	(24)	(60)	(76)
	$ 5,501	$ 2,563	$ 2,654
Effective income tax rate	41.2%	37.6%	43.2%

The Company s effective tax rate (ETR) is calculated quarterly based upon current assumptions relating to the full years estimated operating results, and various tax related items. The Company s normal ETR is approximately 38 to 42%. The 2008 ETR was 41.2%. The 2008 ETR was affected by an addition to the valuation allowance for net operating losses in foreign countries of approximately $0.4 million, offset by a reduction in the Company s tax reserves of approximately $0.1 million and Federal income tax credits of approximately $0.1 million. The 2007 ETR was 37.6%, as the Company decreased the valuation allowance for the net operating loss for U.S. state jurisdictions by approximately $0.2 million, which was offset by adding approximately $0.1 million to its tax reserves due to changes in estimate of recoverability.

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The Company s deferred tax assets and liabilities at December 31, 2008 and 2007 consist of the following:

December 31, (amounts in thousands)	**2008**	**2007**
Assets		
Deferred compensation	$ 3,895	$ 3,709
Loss carryforwards	2,661	2,954
Accruals deductible for tax purposes when paid	702	512
Depreciation	98	329
Allowance for doubtful accounts	250	300
Amortization	441	560
State taxes	612	669
Gross deferred tax assets	8,659	9,033
Deferred tax asset valuation allowance	(2,454)	(2,492)
Gross deferred tax assets less valuation allowance	6,205	6,541
Liabilities		
Accrued income not recognized for tax	(286)	(336)
Other	(100)	
Gross deferred tax liabilities	(386)	(336)
Net deferred tax assets	$ 5,819	$ 6,205
Net deferred assets and liabilities are recorded as follows:		
Net current assets	$ 1,538	$ 1,350
Net non-current assets	4,667	5,108
Net current liabilities	(99)	
Net non-current liabilities	(287)	(253)
Net deferred tax assets	$ 5,819	$ 6,205

At December 31, 2008, net current liabilities and net non-current liabilities are recorded on the consolidated balance sheet in other current liabilities and other long-term liabilities, respectively. In assessing the realizability of deferred tax assets, management considers, within each taxing jurisdiction, whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Factors that may affect the Company s ability to achieve sufficient forecasted taxable income in future periods may include, but are not limited to, the following: increased competition, a decline in sales or margins, a loss of market share, the availability of qualified professional staff, and a decrease in demand for IT services. Based upon the levels of historical taxable income and projections for future taxable income over the years in which the deferred tax assets are deductible, at December 31, 2008, management believes that it is more likely than not that the Company will realize the benefits, net of the established valuation allowance, of these deferred tax assets in the future.

The Company has various state net operating loss carryforwards totaling approximately $6.1 million. These state net operating losses have a carryforward period of 5 to 20 years and begin to expire in 2009. The Company also has a Canadian net operating loss carryforward of $0.2 million which begins to expire in 2009. The Netherlands net operating loss carryforward of $8.6 million begins to expire in 2011, while in the United Kingdom the net operating loss carryforward is approximately $0.4 million, and has no expiration date.

At December 31, 2008, the Company has a deferred tax asset before the valuation allowance resulting from net operating losses in various states of approximately $0.3 million, in The Netherlands of approximately $2.2 million, and approximately $0.2 million in various other countries where it does business. Management of the

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Company has analyzed each jurisdiction s tax position, including forecasting potential taxable income in future years, and the expiration of the net operating loss carryforwards as applicable, and determined that it is unclear whether all of the deferred tax asset totaling $2.7 million will be realized at any point in the future. Accordingly, at December 31, 2008, the Company has offset a portion of the asset with a valuation allowance totaling $2.4 million, resulting in a net deferred tax asset from net operating loss carryforwards of approximately $0.3 million. During 2008, the valuation allowance decreased by less than $0.1 million net, due to a variety of factors including foreign currency changes in The Netherlands of $0.1 million and $0.1 million related to the establishment of a net operating loss valuation allowance in certain foreign jurisdictions.

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (Interpretation 48) on January 1, 2007. Upon implementation of Interpretation 48, the Company was not required to recognize any increase in its liability for unrecognized tax benefits.

The Company files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years prior to 2004.

A reconciliation of unrecognized tax benefits for 2007 and 2008 is as follows:

(amounts in thousands)	
Balance at January 1, 2007	$ 247
Additions based on tax positions related to the current year	96
Reductions for lapse of statute of limitations	(29)
Settlements	(25)
Balance at December 31, 2007	$ 289
Additions based on tax positions related to the current year	29
Additions for tax positions of prior years	7
Reductions for lapse of statute of limitations	(47)
Settlements	(211)
Balance at December 31, 2008	$ 67

The balance at December 31, 2008 of $67,000 represents gross unrecognized tax benefits that if recognized would impact the Company s effective tax rate. No significant increase or decrease in the total amount of unrecognized tax benefits is expected within the next twelve months.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in tax expense. As of the date of adoption, the Company had accrued approximately $15,000 in interest and penalties, as applicable. At December 31, 2008, the Company had approximately $7,000 (less the associated tax benefit) accrued for the payment of interest and penalties, as applicable.

The Company has established reserves for tax contingencies based upon the probable outcome of tax positions taken for financial statement purposes compared with positions taken on the Company s tax returns. The Company reviews its tax-contingency reserves on a quarterly basis to ensure they are appropriately stated. Such reviews include consideration of factors such as the cause of the action, the degree of probability of an unfavorable outcome, the Company s ability to estimate the liability, and the timing of the liability and how it will impact the Company s other tax attributes. At December 31, 2008, the Company believes it has adequately provided for its tax-related liabilities.

Undistributed earnings of the Company s foreign subsidiaries were minimal at December 31, 2008, and are considered to be indefinitely reinvested. Accordingly, no provision for U.S. federal and state income taxes has been provided thereon. Upon distribution of these earnings in the form of dividends or otherwise, the Company

would be subject to both U.S. income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to the various foreign countries. In the event that the foreign entities earnings were distributed, it is estimated that U.S. federal and state income taxes, net of foreign credits, would be immaterial.

In 2008, 2007, and 2006, 140,000, 131,000, and 185,000 shares of common stock, respectively, were issued through the exercise of non-qualified stock options or through the disqualifying disposition of incentive stock options. The tax benefit to the Company from these transactions, which was credited to capital in excess of par value rather than recognized as a reduction of income tax expense, was $99,000, $45,000, and $113,000 in 2008, 2007, and 2006, respectively. These tax benefits have also been recognized in the consolidated balance sheets as a reduction of income taxes payable.

Net income tax payments during 2008, 2007, and 2006 totaled $4.3 million, $1.7 million, and $1.8 million, respectively.

5. Lease Commitments

At December 31, 2008, the Company was obligated under a number of long-term operating leases. Minimum future obligations under such leases are summarized as follows:

Year ending December 31, (amounts in thousands)	
2009	$ 6,035
2010	4,515
2011	2,808
2012	1,512
2013	673
Later years	2,902
Minimum future obligations	$ 18,445

The operating lease obligations relate to the rental of office space, office equipment, and automobiles leased in Europe. Total rental expense under such operating leases for 2008, 2007, and 2006 was approximately $8.1 million, $7.4 million, and $6.3 million, respectively.

6. Deferred Compensation Benefits

The Company maintains a non-qualified defined-benefit Executive Supplemental Benefit Plan (ESBP) that provides certain former key executives with deferred compensation benefits, based on years of service and base compensation, payable during retirement. The plan was amended as of November 30, 1994, to freeze benefits for participants at that time.

Net periodic pension cost for the years ended December 31, 2008, 2007, and 2006 for the ESBP is as follows:

Net Periodic Pension Cost ESBP (amounts in thousands)	**2008**	**2007**	**2006**
Interest cost	$ 510	$ 488	$ 493
Amortization of actuarial loss	66	99	118
Net periodic pension cost	$ 576	$ 587	$ 611

The Company also retained a contributory defined-benefit plan for its previous employees located in The Netherlands (NDBP) when the Company disposed of its subsidiary, CTG Nederland, B.V. Benefits paid are a function of a percentage of career average pay. This plan was

curtailed for additional contributions in January 2003.

In September 2006, the FASB issued FAS 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (FAS 158). FAS 158 required the Company to recognize the overfunded or underfunded status of its defined benefit plans as either assets or liabilities, as applicable, in its consolidated balance sheets. The Company adopted these provisions of FAS 158 for its defined benefit plans for the year ended December 31, 2006. As of December 31, 2008, the FAS required the Company to measure the funded status of its defined benefit plans as of the date of its year-end (December 31). Previously, the Company had measured the funded status of the NDBP as of the end of its fiscal month of September. As the amount of net periodic pension benefit allocated to the period from October 1, 2007 to December 31, 2007 was not significant, no adjustment was made to retained earnings as of January 1, 2008 for this change in measurement date. Net periodic pension benefit for the periods ended December 31, 2008, September 29, 2007, and September 30, 2006 for the NDBP is as follows:

Net Periodic Pension Cost (Benefit) NDBP	**2008**	**2007**	**2006**
(amounts in thousands)			
Interest cost	$ 300	$ 265	$ 241
Expected return on plan assets	(391)	(338)	(301)
Amortization of actuarial loss	(5)	(18)	2
Net periodic pension benefit	$ (96)	$ (91)	$ (58)

The change in benefit obligation and reconciliation of fair value of plan assets for the years ended December 31, 2008 and 2007 for the ESBP, and for the period ended December 31, 2008 and September 29, 2007 for the NDBP are as follows:

	ESBP		**NDBP**	
Changes in Benefit Obligation	**2008**	**2007**	**2008**	**2007**
(amounts in thousands)				
Benefit obligation at beginning of period	$ 8,147	$ 8,783	$ 5,474	$ 5,532
Interest cost	510	488	300	265
Benefits paid	(767)	(703)	(69)	(67)
Actuarial (gain) loss	242	(421)	(169)	(850)
Effect of exchange- rate changes			(7)	594
Benefit obligation at end of period	8,132	8,147	5,529	5,474
Reconciliation of Fair Value of Plan Assets				
Fair value of plan assets at beginning of period			7,550	6,478
Actual return on plan assets			372	376
Employer contributions	767	703		
Benefits paid	(767)	(703)	(69)	(67)
Effect of exchange-rate changes			33	763
Fair value of plan assets at end of period			7,886	7,550
Accrued benefit cost (asset)	$ 8,132	$ 8,147	$ (2,357)	$ (2,076)
Accrued benefit cost (asset) is included in the consolidated balance sheet as follows:				
Non-current assets	$	$	$ (2,357)	$ (2,076)
Current liabilities	$ 791	$ 774	$	$
Non-current liabilities	$ 7,341	$ 7,373	$	$
Discount rate:				
Benefit obligation	6.34%	6.57%	5.60%	5.30%
Net periodic pension cost	6.57%	5.80%	5.60%	5.30%
Salary increase rate				
Expected return on plan assets			4.00%	5.00%

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For the ESBP, the accumulated benefit obligation at both December 31, 2008 and 2007 was $8.1 million. The amounts included in other comprehensive loss relating to the pension loss adjustment in 2008 and 2007, net of tax, were approximately $(0.1) million and $0.3 million, respectively. The discount rate used in 2008 was 6.34%, which is reflective of a series of bonds that are included in the Moody s Aa long-term corporate bond yield whose cash flow approximates the payments to participants under the ESBP for the remainder of the plan. This rate was a decrease of 23 basis points from the rate used in the prior year and resulted in an increase in the plan s liabilities of approximately $0.2 million. Benefits paid to participants are funded by the Company as needed, and are expected to total approximately $0.8 million in 2009. The plan is deemed unfunded as the Company has not specifically identified Company assets to be used to discharge the deferred compensation benefit liabilities. The Company has purchased insurance on the lives of certain plan participants in amounts considered sufficient to reimburse the Company for the costs associated with the plan for those participants. The Company does not anticipate making contributions to the plan other than for current year benefit payments as required in 2009 or future years.

For the NDBP, the accumulated benefit obligation was $5.5 million at both December 31, 2008 and September 29, 2007, respectively. The discount rate used in 2008 was 5.6%, which is reflective of a series of corporate bonds whose cash flow approximates the payments to participants under the NDBP for the remainder of the plan. This rate was a decrease of 30 basis points from the rate used in the prior year and resulted in a net decrease in the plan s liabilities of approximately $0.2 million. In 2008, the assets in the NDBP were 100% invested by Aegon, with a guaranteed minimum return to the Company of 4%. In 2007, 20% of the assets were invested in the Aegon World Equity Fund, which invested in global equities, with a small portion of the fund in new or emerging economies. The remaining 80% of the assets were invested by Aegon, with a guaranteed minimum return to the Company of 4%. The historical return to the Company on these investments had been approximately 4.5%. The Company plans to maintain its current investment strategy in 2009. The expected return on plan assets in 2008 was based upon the guaranteed minimum return from Aegon of 4%. For 2007, the expected return on plan assets was a function of the average historical return of 4.5% on the 80% of the funds invested by Aegon, and a historical return of 9% on the 20% of the funds invested in the Aegon World Equity Fund. The Company does not anticipate making additional contributions to the plan in 2009 or future years, as the plan is currently fully funded.

Anticipated benefit payments for the ESBP and the NDBP expected to be paid in future years are as follows:

Year ending December 31, (amounts in thousands)	**ESBP**	**NDBP**
2009	$ 791	$ 62
2010	786	77
2011	766	83
2012	755	94
2013	732	117
2014-2018	3,577	960
	$ 7,407	$ 1,393

The disclosures below include the ESBP, the NDBP, and the postretirement benefit plan discussed in note 7, Employee Benefits, under the caption Other Postretirement Benefits.

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The amounts included in accumulated other comprehensive loss, net of tax, that have not yet been recognized as components of net periodic benefit cost as of December 31, 2008 are as follows:

(amounts in thousands)	ESBP	NDBP	Post-Retirement Plan	Total
Unrecognized actuarial (gain) loss	$ 1,130	$ (858)	$ (115)	$ 157
Unrecognized transition obligation			73	73
Unrecognized prior service cost			(1)	(1)
	$ 1,130	$ (858)	$ (43)	$ 229

The amounts included in accumulated other comprehensive loss, net of tax, that have not yet been recognized as components of net periodic benefit cost as of December 31, 2007 were as follows:

(amounts in thousands)	ESBP	NDBP	Post-Retirement Plan	Total
Unrecognized actuarial (gain) loss	$ 1,013	$ (739)	$ 41	$ 315
Unrecognized transition obligation			90	90
Unrecognized prior service cost			(1)	(1)
	$ 1,013	$ (739)	$ 130	$ 404

The amounts recognized in other comprehensive loss, net of tax, for 2008, 2007, and 2006, which primarily consist of an actuarial (gain) loss and a transition obligation, totaled $175,000, $1,072,000, and $(174,000), respectively. Net periodic pension cost (benefit) for the ESBP and the NDBP, net periodic postretirement benefit cost, and the amounts recognized in other comprehensive loss, net of tax, for 2008, 2007, and 2006 totaled $724,000, $1,640,000, and $458,000, respectively.

The amounts in accumulated other comprehensive loss expected to be recognized as components of net periodic benefit cost during 2009 are as follows:

(amounts in thousands)	ESBP	NDBP	Post-Retirement Plan	Total
Unrecognized actuarial (gain) loss	$ 88	$ (9)	$ (13)	$ 66
Unrecognized transition obligation			29	29
Unrecognized prior service cost			0	0
	$ 88	$ (9)	$ 16	$ 95

The Company also maintains a non-qualified defined-contribution deferred compensation plan for certain key executives. Company contributions to this plan, if any, are based on annually defined financial performance objectives. There were $0.4 million in contributions to the plan in 2008 for amounts earned in 2007, $0.4 million in contributions to the plan in 2007 for amounts earned in 2006, and $0.2 million in contributions to the plan in 2006 for amounts earned in 2005. The Company anticipates making contributions in 2009 totaling approximately $0.3 million to this plan for amounts earned in 2008. The investments in the plan are included in the total assets of the Company, and are discussed in note 1, Investments. During 2008, several participants in the plan exchanged a portion of their investments for stock units which

represent shares of the Company s common stock. In exchange for the funds received, the Company issued shares out of treasury stock equivalent to the number of share units received by the participants. These shares of common stock are not entitled to any voting rights and the holders will not receive dividends, if any are paid. The shares are being held by the Company, and will be released to the participants as prescribed by their payment elections under the plan.

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7. Employee Benefits
401(k) Profit-Sharing Retirement Plan

The Company maintains a contributory 401(k) profit-sharing retirement plan covering substantially all U.S. employees. The Company matches up to 50% of the first 6% of eligible wages contributed by the participants. Company contributions consist of cash, and may include the Company s stock, were funded and charged to operations in the amounts of $2.5 million, $2.3 million, and $2.4 million for 2008, 2007, and 2006, respectively.

Other Retirement Plans

The Company maintains various other defined contribution retirement plans covering substantially all of the remaining European employees. Company contributions charged to operations were $0.2 million in each of 2008, 2007, and 2006, respectively.

The Company provides limited healthcare and life insurance benefits to nine retired employees and their spouses, totaling 13 participants, pursuant to contractual agreements.

Net periodic postretirement benefit cost for the years ended December 31, 2008, 2007, and 2006 is as follows:

Net Periodic Postretirement Benefit Cost (amounts in thousands)	**2008**	**2007**	**2006**
Interest cost	$ 40	$ 39	$ 41
Amortization of transition amount	29	29	29
Amortization of actuarial loss		4	9
Net periodic postretirement benefit cost	$ 69	$ 72	$ 79

No adjustments were made to the 2008, 2007 or 2006 net periodic postretirement benefit cost due to Medicare reform as the amounts were deemed to be insignificant.

The change in postretirement benefit obligation at December 31, 2008 and 2007 is as follows:

Changes in Postretirement Benefit Obligation (amounts in thousands)	**2008**	**2007**
Postretirement benefit obligation at beginning of year	$ 655	$ 706
Interest cost	40	39
Benefits paid	(75)	(43)
Actuarial gain	(241)	(47)
Postretirement benefit obligation at end of year	379	655
Fair value of plan assets at end of year		
Accrued postretirement benefit obligation	$ 379	$ 655
Accrued postretirement benefit obligation is included in the consolidated balance sheet as follows:		
Current liabilities	$ 36	$ 67
Non-current liabilities	$ 343	$ 588
Discount rate:		
Benefit obligation	6.34%	6.51%
Net periodic postretirement benefit cost	6.51%	5.80%
Salary increase rate		

The discount rate used in 2008 to calculate the benefit obligation was 6.34%, which is reflective of a series of bonds that are included in the Moody s Aa long-term corporate bond yield whose cash flow approximates the payments to participants for the remainder of the plan. For December 31, 2008, the Company updated its methodology for determining the average cost of benefits provided to retirees from prior years which caused a decrease in accrued post retirement benefit obligation from 2007 to 2008. Benefits paid to participants are funded by the Company as needed.

Anticipated benefit payments for the postretirement medical plan are expected to be paid in future years as follows:

Year ending December 31, (amounts in thousands)	
2009	$ 37
2010	37
2011	38
2012	38
2013	38
2014-2018	167
	$ 355

The rate of increase in healthcare costs is assumed to be 10% for medical, 6% for dental, and 8% for Medicare Part B in 2009, gradually declining to 5% by the year 2014 and remaining at that level thereafter. Increasing the assumed healthcare cost trend rate by one percentage point would increase the accrued postretirement benefit obligation by $17,800 at December 31, 2008, and the net periodic postretirement benefit cost by $2,900 for the year. A one-percentage-point decrease in the healthcare cost trend would decrease the accrued postretirement benefit obligation by $17,000 at December 31, 2008, and the net periodic postretirement benefit cost by $2,600 for the year.

Employee Health Insurance

The Company provides various health insurance plans for its employees, including a self-insured plan for its employees in the U.S.

8. Shareholders Equity

Employee Stock Purchase Plan

Under the Company s First Employee Stock Purchase Plan (Plan), employees may apply up to 10% of their compensation to purchase the Company s common stock. Shares are purchased at the closing market price on the business day preceding the date of purchase. As of December 31, 2008, approximately 96,000 shares remain unissued under the Plan, of the total of 11.5 million shares that had been authorized under the Plan. During 2008, 2007, and 2006, approximately 24,000, 28,000, and 35,000 shares, respectively, were purchased under the Plan at an average price of $4.80, $4.63, and $4.20 per share, respectively.

Shareholder Rights Plan

The Board of Directors adopted a Shareholder Rights Plan in January 1989 that was subsequently amended in 1999 to extend the expiration of the plan to November 2008. The plan expired in 2008 as it was not renewed.

Stock Trusts

The Company maintains a Stock Employee Compensation Trust (SECT) to provide funding for existing employee stock plans and benefit programs. Shares of the Company s common stock are purchased by and

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released from the SECT by the trustee of the SECT at the request of the compensation committee of the Board of Directors. As of December 31, 2008, all shares remaining in the SECT were unallocated and, therefore, are not considered outstanding for purposes of calculating earnings per share.

SECT activity for the years ended December 31, 2008, 2007, and 2006 is as follows:

(amounts in thousands)	2008	2007	2006
Share balance at beginning of year	3,318	3,564	3,881
Shares released:			
Stock option plans	(8)	(131)	(185)
Employee Stock Purchase Plan	(6)	(28)	(35)
Restricted stock issuance		(87)	(97)
Share balance at end of year	3,304	3,318	3,564

During 1999, the Company created an Omnibus Stock Trust (OST) to provide funding for various employee benefit programs. During 1999, the OST purchased 59,000 shares of the Company s common stock for $1.0 million. Shares of the Company s common stock are released from the OST by the trustee at the request of the compensation committee of the Board of Directors. During 2008, 2007, and 2006, no shares were purchased or released by the OST.

Preferred Stock

At December 31, 2008 and 2007, the Company has 2,500,000 shares of par value $0.01 preferred stock authorized for issuance, but none outstanding.

9. Equity-Based Compensation

The Company accounts for its equity-based compensation expense using the provisions of FAS 123R, Share-Based Payment and related interpretations. The Company issues stock options and restricted stock in exchange for employee and director services. The calculated cost of its equity-based compensation awards is recognized in the Company s consolidated statements of income over the period in which an employee or director is required to provide the services for the award. Compensation cost will not be recognized for employees or directors that do not render the requisite services. The Company recognizes the expense for equity-based compensation in its consolidated income statements on a straight-line basis based upon awards that are ultimately expected to vest.

For the years ended December 31, 2008, 2007, and 2006, the Company recognized compensation expense of $991,000, $863,000, and $856,000, respectively, in its consolidated statements of income as selling, general and administrative expenses. The tax benefit recorded for this compensation expense was $353,000, $294,000 and $260,000, respectively, resulting in a net after tax cost to the Company of $638,000 in 2008, $569,000 in 2007 and $596,000 in 2006.

On April 26, 2000, the shareholders approved the Company s 2000 Equity Award Plan (Equity Plan). Under the provisions of the Equity Plan, stock options, restricted stock, stock appreciation rights, and other awards may be granted or awarded to employees and directors of the Company. The compensation committee of the Board of Directors determines the nature, amount, pricing, and vesting of the grant or award. All options and awards remain in effect until the earlier of the expiration, exercise, or surrender date. For the most part, options generally become exercisable in three or four equal annual installments, beginning one year from the date of grant. In certain limited instances, options granted at fair market value are expected to vest nine and one-half years from the date of grant. As of December 31, 2008, a total of 5,150,000 shares may be awarded under this plan, and 774,318 shares are available for grant as of that date.

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On April 24, 1991, the shareholders approved the Company s 1991 Employee Stock Option Plan (1991 Plan). Under the provisions of the 1991 Plan, options may be granted to employees and directors of the Company. The option price for options granted under this plan is equal to or greater than the fair market value of the Company s common stock on the date the option is granted. Incentive stock options generally become exercisable in four annual installments of 25% of the shares covered by the grant, beginning one year from the date of grant, and expire six years after becoming exercisable. Nonqualified stock options generally become exercisable in either four or five annual installments of 20 or 25% of the shares covered by the grant, beginning one year from the date of grant, and expire up to 15 years from the date of grant. All options remain in effect until the earlier of the expiration, exercise, or surrender date. There are no options available for grant under this plan as of December 31, 2008.

Under the Company s 1991 Restricted Stock Plan, a total of 800,000 shares of restricted stock may be granted to certain key employees, and 704,750 shares are available for grant as of that date.

The Company utilizes the Black-Scholes option-pricing model to estimate the fair value of stock options granted on the date of grant. The per-option weighted-average fair value on the date of grant of stock options granted in 2008, 2007, and 2006 was $1.61, $1.72, and $2.17, respectively. The fair value of the options at the date of grant was estimated using the following weighted-average assumptions for the years ended December 31, 2008, 2007 and 2006:

	2008	2007	2006
Expected life (years)	3.3	3.4	4.0
Dividend yield	0.0%	0.0%	0.0%
Risk-free interest rate	3.2%	4.7%	5.0%
Expected volatility	42.0%	47.4%	55.2%

The Company used historical volatility calculated using daily closing prices for its common stock over periods that match the expected term of the option granted to estimate the expected volatility for the grants made in 2006, 2007 and 2008. The risk-free interest rate assumption was based upon U.S. Treasury yields appropriate for the expected term of the Company s stock options based upon the date of grant. The expected term of the stock options granted was based upon the options expected vesting schedule and historical exercise patterns. The expected dividend yield was based upon the Company s recent history of paying dividends, and the expectation of paying dividends in the foreseeable future.

During 2006, 2007 and 2008, the Company issued restricted stock to certain employees and its independent directors. For the employees, the stock vests over a period of four years, with 25% of the stock issued vesting one year from the date of grant, and another 25% vesting each year thereafter until the stock is fully vested. The Company is recognizing compensation expense for these shares ratably over the expected term of the restricted stock, or four years. For the independent directors, the issued stock vests at retirement. As the directors are eligible for retirement from the Company s Board of Directors at any point, the Company recognized the expense associated with these shares on the date of grant. The shares of restricted stock issued are considered outstanding, and are eligible to receive dividends, if any are paid, and can be voted. However, only vested shares of outstanding restricted stock are included in the calculation of basic earnings per share.

As of December 31, 2008, total remaining stock-based compensation expense for non-vested equity-based compensation is approximately $1.5 million, which is expected to be recognized on a weighted-average basis over the next 16 months. Historically, the Company has issued shares out of treasury stock and its SECT to fulfill the share requirements from stock option exercises and restricted stock grants.

A summary of stock option activity under the Company Equity Plan and 1991 Plan is as follows:

	Equity Plan Options	Weighted-Average Exercise Price	1991 Plan Options	Weighted-Average Exercise Price
Outstanding at December 31, 2005	3,224,750	$ 3.76	868,964	$ 13.43
Granted	473,000	$ 4.54		
Exercised	(172,750)	$ 2.78	(12,000)	$ 2.88
Canceled and forfeited	(176,125)	$ 3.94	(27,000)	$ 17.87
Expired			(177,138)	$ 16.75
Outstanding at December 31, 2006	3,348,875	$ 3.91	652,826	$ 12.55
Granted	475,500	$ 4.52		
Exercised	(87,750)	$ 3.83	(42,750)	$ 2.87
Canceled and forfeited	(122,750)	$ 4.58	(60,875)	$ 21.74
Expired			(65,654)	$ 20.18
Outstanding at December 31, 2007	3,613,875	$ 3.97	483,547	$ 11.21
Granted	395,300	$ 4.90		
Exercised	(199,422)	$ 4.03	(23,500)	$ 3.07
Canceled and forfeited	(187,953)	$ 4.80	(11,000)	$ 15.23
Expired	(24,000)	$ 5.54	(118,987)	$ 18.07
Outstanding at December 31, 2008	3,597,800	$ 4.01	330,060	$ 9.18
Options exercisable at December 31, 2008	2,697,550	$ 3.94	330,060	$ 9.18

For 2008, 2007 and 2006, the intrinsic value of the options exercised under the Equity Plan was approximately $431,995, $101,300 and $279,000, respectively, while the intrinsic value of the options exercised under the 1991 Plan for the same years was $71,888, $72,100 and $19,800, respectively.

A summary of restricted stock activity for the year-to-date period ended December 31, 2008 under the Equity Plan and the 1991 Restricted Stock Plan is as follows:

	Equity Plan Restricted Stock	Weighted-Average Fair Value	1991 Restricted Stock Plan	Weighted-Average Fair Value
Outstanding at December 31, 2006	95,500	$ 4.39		
Granted	45,000	$ 4.70	41,500	$ 4.52
Released	(7,250)	$ 4.65		
Canceled and forfeited	(1,500)	$ 4.65	(4,500)	$ 4.52
Outstanding at December 31, 2007	131,750	$ 4.48	37,000	$ 4.52
Granted	62,710	$ 4.47	62,000	$ 4.79
Released	(28,585)	$ 4.50	(8,250)	$ 4.52
Canceled and forfeited	(1,500)	$ 4.65	(3,750)	$ 4.63
Outstanding at December 31, 2008	164,375	$ 4.47	87,000	$ 4.71

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A summary of options outstanding as of December 31, 2008 for the Equity Plan and 1991 Plan is as follows:

Range of Exercise Prices	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Equity Plan				
$1.40	180,000	$ 1.40	9.0	$ 327,600
$2.24 $3.26	1,115,375	$ 3.10	7.5	$ 146,309
$3.48 $4.90	1,797,175	$ 4.44	7.3	$
$5.25 $5.94	505,250	$ 5.43	12.2	$
	3,597,800			$ 473,909
1991 Plan				
$2.88	25,250	$ 2.88	1.5	$ 8,711
$5.13 $6.13	224,568	$ 5.95	4.7	$
$16.19 $21.94	59,922	$ 17.41	2.1	$
$26.06 $30.31	20,320	$ 28.36	3.8	$
	330,060			$ 8,711

A summary of options exercisable at December 31, 2008 for the Equity Plan and the 1991 Plan is as follows:

Range of Exercise Prices	Number Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Equity Plan				
$1.40	180,000	$ 1.40	9.0	$ 327,600
$2.24 $3.26	885,375	$ 3.13	7.6	$ 92,209
$3.48 $4.90	1,156,925	$ 4.35	6.4	$
$5.25 $5.94	475,250	$ 5.44	8.5	$
	2,697,550			$ 419,809
1991 Plan				
$2.88	25,250	$ 2.88	1.5	$ 8,711
$5.13 $6.13	224,568	$ 5.95	4.7	$
$16.19 $21.94	59,922	$ 17.41	2.1	$
$26.06 $30.31	20,320	$ 28.36	3.8	$
	330,060			$ 8,711

The aggregate intrinsic values as calculated in the above charts are based upon the Company s closing stock price on December 31, 2008 of $3.22 per share.

10. Significant Customer

International Business Machines (IBM) is the Company s largest customer. In 2008, 2007, and 2006, IBM accounted for $108.3 million or 30.6%, $96.0 million or 29.5%, and $110.5 million or 33.8% of the Company s consolidated revenue, respectively. The Company s accounts receivable from IBM at December 31, 2008 and 2007 amounted to $8.5 million and $9.9 million, respectively. The Company expects to continue to derive a significant portion of its revenue from IBM in 2009 and in future years. However, a significant decline in revenue from IBM would have a significant negative effect on the Company s revenue and profits. No other customer accounted for more than 10% of revenue in 2008, 2007, or 2006.

11. Contingencies

The Company and its subsidiaries are involved from time to time in various legal proceedings and tax audits arising in the ordinary course of business. At December 31, 2008 and 2007, the Company is in discussion with various governmental agencies relative to tax matters, including income, sales and use, and property and franchise taxes. The outcome of these audits and legal proceedings, if any, involving the Company and its subsidiaries cannot be predicted with certainty, and the amount of any liability that could arise with respect to such audits cannot be accurately predicted. As management has made an estimate of its potential liability for these audits at December 31, 2008 and 2007, the Company does not expect these matters to have a material adverse effect on the financial position, results of operations, or cash flows of the Company.

12. Enterprise -Wide Disclosures

The Company operates in one industry segment, providing information technology (IT) professional services to its clients. The services provided include strategic and flexible staffing and the planning, design, implementation, and maintenance of comprehensive IT solutions. All of the Company s revenue is generated from these services. CTG s reportable information is based on geographical areas. The accounting policies of the individual geographical areas are the same as those described in note 1, Summary of Significant Accounting Policies.

Financial Information About Geographic Areas (amounts in thousands)	**2008**	**2007**	**2006**
Revenue from External Customers			
United States	$ 272,242	$ 250,097	$ 265,386
Belgium	53,773	46,499	38,821
Other European countries	24,437	25,598	20,126
Other countries	2,761	3,091	2,920
Total revenue	$ 353,213	$ 325,285	$ 327,253
Long-lived Assets			
United States	$ 5,710	$ 4,513	$ 5,102
Belgium	826	921	519
Other European countries	231	307	297
Total long-lived assets	$ 6,767	$ 5,741	$ 5,918
Deferred Tax Assets, Net of Valuation Allowance			
United States	$ 6,205	$ 6,297	$ 6,260
Europe		146	189
Other countries		98	21
Total deferred tax assets, net	$ 6,205	$ 6,541	$ 6,470

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13. Quarterly Financial Data (Unaudited)

(amounts in thousands, except per-share data)	Quarters				
	First	Second	Third	Fourth	Total
2008					
Revenue	$ 86,683	$ 94,071	$ 89,131	$ 83,328	$ 353,213
Direct costs	67,941	72,425	69,488	64,679	274,533
Gross profit	18,742	21,646	19,643	18,649	78,680
Selling, general, and administrative expenses	16,360	17,658	16,167	15,413	65,598
Operating income	2,382	3,988	3,476	3,236	13,082
Interest and other income (expense), net	(48)	(69)	(55)	428**	256
Income before income taxes	2,334	3,919	3,421	3,664	13,338
Provision for income taxes	930	1,869	1,340	1,362	5,501
Net income	$ 1,404	$ 2,050	$ 2,081	$ 2,302	$ 7,837
Basic net income per share	$ 0.09	$ 0.13	$ 0.14	$ 0.15	$ 0.51
Diluted net income per share	$ 0.09	$ 0.13	$ 0.13	$ 0.15	$ 0.49

(amounts in thousands, except per-share data)	Quarters				
	First	Second	Third	Fourth	Total
2007					
Revenue	$ 80,016	$ 80,140	$ 80,625	$ 84,504	$ 325,285
Direct costs	62,586	62,173	62,347	65,783	252,889
Gross profit	17,430	17,967	18,278	18,721	72,396
Selling, general, and administrative expenses	16,150	16,206	16,644	16,872	65,872
Operating income	1,280	1,761	1,634	1,849	6,524
Interest and other income (expense), net	514	(127)	(161)	59	285
Income before income taxes	1,794	1,634	1,473	1,908	6,809
Provision for income taxes	672	635	559	697	2,563
Net income	$ 1,122	$ 999	$ 914	$ 1,211	$ 4,246
Basic net income per share	$ 0.07	$ 0.06	$ 0.06	$ 0.08	$ 0.26
Diluted net income per share	$ 0.07	$ 0.06	$ 0.06	$ 0.07	$ 0.25

** During the 2008 fourth quarter, the Company recorded a net foreign currency exchange gain on intercompany balances totaling approximately $0.5 million on balances settled during the quarter and those balances outstanding between its subsidiaries at December 31, 2008.

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Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

The Company s management has evaluated, under the supervision and with the participation of the Company s Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operations of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act) as of the end of the period covered by this annual report. Based on that evaluation, the Company s Chief Executive Officer and Chief Financial Officer have concluded that the Company s disclosure controls and procedures were effective as of the end of the period covered by this annual report.

(a) Management s Annual Report on Internal Control Over Financial Reporting

The Company s management is responsible for establishing and maintaining an adequate system of internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Further, because of changes in conditions, effectiveness of internal control over financial reporting may deteriorate.

Management of the Company conducted an evaluation of the effectiveness of the Company s internal control over financial reporting based on the *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, the Company s management did not identify any control deficiencies it considered to be material weaknesses under the rules specified by the Public Company Accounting Oversight Board s Auditing Standard No. 5, and therefore concluded that its internal control over financial reporting was effective as of December 31, 2008.

Our independent registered public accounting firm has issued an audit report on our effectiveness of internal control over financial reporting. Their report appears in Item 9A (b), Attestation Report of the Registered Public Accounting Firm.

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(b) Attestation Report of the Registered Public Accounting Firm

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Computer Task Group, Incorporated:

We have audited Computer Task Group, Incorporated s internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Computer Task Group, Incorporated s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Annual Report on Internal Control Over Financial Reporting (Item 9A(a)). Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Computer Task Group, Incorporated maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Computer Task Group, Incorporated as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in shareholders equity, and cash flows for each of the years in the three-year period ended December 31, 2008, and our report dated February 25, 2009 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Buffalo, New York
February 25, 2009

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(c) Changes in Internal Control Over Financial Reporting

The Company continues to review, revise and improve the effectiveness of the Company s internal controls on a continuous basis. There have been no significant changes in the Company s internal controls over financial reporting in connection with the Company s fourth quarter evaluation that would materially affect, or are reasonably likely to materially affect the Company s internal controls over financial reporting.

Item 9B. ***Other Information***

None

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PART III

Item 10. ***Directors, Executive Officers and Corporate Governance***

The information required in response to this item is incorporated herein by reference to the information set forth under Election of Directors, Section 16(a) Beneficial Ownership Reporting Compliance, The Board of Directors and Committees in relation to the Audit Committee subsection, and Corporate Governance and Website Information in the Company s Proxy Statement for the Annual Meeting of Stockholders scheduled to be held on May 13, 2009 (Proxy Statement) to be filed with the SEC not later than 120 days after the end of the year ended December 31, 2008, except insofar as information with respect to executive officers is presented in Part I, Item 1 of this report pursuant to General Instruction G(3) of Form 10-K.

Item 11. ***Executive Compensation***

The information required in response to this item is incorporated herein by reference to the information under the caption Compensation Discussion and Analysis presented in the Proxy Statement.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

Except as set forth below, the information required in response to this item is incorporated herein by reference to the information under the caption Security Ownership of the Company s Common Shares by Certain Beneficial Owners and by Management presented in the Proxy Statement.

The following table sets forth, as of December 31, 2008, certain information related to the Company s compensation plans under which shares of its common stock are authorized for issuance:

Equity Compensation Plan Information as of December 31, 2008

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders			
2000 Equity Award Plan	3,597,800	$ 4.01	774,318
1991 Employee Stock Option Plan	330,060	$ 9.18	
Equity compensation plans not approved by security holders			
None			
Total	3,927,860	$ 4.45	774,318

At December 31, 2008, the Company did not have any outstanding rights or warrants. All awards outstanding are either stock options or restricted stock.

Item 13. ***Certain Relationships and Related Transactions, and Director Independence***

The information required in response to this item is incorporated herein by reference to the information under the caption Certain Relationships and Related Person Transactions, and Director Independence presented in the Proxy Statement.

Item 14. ***Principal Accountant Fees and Services***

The information required in response to this item is incorporated herein by reference to the information under the caption Appointment of Auditors for Fiscal 2008 and Fees presented in the Proxy Statement.

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PART IV

Item 15. ***Exhibits and Financial Statement Schedule***

(A) *Index to Consolidated Financial Statements and Financial Statement Schedule*

(1) Financial Statements:

Report of Independent Registered Public Accounting Firm	29
Consolidated Statements of Income	30
Consolidated Balance Sheets	31
Consolidated Statements of Cash Flows	32
Consolidated Statements of Changes in Shareholders Equity	33
Notes to Consolidated Financial Statements	35

(2) Index to Consolidated Financial Statement Schedule

Report of Independent Registered Public Accounting Firm on Financial Statement Schedule	62

Financial statement schedule:

Schedule II Valuation and Qualifying Accounts	63

(B) *Exhibits*

The Exhibits to this annual report on Form 10-K are listed on the attached Exhibit Index appearing on pages 65 to 67.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Computer Task Group, Incorporated:

Under date of February 25, 2009, we reported on the consolidated balance sheets of Computer Task Group, Incorporated and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in shareholders equity, and cash flows for each of the years in the three-year period ended December 31, 2008, which are included in the Form 10-K. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedule as listed in the accompanying index. This financial statement schedule is the responsibility of the Company s management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Buffalo, New York

February 25, 2009

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COMPUTER TASK GROUP, INCORPORATED

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

(amounts in thousands)

Description	Balance at January 1	Additions	Deductions	Balance at December 31
2008				
Accounts deducted from accounts receivable				
Allowance for doubtful accounts	$ 955	$ 503 (A)	$ (453) (A)	$ 1,005
Accounts deducted from deferred tax assets				
Deferred tax asset valuation allowance	$ 2,492	$ 308 (B)	$ (346) (B)	$ 2,454
Accounts deducted from other assets				
Reserves	$ 575	$	$	$ 575
2007				
Accounts deducted from accounts receivable				
Allowance for doubtful accounts	$ 866	$ 303 (A)	$ (214) (A)	$ 955
Accounts deducted from deferred tax assets				
Deferred tax asset valuation allowance	$ 2,768	$ 619 (B)	$ (895) (B)	$ 2,492
Accounts deducted from other assets				
Reserves	$ 575	$	$	$ 575
2006				
Accounts deducted from accounts receivable				
Allowance for doubtful accounts	$ 1,087	$ 306 (A)	$ (527) (A)	$ 866
Accounts deducted from deferred tax assets				
Deferred tax asset valuation allowance	$ 2,559	$ 387 (B)	$ (178) (B)	$ 2,768
Accounts deducted from other assets				
Reserves	$ 575	$	$	$ 575

(A) Reflects additions charged principally to costs and expenses, less deductions for accounts written off or collected, and foreign currency translation

(B) Reflects additions and deductions for foreign currency translation, and deductions credited to expense

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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,
Chairman and Chief Executive Officer
Dated: February 25, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
(i) Principal Executive Officer	Chairman and Chief Executive Officer	February 25, 2009
/s/ James R. Boldt		
James R. Boldt		
(ii) Principal Accounting and Principal Financial Officer	Chief Financial Officer	February 25, 2009
/s/ Brendan M. Harrington		
Brendan M. Harrington		
(iii) Directors		
/s/ Thomas E. Baker	Director	February 25, 2009
Thomas E. Baker		
/s/ James R. Boldt	Director	February 25, 2009
James R. Boldt		
/s/ Randall L. Clark	Director	February 25, 2009
Randall L. Clark		
/s/ Randolph A. Marks	Director	February 25, 2009
Randolph A. Marks		
/s/ William D. McGuire	Director	February 25, 2009
William D. McGuire		

/s/ John M. Palms	Director	February 25, 2009
John M. Palms		
/s/ Daniel J. Sullivan	Director	February 25, 2009
Daniel J. Sullivan		

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EXHIBIT INDEX

Exhibit		Description	Page Number or (Reference)
2.		Plan of acquisition, reorganization, arrangement, liquidation or succession	*
3.	(a)	Restated Certificate of Incorporation of Registrant	(1)
	(b)	Restated By-laws of Registrant	(2)
4	(a)	Restated Certificate of Incorporation of Registrant	(1)
	(b)	Restated By-laws of Registrant	(2)
	(c)	Specimen Common Stock Certificate	
	(d)	Rights Agreement dated as of January 15, 1989, and amendment dated June 28, 1989, between Registrant and The First National Bank of Boston, as Rights Agent	(3)
	(e)	Form of Rights Certificate	(2)
9.		Voting Trust Agreement	*
10.	(a)	Non-Compete Agreement, dated as of March 1, 1984, between Registrant and Randolph A. Marks	(2) +
	(b)	Stock Employee Compensation Trust Agreement, dated May 3, 1994, between Registrant and Thomas R. Beecher, Jr., as trustee	(2) +
	(c)	Demand Grid Note, dated October 29, 1997, between Registrant and Computer Task Group, Incorporated Stock Employee Compensation Trust	(2) +
	(d)	Pledge Agreement, between the Registrant and Thomas R. Beecher, Jr., as Trustee of the Computer Task Group, Incorporated Stock Employee Compensation Trust	(2) +
	(e)	Stock Purchase Agreement, dated as of February 25, 1981, between Registrant and Randolph A. Marks	(4) +
10.	(f)	Description of Disability Insurance and Health Arrangements for Executive Officers	(5) +
	(g)	2008 Key Employee Compensation Plans	(6) +
	(h)	Computer Task Group, Incorporated Non-Qualified Key Employee Deferred Compensation Plan	(2) +
	(i)	1991 Restricted Stock Plan	(1) +
	(j)	Computer Task Group, Incorporated 2000 Equity Award Plan	(7) +
	(k)	Executive Supplemental Benefit Plan 1997 Restatement	(1) +
	(l)	First Amendment to the Computer Task Group, Incorporated Executive Supplemental Benefit Plan 1997 Restatement	(1) +
	(m)	Compensation Arrangements for the Named Executive Officers	68 +
	(n)	Change in Control Agreement, dated January 1, 2009, between the Registrant and James R. Boldt, as amended and restated	69 +
	(o)	Employment Agreement, dated January 1, 2009, between the Registrant and James R. Boldt, as amended and restated	80 +

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EXHIBIT INDEX (Continued)

Exhibit		Description	Page Number or (Reference)
	(p)	Officer Change in Control Agreement	91 +
	(q)	First Employee Stock Purchase Plan (Eighth Amendment and Restatement)	(1) +
	(r)	Loan Agreement By and Among Manufacturers and Traders Trust Company and Computer Task Group, Incorporated	(8)
	(s)	Third Amendment to the Loan Agreement, dated February 4, 2008, among Computer Task Group, Incorporated, Manufacturers and Traders Trust Company and Key Bank National Association	(9)
10.	(t)	1991 Employee Stock Option Plan	(10)
11.		Statement re: computation of per share earnings	*
12.		Statement re: computation of ratios	*
13.		Annual Report to Shareholders	*
14.		Code of Ethics	(11)
16.		Letter re: change in certifying accountant	*
18.		Letter re: change in accounting principles	*
21.		Subsidiaries of the Registrant	100
22.		Published report regarding matters submitted to a vote of security holders	*
23.		Consent of experts and counsel	101
24.		Power of Attorney	*
31.	(a)	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	102
	(b)	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	103
32.		Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	104
33.		Report on assessment of compliance with servicing criteria for asset-backed securities	*
34.		Attestation report on assessment of compliance with servicing criteria for asset-backed securities	*
35.		Service compliance statement	*
99.		Additional exhibits	*
100.		XBRL-Related documents	*

* None or requirement not applicable
\+ Management contract or compensatory plan or arrangement
(1) Filed as an Exhibit to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2007, and incorporated herein by reference
(2) Filed as an Exhibit to the Registrant s Annual Report on Form 10-K for the year ended December 31, 2006, and incorporated herein by reference
(3) Filed as an Exhibit to the Registrant s Form 8-A/A filed on January 13, 1999, and incorporated herein by reference

EXHIBIT INDEX (Continued)

(4) Filed as an Exhibit to the Registrant s Registration Statement No. 2 71086 on Form S-7 filed on February 27, 1981, and incorporated herein by reference

(5) Filed as an Exhibit to Amendment No. 1 to Registration Statement No. 2-71086 on Form S-7 filed on March 24, 1981, and incorporated herein by reference

(6) Included in the Registrant s definitive Proxy Statement dated April 2009 under the caption entitled Annual Cash Incentive Compensation, and incorporated herein by reference

(7) Filed as an Exhibit to the Registrants Form 8-K on November 18, 2008, and incorporated herein by reference

(8) Filed as an Exhibit to the Registrants Form 8-K on April 21, 2005, and incorporated herein by reference

(9) Filed as an Exhibit to the Registrants Form 8-K on February 8, 2008, and incorporated herein by reference

(10) Filed as an Exhibit to the Registrants Annual Report on Form 10-K for the year ended December 31, 1996, and incorporated herein by reference

(11) Included in the Registrant s definitive Proxy Statement dated April 2009 under the caption entitled Corporate Governance and Website Information, and incorporated herein by reference