financial reports

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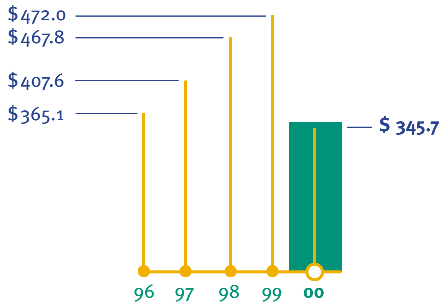
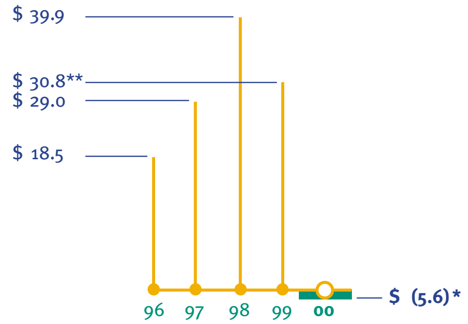
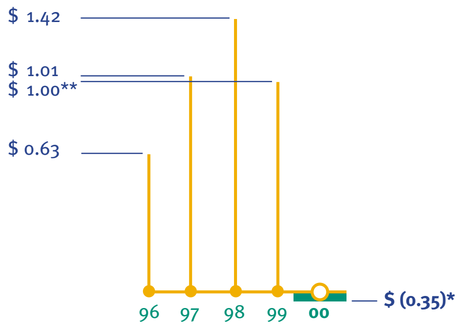
Revenue in millions



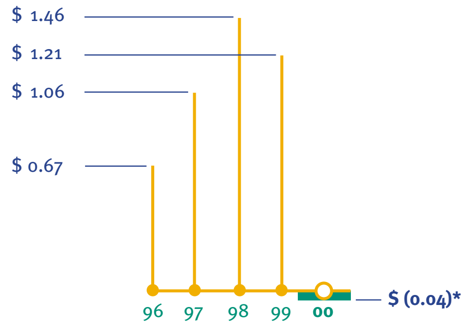
Operating Income (loss) in millions



Diluted Net Income (loss) Per Share



Diluted Cash Income (loss) Per Share



* Includes the net expense of a restructuring charge, which increased operating loss by $4.2 million and diluted net loss per share and diluted cash loss per share by $0.18

** Includes the expense of a non-recurring arbitration award, which lowered operating income by approximately $2.5 million and diluted net income per share by $0.09

Consolidated Summary

five-year selected financial information

(amounts in millions, except per share data)

Consolidated Summary	2000	1999	1998	1997	1996
Operating Data					
Revenue	**$ 345.7**	$ 472.0	$ 467.8	$ 407.6	$ 365.1
Operating income (loss)	**$ (5.6) ***	$ 30.8 **	$ 39.9	$ 29.0	$ 18.5
Income (loss) before income taxes	**$ (8.7) ***	$ 29.9 **	$ 40.8	$ 30.3	$ 18.5
Net income (loss)	**$ (5.7) ***	$ 16.7 **	$ 24.0	$ 17.9	$ 11.1
Basic net income (loss) per share	**$ (0.35) ***	$ 1.02 **	$ 1.48	$ 1.07	$ 0.65
Diluted net income (loss) per share	**$ (0.35) ***	$ 1.00 **	$ 1.42	$ 1.01	$ 0.63
Cash dividend per share	**$ 0.05**	$ 0.05	$ 0.05	$ 0.05	$ 0.05
Financial Position					
Working capital	**$ 12.5**	$ 35.2	$ 74.9	$ 47.1	$ 61.5
Total assets	**$ 162.4**	$ 199.2	$ 156.8	$ 107.7	$ 121.3
Long-term debt	**$ 9.7**	$ 31.4	$ –	$ –	$ –
Shareholders' equity	**$ 88.8**	$ 94.9	$ 83.4	$ 55.3	$ 71.5

* Includes the net expense of a restructuring charge, which increased operating loss and loss before income taxes by $4.2 million, net loss by $3.0 million, and basic and diluted net loss per share by $0.18

** Includes the expense of a non-recurring arbitration award, which lowered operating income and income before income taxes by approximately $2.5 million, net income by approximately $1.5 million, and basic and diluted net income per share by $0.09

Management's Discussion and Analysis of
results of operations and financial condition

Forward-Looking Statements

Statements included in this Management's Discussion and Analysis of Results of Operations and Financial Condition and elsewhere in this document that do not relate to present or historical conditions are "forward-looking statements" within the meaning of that term in Section 27A of the Securities Act of 1933, as amended, and Section 21F of the Securities Exchange Act of 1934, as amended. Additional oral or written forward-looking statements may be made by the Company from time to time, and such statements may be included in documents that are filed with the Securities and Exchange Commission. Such forward-looking statements involve risks and uncertainties that could cause results or outcomes to differ materially from those expressed in such forward-looking statements. Forward-looking statements may include, without limitation, statements relating to the Company's plans, strategies, objectives, expectations, and intentions and are intended to be made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Words such as "believes," "forecasts," "intends," "possible," "expects," "estimates," "anticipates," or "plans," and similar expressions are intended to identify forward-looking statements. Among the important factors on which such statements are based are assumptions concerning the anticipated growth of the information technology (IT) industry, the continued need of current and prospective customers for the Company's services, the availability of qualified professional staff, and price and wage inflation.

Results of Operations

To better understand the financial trends of the Company, the following table sets forth data as contained on the consolidated statements of operations, with the information calculated as a percentage of consolidated revenues.

(percentage of revenue)

Year ended December 31,	2000	1999	1998
Revenue	**100.0%**	100.0%	100.0%
Direct costs	**70.7%**	67.0%	68.6%
Selling, general, and administrative expenses, less non-recurring charge in 1999	**29.7%**	26.0%	22.9%
Restructuring/Non-recurring charge	**1.2%**	0.5%	–
Operating income (loss)	**(1.6)%**	6.5%	8.5%
Interest and other income (expense)	**(0.9)%**	(0.2)%	0.2%
Income (loss) before income taxes	**(2.5)%**	6.3%	8.7%
Provision (benefit) for income taxes	**(0.9)%**	2.8%	3.6%
Net income (loss)	**(1.6)%**	3.5%	5.1%

2000 as compared to 1999

In 2000, CTG recorded revenue of $345.7 million, a decrease of 26.8 percent when compared to 1999 revenue of $472.0 million. North American revenue decreased by $107.3 million or 27.4 percent during the year, while revenue from European operations decreased by $19.0 million or 23.6 percent. In 2000, European revenues were 17.8 percent of total Company revenues.

The decrease in revenue in 2000 is primarily due to the completion of year 2000-related services in 1999 and continued softness in the Euro currency during 2000.

The 1999 to 2000 year-to-year revenue decline rate was impacted by the strengthening of the U.S. dollar as compared to the currencies of the Netherlands, Belgium, the United Kingdom, and Luxembourg. If there had been no change in these foreign currency exchange rates from 1999 to 2000, total consolidated revenues would have been $8.6 million higher, resulting in a year-to-year consolidated revenue decline of 24.9 percent. This additional $8.6 million increase in European revenue would have decreased the European revenue decline to 13.0 percent.

In November 2000, the Company signed a new contract with IBM for three years as one of IBM's national technical service providers for the United States. This contract, and its predecessor, covered 89 percent of the total services provided to IBM by the Company in 2000. In 2000, IBM continued to be the Company's largest customer, accounting for $95.3 million or 27.6 percent of total revenue as compared to $128.9 million or 27.3 percent of 1999 revenue. Although revenues from IBM have been constrained in 2000, CTG expects to continue to derive a significant portion of its revenue from IBM in 2001 and future years. While the decline in revenue from IBM has had an adverse effect on the Company's revenues and profits, the Company believes a simultaneous loss of all IBM business is unlikely to occur due to the existence of the national contract, the diversity of the projects performed for IBM, and the number of locations and divisions involved.

Direct costs, defined as costs for billable staff, were 70.7 percent of revenue in 2000 compared to 67.0 percent of revenue in 1999. The increase in direct costs as a percentage of revenue in 2000 as compared to 1999 is primarily due to the IT services industry spending slowdown mentioned above and the retention of a higher percentage of unutilized billable staff in the first half of 2000 in anticipation of the IT services market recovering.

Selling, general, and administrative expenses were 29.7 percent of revenue in 2000 compared to 26.0 percent of revenue in 1999. While actual selling, general, and administrative expenses decreased year over year, the increase as a percentage of revenue from 1999 to 2000 is primarily due to the significant revenue decline discussed above, and continuing strategic investments in e-business and enterprise-wide solutions.

In the first quarter of 2000, the Company recorded a pre-tax restructuring charge of $5.7 million. The charge primarily consisted of severance and related costs of $4.2 million for approximately 400 employees, costs associated with the consolidation of facilities of $0.7 million, and $0.8 million for other exit costs related to the restructuring plan. On an after-tax basis, the restructuring charge equaled $3.8 million or $0.23 per diluted share.

During the third quarter of 2000, the Company recorded, on a pre-tax basis, a restructuring credit of $1.5 million primarily consisting of a reduction in the estimated amount of severance and related costs to be paid in Europe. For the year, the net pre-tax restructuring charge is $4.2 million, including $2.7 million for severance and related costs, $0.7 million for

the consolidation of facilities, and $0.8 million for other exit costs. On an after-tax basis, the restructuring charge equals $3.0 million or $0.18 per diluted share. At December 31, 2000, approximately $0.3 million of the total charge of $4.2 million is included in other current liabilities on the consolidated balance sheet. The Company expects to complete its restructuring plan within the next three months.

Operating income (loss) was (1.6) percent of revenue in 2000 compared to 6.5 percent of revenue in 1999. Without the restructuring charge, the operating loss would have been 0.4 percent of revenue in 2000. The year-over-year decrease in operating income as a percentage of revenue is primarily due to the restructuring charge, the decline in the direct margin, and the investments discussed above. Operating income from North American and Corporate operations decreased $29.0 million from 1999 to 2000. European operations recorded operating income of $2.4 million in 2000 as compared to $9.9 million in 1999.

Interest and other expense was 0.9 percent of revenue for 2000 and 0.2 percent in 1999. In 2000, interest expense on indebtedness related to the acquisition of Elumen Solutions, Inc. (Elumen) was partially offset by interest income on available cash and temporary cash investments. In 1999, as the acquisition of Elumen was completed in late February, the Company did not have outstanding indebtedness for the entire year-to-date period.

Income (loss) before income taxes was (2.5) percent of revenue in 2000 compared to 6.3 percent of revenue in 1999. Without the restructuring charge, the loss before income taxes would have been 1.3 percent of revenue in 2000. The provision (benefit) for income taxes calculated as a percentage of income (loss) before income taxes was (34.8) percent in 2000 and 44.1 percent in 1999.

Net income (loss) for 2000 was (1.6) percent of revenue, or $(0.35) basic and diluted loss per share, compared to 3.5 percent of revenue or $1.02 basic earnings per share (EPS) and $1.00 diluted EPS in 1999. Earnings per share was calculated using 16.2 million (basic EPS) and 16.3 million (diluted EPS) and 16.4 million (basic EPS) and 16.7 million (diluted EPS) equivalent shares outstanding in 2000 and 1999, respectively. The decrease in equivalent shares outstanding for diluted earnings per share from 1999 to 2000 is primarily due to a reduction in the dilutive effect of outstanding stock options.

The Company has reviewed the guidance provided under Staff Accounting Bulletin 101, Revenue Recognition in Financial Statements, and has determined its existing revenue recognition policies are consistent with the guidance provided in the Bulletin.

During 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (FAS) No. 133, “Accounting for Derivative Instruments and Hedging Activities” (FAS 133). In 1999, the FASB issued FAS 137, which deferred the effective date of FAS 133 for the Company until January 2001, and during 2000, the FASB issued FAS 138, which amended FAS 133. These standards provide accounting and reporting guidelines for derivative instruments, including those embedded in other contracts, and for hedging activities. The Company has evaluated each of these standards and compared the guidance provided to its current accounting practices, and determined that the adoption of these standards will have no effect on the financial condition and require minimal disclosure by the Company.

1999 as compared to 1998

In 1999, CTG recorded revenue of $472.0 million, an increase of 0.9 percent when compared to 1998 revenue of $467.8 million. North American revenue decreased by $3.1 million or (0.8) percent during the year, while revenue from European operations increased by $7.3 million or 9.9 percent. In 1999, European revenues were 17.1 percent of total Company revenues.

While the Company's revenues benefited in 1999 from the acquisition of Elumen and from providing higher-value services to its customers, similar to other companies in the IT professional services industry, CTG's revenues were negatively impacted as companies deferred systems development and integration work until the actual impact of year 2000 on their systems could be assessed and resolved. Although this IT spending slowdown continued throughout 2000, CTG believes that this industry-wide trend is a short-term phenomenon and that the long-term growth prospects for its business remain strong for 2001 and beyond.

The 1998 to 1999 year-to-year revenue growth rate was impacted slightly by the strengthening of the U.S. dollar as compared to the currencies of the Netherlands, Belgium, the United Kingdom, and Luxembourg. If there had been no change in these foreign currency exchange rates from 1998 to 1999, total consolidated revenues would have been $3.2 million higher, resulting in a year-to-year consolidated revenue growth rate of 1.6 percent. This additional $3.2 million increase in European revenue would have increased the European revenue growth rate to 14.3 percent.

In January 1999, the Company renewed a contract with IBM for one year as one of IBM's national technical service providers for the United States. In December 1999, this contract was extended until March 2000, and in November 2000, a new three-year contract was signed with IBM. The contract covered 81.6 percent of the total services provided to IBM by the Company in 1999. In 1999, IBM was the Company's largest customer, accounting for $128.9 million or 27.3 percent of total revenue as compared to $151.4 million or 32.4 percent of 1998 revenue. Revenues from IBM were constrained in 1999 and also continued to be constrained in 2000.

Direct costs, defined as costs for billable staff, were 67.0 percent of revenue in 1999 compared to 68.6 percent of revenue in 1998. The decrease in direct costs as a percentage of revenue in 1999 as compared to 1998 was primarily due to the continuing trend of the Company providing higher-value services to its clients.

Selling, general, and administrative expenses, excluding the non-recurring charge of $2.5 million taken in the first quarter of 1999, were 26.0 percent of revenue in 1999 compared to 22.9 percent of revenue in 1998. The increase from 1998 to 1999 was primarily due to investments in 1999 in sales and marketing, recruiting, and training programs. Additionally, goodwill amortization expense related to the acquisition of Elumen increased selling, general, and administrative expense year over year.

During the first quarter of 1999, CTG recorded a non-recurring charge of $2.5 million to provide for an arbitration award related to a contract dispute between the Company and one of its customers. As a percentage of consolidated revenue, this charge lowered operating income and income before taxes in 1999 by 0.5 percent, net income by 0.3 percent, and basic and diluted earnings per share by $0.09.

Operating income was 6.5 percent of revenue in 1999 compared to 8.5 percent of revenue in 1998. Without the non-recurring charge, operating income would have been 7.0 percent of revenue in 1999. The year-over-year decrease was primarily due to the non-recurring charge and the investments discussed above. Operating income from North American and Corporate operations decreased $10.6 million or 33.6 percent from 1998

to 1999. European operations recorded operating income of $9.9 million in 1999 as compared to $8.2 million in 1998. The European improvement in profitability was primarily due to the 9.9 percent increase in revenue disclosed above and an increase in higher-value services performed in 1999.

Interest and other income (expense) was (0.2) percent of revenue for 1999 and 0.2 percent in 1998. In 1999, interest expense on indebtedness related to the acquisition of Elumen was partially offset by interest income on available cash and temporary cash investments.

Income before income taxes was 6.3 percent of revenue in 1999 compared to 8.7 percent of revenue in 1998. Without the non-recurring charge, income before income taxes would have been 6.8 percent of revenue in 1999. The provision for income taxes was 44.1 percent in 1999 and 41 percent in 1998. The increase in the effective income tax rate in 1999 was due to an increase in non-deductible expenses related to the Elumen acquisition.

Net income for 1999 was 3.5 percent of revenue, or $1.02 basic EPS and $1.00 diluted EPS, compared to 5.1 percent of revenue, or $1.48 basic EPS and $1.42 diluted EPS, in 1998. EPS was calculated using 16.4 million (basic EPS) and 16.7 million (diluted EPS) and 16.2 million (basic EPS) and 16.9 million (diluted EPS) equivalent shares outstanding in 1999 and 1998, respectively. The decrease in equivalent shares outstanding for diluted earnings per share was primarily due to the stock purchases by the Company's Stock Trusts in 1999.

Financial Condition

Cash provided by operating activities was $18.1 million in 2000. Net loss totaled $5.7 million, and non-cash adjustments, primarily consisting of depreciation expense, amortization expense, deferred taxes, and deferred compensation expense, totaled $10.3 million. Accounts receivable decreased $21.2 million or 26.2 percent, commensurate with the year-over-year decrease in revenue. Accounts payable increased $3.2 million due to the timing of payments at year-end 2000 as compared to year-end 1999. Accrued compensation decreased $2.5 million due to a decrease in the total number of employees year over year. Income taxes payable decreased $6.5 million due to the taxable loss in 2000. Other current liabilities decreased $1.7 million due to timing of payments at year-end 2000. At December 31, 2000, the Company's current ratio was 1.2 to 1.0.

Net property and equipment increased $0.3 million. Additions to property and equipment were $5.1 million, offset by depreciation of $4.6 million and foreign currency translation adjustments of $0.2 million. The Company had no material commitments for capital expenditures at December 31, 2000.

During 1999, the Company entered into a $100 million, five-year revolving credit agreement with a bank group. During 2000 and 2001, the agreement was amended. The resulting agreement reduced the amount of available borrowings to $44.6 million, modified the interest paid under the agreement, adjusted the commitment fees due on the unused portion of the revolving line of credit to 50 basis points, and modified the financial ratios the Company was required to maintain under the agreement. As of December 31, 2000, the Company determined it was not in compliance with one of the required ratios, and the bank group subsequently provided a waiver relative to this ratio. As of the date of the filing of this document with the Securities and Exchange Commission, the Company has received a commitment from the bank group for a new revolving credit agreement, due in 2003, having an initial aggregate borrowing limit of $50 million. The new bank agreement contains provisions that will increase the aggregate borrowing limit to $65 million during 2001 based upon the Company's achievement of certain financial conditions.

During 2000, the Company received $0.7 million from employees for 113,000 shares of stock purchased under the Employee Stock Purchase Plan, and the Company also received $1.3 million for the exercise of 71,000 stock options. The Company paid an annual dividend of $0.05 per share, totaling $0.8 million in 2000.

The Company is authorized to repurchase a total of 3.4 million shares of its common stock for treasury and by the Company's Stock Trusts. At December 31, 2000, approximately 3.2 million shares have been repurchased under the authorizations, leaving 0.2 million shares remaining authorized for future purchases. No share purchases were made in 2000.

At December 31, 2000, consolidated shareholders' equity totaled $88.8 million, which is a decrease of $6.1 million or 6.4 percent, from December 31, 1999. The decrease is primarily due to the 2000 net loss of $5.7 million.

The Company believes existing internally available funds, cash generated by operations, and available borrowings will be sufficient to meet foreseeable working capital, stock repurchase, and capital expenditure requirements and to allow for future internal growth and expansion.

The Company is nominally exposed to market risk in the normal course of its business operations. The Company has $9.7 million of borrowings at December 31, 2000 under a revolving credit agreement which expose the Company to risk of earnings or cash flow loss due to changes in market interest rates. Additionally, as the Company sells its services in North America and Europe, financial results could be affected by weak economic conditions in those markets.

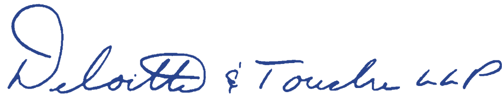
Independent Auditors' Report

To the Board of Directors and Shareholders of
Computer Task Group, Incorporated
Buffalo, New York

We have audited the accompanying consolidated balance sheets of Computer Task Group, Incorporated and subsidiaries (the Company) as of December 31, 2000 and 1999, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Computer Task Group, Incorporated and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.



Deloitte & Touche LLP
Buffalo, New York
January 31, 2001
(March 26, 2001 as to Note 5)

Consolidated Statements of Operations

(amounts in thousands, except per share data)

Year ended December 31,	2000	1999	1998
Revenue	**$ 345,676**	$ 472,008	$ 467,838
Direct costs	**244,328**	316,304	320,673
Selling, general, and administrative expenses	**102,836**	124,871	107,314
Restructuring charge	**4,157**	–	–
Operating income (loss)	**(5,645)**	30,833	39,851
Interest and other income	**288**	1,369	1,445
Interest and other expense	**(3,322)**	(2,338)	(539)
Income (loss) before income taxes	**(8,679)**	29,864	40,757
Provision (benefit) for income taxes	**(3,018)**	13,163	16,712
Net income (loss)	**$ (5,661)**	$ 16,701	$ 24,045
Net income (loss) per share:			
Basic	**$ (0.35)**	$ 1.02	$ 1.48
Diluted	**$ (0.35)**	$ 1.00	$ 1.42

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

Consolidated Balance Sheets

(amounts in thousands, except share balances)

December 31,	2000	1999
ASSETS		
Current Assets:		
Cash and temporary cash investments	**$ 2,562**	$ 10,684
Accounts receivable, net of allowances and reserves	**57,968**	80,773
Prepaids and other	**2,736**	2,821
Deferred income taxes	**2,799**	3,041
Total current assets	**66,065**	97,319
Property and equipment, net of accumulated depreciation and amortization	**13,784**	13,483
Acquired intangibles, net of accumulated amortization of $14,130 and $9,151, respectively	**78,771**	84,008
Deferred income taxes	**3,095**	3,685
Other assets	**652**	664
Total assets	**$ 162,367**	$ 199,159
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	**$ 12,563**	$ 10,834
Accrued compensation	**26,121**	27,567
Income taxes payable	**3,806**	10,423
Advance billings on contracts	**642**	761
Other current liabilities	**10,389**	12,532
Total current liabilities	**53,521**	62,117
Long-term debt	**9,700**	31,380
Deferred compensation benefits	**9,642**	9,953
Other long-term liabilities	**711**	785
Total liabilities	**73,574**	104,235
Shareholders' Equity:		
Common stock, par value $.01 per share, 150,000,000 shares authorized; 27,017,824 shares issued	**270**	270
Capital in excess of par value	**111,564**	110,895
Retained earnings	**75,575**	82,046
Less: Treasury stock of 6,146,759 and 6,141,823 shares, at cost	**(31,404)**	(31,279)
Stock Trusts of 4,507,903 and 4,823,173 shares, at cost	**(59,964)**	(61,306)
Unearned portion of restricted stock to related parties	**–**	(43)
Other comprehensive income:		
Foreign currency adjustment	**(6,406)**	(4,786)
Minimum pension liability adjustment	**(842)**	(873)
Accumulated other comprehensive income	**(7,248)**	(5,659)
Total shareholders' equity	**88,793**	94,924
Total liabilities and shareholders' equity	**$ 162,367**	$ 199,159

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

Consolidated Statements of Cash Flows

(amounts in thousands)

Year ended December 31,	2000	1999	1998
Cash flows from operating activities:			
Net income (loss)	**$ (5,661)**	$ 16,701	$ 24,045
Adjustments:			
Depreciation expense	**4,607**	5,009	4,406
Amortization expense	**5,089**	3,471	596
Tax benefit on stock option exercises	**68**	174	2,359
Deferred income taxes	**832**	(1,988)	(665)
Loss on sales or disposals of assets	**43**	23	10
Deferred compensation expense (credit)	**(280)**	797	216
Changes in assets and liabilities, net of assets acquired and liabilities assumed:			
(Increase) decrease in accounts receivable	**21,226**	837	(12,830)
(Increase) decrease in prepaids and other	**(44)**	984	(1,551)
(Increase) decrease in other assets	**12**	319	(123)
Increase (decrease) in accounts payable	**3,171**	(4,356)	4,805
Increase (decrease) in accrued compensation	**(2,529)**	(3,647)	7,431
Increase (decrease) in income taxes payable	**(6,545)**	1,638	4,546
Increase (decrease) in advance billings on contracts	**(119)**	377	(774)
Increase (decrease) in other current liabilities	**(1,650)**	1,681	4,179
Decrease in other long-term liabilities	**(74)**	(39)	(304)
Net cash provided by operating activities	**18,146**	21,981	36,346
Cash flows from investing activities:			
Acquisition, net of cash acquired	**–**	(86,775)	–
Additions to property and equipment	**(5,052)**	(4,509)	(5,057)
Proceeds from sales or disposals of property and equipment	**30**	39	22
Net cash used in investing activities	**(5,022)**	(91,245)	(5,035)
Cash flows from financing activities:			
Proceeds from (payments on) long-term revolving debt, net	**(21,680)**	31,380	–
Proceeds from Employee Stock Purchase Plan	**714**	1,094	1,448
Purchase of stock for treasury	**(125)**	(13)	(77)
Purchase of stock by Stock Trusts	**–**	(9,940)	(2,455)
Proceeds from other stock plans	**1,272**	2,124	3,115
Dividends paid	**(810)**	(827)	(812)
Net cash provided by (used in) financing activities	**(20,629)**	23,818	1,219
Effect of exchange rate changes on cash and temporary cash investments	**(617)**	(1,618)	185
Net increase (decrease) in cash and temporary cash investments	**(8,122)**	(47,064)	32,715
Cash and temporary cash investments at beginning of year	**10,684**	57,748	25,033
Cash and temporary cash investments at end of year	**$ 2,562**	$ 10,684	$ 57,748

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

Consolidated Statements of Changes in Shareholders' Equity

	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Retained Earnings
Balance as of December 31, 1997	27,018	$270	$216,028	$42,939
Employee Stock Purchase Plan share issuance	–	–	–	–
Stock Option Plan share issuance	–	–	2,359	–
Other share issuance	–	–	–	–
Purchase of stock	–	–	–	–
Restricted Stock Plan:				
Award	–	–	–	–
Amortization	–	–	–	–
Stock Employee Compensation Trust adjustment to cost	–	–	(112,377)	–
Management Stock Purchase Plan repayments	–	–	–	–
Cash dividends - $.05 per share	–	–	–	(812)
Comprehensive Income:				
Net income	–	–	–	24,045
Foreign currency adjustment	–	–	–	–
Minimum pension liability adjustment	–	–	–	–
Total Comprehensive Income	–	–	–	24,045
Balance as of December 31, 1998	27,018	270	106,010	66,172
Acquisition	–	–	2,616	–
Employee Stock Purchase Plan share issuance	–	–	824	–
Stock Option Plan share issuance	–	–	564	–
Other share issuance	–	–	881	–
Purchase of stock	–	–	–	–
Restricted Stock Plan - Amortization	–	–	–	–
Cash dividends - $.05 per share	–	–	–	(827)
Comprehensive Income:				
Net income	–	–	–	16,701
Foreign currency adjustment	–	–	–	–
Minimum pension liability adjustment	–	–	–	–
Total Comprehensive Income	–	–	–	16,701
Balance as of December 31, 1999	27,018	270	110,895	82,046
Employee Stock Purchase Plan share issuance	–	–	**229**	–
Stock Option Plan share issuance	–	–	**134**	–
Other share issuance	–	–	**306**	–
Purchase of stock	–	–	–	–
Restricted Stock Plan - Share cancellation	–	–	–	–
Cash dividends - $.05 per share	–	–	–	**(810)**
Comprehensive Income (loss):				
Net loss	–	–	–	**(5,661)**
Foreign currency adjustment	–	–	–	–
Minimum pension liability adjustment	–	–	–	–
Total Comprehensive Income (loss)	–	–	–	**(5,661)**
Balance as of December 31, 2000	**27,018**	**$270**	**$111,564**	**$75,575**

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

(amounts in thousands, except per share data)

Treasury Stock Shares	Treasury Stock Amount	Stock Trusts Shares	Stock Trusts Amount	Unearned Portion of Restricted Stock	Loans to Related Parties	Foreign Currency Adjustment	Minimum Pension Liability Adjustment	Total Shareholders' Equity
6,267	$(31,773)	4,694	$(166,929)	$(34)	$(54)	$(3,206)	$(1,915)	$55,326
–	–	(45)	1,448	–	–	–	–	1,448
–	–	(272)	1,985	–	–	–	–	4,344
–	–	(32)	1,051	–	–	–	–	1,051
3	(77)	80	(2,455)	–	–	–	–	(2,532)
–	–	(2)	60	(60)	–	–	–	–
–	–	–	–	25	–	–	–	25
–	–	–	112,377	–	–	–	–	–
–	–	–	–	–	54	–	–	54
–	–	–	–	–	–	–	–	(812)
–	–	–	–	–	–	–	–	24,045
–	–	–	–	–	–	832	–	832
–	–	–	–	–	–	–	(332)	(332)
–	–	–	–	–	–	832	(332)	24,545
6,270	(31,850)	4,423	(52,463)	(69)	–	(2,374)	(2,247)	83,449
(129)	584	–	–	–	–	–	–	3,200
–	–	(64)	270	–	–	–	–	1,094
–	–	(129)	550	–	–	–	–	1,114
–	–	(65)	277	–	–	–	–	1,158
1	(13)	658	(9,940)	–	–	–	–	(9,953)
–	–	–	–	26	–	–	–	26
–	–	–	–	–	–	–	–	(827)
–	–	–	–	–	–	–	–	16,701
–	–	–	–	–	–	(2,412)	–	(2,412)
–	–	–	–	–	–	–	1,374	1,374
–	–	–	–	–	–	(2,412)	1,374	15,663
6,142	(31,279)	4,823	(61,306)	(43)	–	(4,786)	(873)	94,924
–	–	(113)	484	–	–	–	–	713
–	–	(71)	303	–	–	–	–	437
–	–	(131)	555	–	–	–	–	861
5	(125)	–	–	–	–	–	–	(125)
–	–	–	–	43	–	–	–	43
–	–	–	–	–	–	–	–	(810)
–	–	–	–	–	–	–	–	(5,661)
–	–	–	–	–	–	(1,620)	–	(1,620)
–	–	–	–	–	–	–	31	31
–	–	–	–	–	–	(1,620)	31	(7,250)
6,147	$(31,404)	4,508	$(59,964)	$ –	$ –	$(6,406)	$(842)	$88,793

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Basis of Presentation

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. All intercompany accounts and transactions have been eliminated. Certain amounts in the prior years' consolidated financial statements and notes 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 generally accepted accounting principles. Such estimates primarily relate to allowances for doubtful accounts and deferred tax assets, a reserve for projects, and estimates of progress toward completion and direct profit or loss on fixed-price contracts. Actual results could differ from those estimates.

CTG operates in one industry segment, providing information technology (IT) professional services to its clients. The services provided typically encompass the IT business solution life cycle, including phases for planning, development and implementation, and managing and maintaining the IT solution. Additionally, the Company believes its business units have similar economic characteristics and meet the aggregation criteria of FAS No. 131, "Disclosures about Segments of an Enterprise and Related Information."

Revenue and Cost Recognition

The Company primarily recognizes revenue on monthly fee and time-and-materials contracts as hours are expended and costs are incurred. Fixed-price contracts accounted for under the percentage-of-completion method represented 2 percent of 2000, 2 percent of 1999, and 1 percent of 1998 revenue, respectively. Such revenue is determined by the percentage of labor and overhead costs incurred to date to total estimated labor and overhead costs for each contract. Fixed-price contract costs include all direct labor and material costs and those indirect costs related to contract performance.

Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. In addition to an allowance for doubtful accounts of approximately $1.9 million and $2.3 million at December 31, 2000 and 1999, respectively, accounts receivable is further reduced by a reserve for projects of $0.5 million at December 31, 2000 and $0.9 million at December 31, 1999. Selling, general, and administrative costs are charged to expense as incurred.

Fair Value of Financial Instruments

The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties. At December 31, 2000 and 1999, the carrying amounts of the Company's financial instruments, which include cash and temporary cash investments, accounts receivable, and long-term debt, approximate fair value.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method based on estimated useful lives of two years to 30 years. 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 is reflected in current earnings. Maintenance and repairs are charged to expense when incurred, while significant betterments are capitalized.

Acquired Intangibles

Acquired intangibles consist of goodwill and other identifiable intangibles. Amortization is computed using the straight-line method based on estimated useful lives of 10 years to 25 years.

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

Long-lived assets and certain identifiable intangibles 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, if any, are reported at the lower of the carrying amount or fair value less costs to sell.

In 2000, as part of a restructuring charge (see Note 2, Restructuring), the Company re-evaluated its amortization of certain of its identifiable intangibles for impairment. The asset was reduced by approximately $0.8 million. There were no adjustments to long-lived assets or identifiable intangibles in 1999.

Income Taxes

The Company provides deferred income taxes for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. Deferred income taxes relate principally to deferred compensation, non-deductible accrued expenses, and accelerated depreciation and amortization methods.

Tax credits are accounted for as a reduction of the income tax provision in the year in which they are realized (flow-through method).

For the years ended December 31, 2000, 1999, and 1998, the tax expense (benefit) associated with the minimum pension liability adjustment was $0, $(0.3) million, and $0.1 million, respectively.

Stock-Based Compensation

The Company accounts for its Stock-Based Compensation Plans in accordance with the provisions of FAS No. 123, "Accounting for Stock-Based Compensation," which permits entities to recognize as expense, over the vesting period, the fair value of all stock-based awards on the date of grant. Alternatively, FAS No. 123 also allows entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net income and pro forma earnings per share disclosures for employee stock option grants as if the fair-value-based method defined in FAS No. 123 had been applied. The Company has elected to continue to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosure provisions of FAS No. 123.

Net Income (Loss) Per Share

Basic and diluted earnings per share for the years ended December 31, 2000, 1999, and 1998 are as follows:

(amounts in thousands, except per share data)

	Income (loss)	Weighted Average Shares	Earnings (loss) per Share
For the year ended December 31, 2000			
Basic EPS	**$(5,661)**	**16,187**	**$(0.35)**
Dilutive effect of outstanding stock options	**–**	**85**	
Diluted EPS	**$(5,661)**	**16,272**	**$(0.35)**
For the year ended December 31, 1999			
Basic EPS	$16,701	16,401	$ 1.02
Dilutive effect of outstanding stock options	–	279	
Diluted EPS	$16,701	16,680	$ 1.00
For the year ended December 31, 1998			
Basic EPS	$24,045	16,216	$ 1.48
Dilutive effect of outstanding stock options	–	697	
Diluted EPS	$24,045	16,913	$ 1.42

Weighted average shares represents the average of issued shares less treasury shares and less the shares held in the Stock Trusts.

Foreign Currency Translation

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.

Statement of Cash Flows

For purposes of the statement of cash flows, cash and temporary cash investments are defined as cash on hand; demand deposits; and short-term, highly liquid investments with a maturity of three months or less.

Interest paid during 2000, 1999, and 1998 amounted to $2.3 million, $2.0 million, and $0.1 million, respectively, while net income tax payments totaled $1.6 million, $12.9 million, and $10.4 million for the respective years.

During 1998, as a non-cash financing activity, the shares of common stock held by the Company's Stock Employee Compensation Trust were adjusted to original cost basis, with a decrease to capital in excess of par value of $(112.4) million (see Note 10, Shareholders' Equity - Stock Trusts).

Accounting Standards Pronouncements

During 1998, the Financial Accounting Standards Board (FASB) issued FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (FAS 133). In 1999, the FASB issued FAS 137, which deferred the effective date of FAS 133 for the Company until January 2001, and during 2000, the FASB issued FAS 138, which amended FAS 133. These standards provide accounting and reporting guidelines for derivative instruments, including those embedded in other contracts, and for hedging activities. The Company has evaluated each of these standards and compared the guidance provided to its current accounting practices, and determined that the adoption of these standards will have no effect on the financial condition and require minimal disclosure by the Company.

2. Restructuring

In the first quarter of 2000, the Company recorded a pre-tax restructuring charge of $5.7 million. The charge primarily consisted of severance and related costs of $4.2 million for approximately 400 employees, costs associated with the consolidation of facilities of $0.7 million, and $0.8 million for other exit costs related to the restructuring plan. On an after-tax basis, the restructuring charge equaled $3.8 million or $0.23 per diluted share.

During the third quarter of 2000, the Company recorded, on a pre-tax basis, a restructuring credit of $1.5 million primarily consisting of a reduction in the estimated amount of severance and related costs to be paid in Europe. On a year-to-year basis, the net pre-tax restructuring charge is $4.2 million, including $2.7 million for severance and related costs, $0.7 million for the consolidation of facilities, and $0.8 million for the impairment of identifiable intangibles. On an after-tax basis, the restructuring charge equals $3.0 million or $0.18 per diluted share. At December 31, 2000, approximately $0.3 million of the total charge of $4.2 million is included in other current liabilities on the consolidated balance sheet. The Company expects to complete its restructuring plan within the next three months.

3. Acquisition

On February 23, 1999, the Company acquired the stock of Elumen Solutions, Inc. (Elumen). The transaction was valued at $89 million, of which $86 million was paid in cash or through the assumption of debt, and the remainder was satisfied through the issuance of approximately 128,000 shares of CTG common stock. The fair value of the assets acquired totaled $11.2 million, while liabilities assumed totaled $7.1 million.

The acquisition was accounted for as a purchase, and the results of Elumen have been included in the accompanying consolidated financial statements since the date of acquisition. CTG recorded approximately $84.9 million of goodwill and other identifiable intangibles from the transaction, which are being amortized on a straight-line basis over periods ranging from 10 years to 25 years.

The unaudited pro forma consolidated results of operations as though Elumen had been acquired as of January 1, 1998, are as follows:

(amounts in thousands, except per share data)

	1999	1998
Revenue	**$ 479,935**	$ 504,689
Net income	**$ 16,523**	$ 22,188
Net income per share:		
Basic	**$ 1.01**	$ 1.36
Diluted	**$ 0.99**	$ 1.30

These pro forma results are not necessarily indicative of what would have actually occurred if the acquisition had been completed as of the beginning of the periods presented, nor do they purport to be indicative of the results that will be obtained in the future.

4. Property and Equipment

Property and equipment at December 31, 2000 and 1999 are summarized as follows:

(amounts in thousands)

December 31,	2000	1999
Land	$ 886	$ 886
Buildings	6,515	6,515
Equipment	20,340	21,879
Furniture	5,909	6,188
Software	4,388	3,442
Leasehold improvements	2,530	1,050
	40,568	39,960
Less accumulated depreciation	(26,784)	(26,477)
	$ 13,784	$ 13,483

At December 31, 2000, the Company owned three buildings, two of which are in use by the Company. The third building, with a net book value of $1.8 million, is leased to a third party under a one-year lease, which ends in 2001. Receipts under this lease were approximately $0.3 million in 2000, and are anticipated to be $0.2 million in 2001.

5. Debt

During 1999, the Company refinanced its short-term debt by entering into a five-year revolving line of credit with a bank group. Under the original agreement, the Company could borrow up to $100 million at any one time through August 24, 2004, and interest could be based upon the LIBOR rate, the prime rate, or other rates as quoted by the agent bank. In addition, the agreement required the Company to maintain certain financial ratios, and the Company was subject to a commitment fee varying from 10 to 30 basis points of the unused available credit. There were no commitment fees paid or due during 1998.

During 2000 and 2001, the revolving line of credit agreement was amended. The resulting agreement reduced the amount of available borrowings to $44.6 million, modified the interest paid under the agreement, adjusted the commitment fees due on the unused portion of the revolving line of credit to 50 basis points, and modified the financial ratios the Company was required to maintain under the agreement.

As of December 31, 2000, the Company determined it was not in compliance with one of the required ratios, and the bank group subsequently provided a waiver relative to this ratio. As of the date of the filing of this document with the Securities and Exchange Commission, the Company has received a commitment from the bank group for a new revolving credit agreement, due in 2003, having an initial aggregate borrowing limit of $50 million. The new bank agreement contains provisions that will increase the aggregate borrowing limit to $65 million during 2001 based upon the Company's achievement of certain financial conditions.

At December 31, 2000 and 1999, there were $9.7 million and $20.0 million outstanding, respectively, under the revolving credit agreement mentioned above. The Company intends to refinance its borrowings under the new credit agreement discussed above. Additionally, at December 31, 2000 and 1999, there were $4.5 million and $0 of outstanding letters of credit, respectively, under the revolving credit agreement.

At December 31, 2000, the Company also has lines of credit available outside of the revolving credit agreement mentioned above, totaling $32.0 million, renewable annually at various

times throughout the year, with interest at or below the equivalent of the prime rate. All borrowings under these agreements are unsecured and payable upon demand. There were no borrowings under these arrangements at December 31, 2000. During 2000, the Company refinanced its borrowings under these lines of credit, totaling $11.4 million at December 31, 1999, under the revolving credit agreement discussed above.

The maximum amounts outstanding under borrowings during 2000, 1999, and 1998 were $44.9 million, $59.0 million, and $0.1 million, respectively. Average bank borrowings outstanding for the years 2000, 1999, and 1998 were $32.8 million, $40.9 million, and $0.1 million, respectively, and carried weighted average interest rates of 7.56 percent, 5.75 percent, and 5.50 percent, respectively.

The carrying amount of long-term debt, as determined by a comparison to similar instruments, approximates fair value at December 31, 2000.

6. Income Taxes

The provision (benefit) for income taxes for 2000, 1999, and 1998 consists of the following:

(amounts in thousands)

Domestic and foreign components of income (loss) before income taxes are as follows:	2000	1999	1998
Domestic	$ (8,766)	$ 21,168	$ 34,027
Foreign	87	8,696	6,730
	$ (8,679)	$29,864	$ 40,757

(amounts in thousands)

The provision (benefit) for income taxes consists of:	2000	1999	1998
Current Tax:			
U.S. Federal	$ (4,131)	$ 8,359	$ 11,920
Foreign	14	3,631	1,782
U.S. State and Local	290	2,194	3,675
	(3,827)	14,184	17,377
Deferred Tax:			
U.S. Federal	763	(836)	(579)
U.S. State and Local	46	(185)	(86)
	809	(1,021)	(665)
	$ (3,018)	$ 13,163	$ 16,712

The effective and statutory income tax rate can be reconciled as follows:	2000	1999	1998
Tax at statutory rate of 34 percent	$ (2,951)	$ 10,153	$ 13,857
Rate differential	(86)	299	408
State tax, net of federal benefits	161	1,224	2,333
Expenses for which no tax benefit is available	2,095	1,579	472
Change in estimate of nondeductible expenses	(2,187)	–	(927)
Other, net	(50)	(92)	569
	$ (3,018)	$ 13,163	$ 16,712
Effective income tax rate	(34.8%)	44.1%	41.0%

The change in estimate of non-deductible expenses in 2000 includes adjustments to the Company's tax accruals due to the favorable resolution of several tax audits that had previously been in process.

The Company's deferred tax assets and liabilities at December 31, 2000 and 1999 consist of the following:

(amounts in thousands)

December 31,	2000	1999
Assets		
Loss carryforwards	$ 88	$ –
Deferred compensation	3,461	3,563
Accruals deductible for tax purposes when paid	2,443	2,527
Allowance for doubtful accounts	565	650
Other	138	668
Gross deferred tax assets	6,695	7,408
Liabilities		
Amortization	233	236
Depreciation	568	446
Gross deferred tax liabilities	801	682
Deferred tax assets valuation allowance	–	–
Net deferred tax assets	$ 5,894	$ 6,726
Net deferred assets and liabilities are recorded at December 31, 2000 and 1999 as follows:		
Net current assets	$ 2,799	$ 3,041
Net non-current assets	3,095	3,685
	$ 5,894	$ 6,726

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. Based upon the level of historical taxable income and projections for future taxable income over the years in which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences at December 31, 2000. Accordingly, no valuation allowance is required.

Undistributed earnings of the Company's foreign subsidiaries were minimal at December 31, 2000, 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 other foreign entities' earnings were distributed, it is estimated that U.S. federal and state income taxes, net of foreign credits, would be immaterial.

In 2000, 1999, and 1998, 62,000, 264,900, and 193,000 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 total tax benefit to the Company from these transactions, which is credited to capital in excess of par value rather than recognized as a reduction of income tax expense, was $0.1 million, $1.4 million, and $2.4 million in 2000, 1999, and 1998, respectively. These tax benefits have also been recognized in the consolidated balance sheets as a reduction of current taxes payable.

7. Lease Commitments

At December 31, 2000, the Company was obligated under a number of long-term operating leases. Minimum future obligations under such leases are summarized as follows:

(amounts in thousands)

Year ended December 31,	
2001	$ 8,947
2002	6,676
2003	4,074
2004	1,632
2005	585
Later years	808
Minimum future obligations	$ 22,722

The operating lease obligations relate to the rental of office space, office equipment, and automobiles. Total rental expense under such operating leases for 2000, 1999, and 1998 was approximately $10.7 million, $11.0 million, and $9.0 million, respectively.

8. Deferred Compensation Benefits

The Company maintains a non-qualified defined-benefit Executive Supplemental Benefit Plan 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 2000, 1999, and 1998 is as follows:

(amounts in thousands)

Net Periodic Pension Cost	2000	1999	1998
Interest cost	$ 675	$ 641	$ 655
Amortization of unrecognized net loss	35	85	66
	$ 710	$ 726	$ 721

The change in benefit obligation at December 31, 2000 and 1999 is as follows:

(amounts in thousands)

Change in Benefit Obligation	2000	1999
Benefit obligation at beginning of year	$ 9,220	$ 9,720
Interest cost	675	641
Amortization of unrecognized net loss	35	85
Benefits paid	(435)	(435)
Adjustment to minimum liability	(52)	(791)
Benefit obligation at end of year	9,443	9,220
Fair value of plan assets at end of year	–	–
Funded status	9,443	9,220
Unrecognized net actuarial loss	(1,403)	(1,455)
Accrued benefit cost	$ 8,040	$ 7,765
Weighted average discount rate	7.50%	7.50%
Salary increase rate	0%	0%

Benefits paid to participants are funded by the Company as needed. 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 maintains a non-qualified defined-contribution deferred compensation plan for certain key executives. The Company contributions to this plan, which were $0, $71,000, and $107,000 in 2000, 1999, and 1998, respectively, are based on annually defined financial performance objectives.

9. 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. Company contributions of cash and the Company's stock, which are discretionary, were funded and charged to operations in the amounts of $2.6 million, $3.5 million, and $3.8 million for 2000, 1999, and 1998, respectively.

Other Retirement Plans

The Company maintains various retirement plans covering substantially all of its European employees. Company contributions charged to operations were $0.6 million, $0.5 million, and $0.5 million in 2000, 1999, and 1998, respectively.

Other Postretirement Benefits

The Company provides limited health care and life insurance benefits to 11 retired employees and their spouses, totaling 18 participants, pursuant to contractual agreements.

Net periodic postretirement benefit cost for 2000, 1999, and 1998 is as follows:

(amounts in thousands)

Net Periodic Postretirement Benefit Cost	2000	1999	1998
Interest cost	$ 35	$ 35	$ 33
Amortization of transition amount	29	29	29
Amortization of gain	(10)	(6)	(14)
	$ 54	$ 58	$ 48

The change in postretirement benefit obligation at December 31, 2000 and 1999 is as follows:

(amounts in thousands)

Change in Postretirement Benefit Obligation	2000	1999
Postretirement benefit obligation at beginning of year	$ 500	$ 552
Interest cost	35	35
Amortization of transition amount	29	29
Benefits paid	(28)	(38)
Amortization of gain	(10)	(6)
Adjustment to unrecognized transition obligation	(29)	(29)
Adjustment to unrecognized gain	(260)	(43)
Postretirement benefit obligation at end of year	237	500
Fair value of plan assets at end of year	–	–
Funded status	237	500
Unrecognized transition obligation	(351)	(380)
Unrecognized gain	452	192
Accrued postretirement benefit cost	$ 338	$ 312
Weighted average discount rate	7.50%	7.50%
Salary increase rate	0%	0%

Benefits paid to participants are funded by the Company as needed.

The rate of increase in health care costs is assumed to be 6.2 percent and 6.4 percent in 2001 for pre-age 65 and post-age 65 benefits, respectively, gradually declining to 5 percent by the year 2003 and remaining at that level thereafter. Increasing the assumed health care cost trend rate by one percentage point would increase the accumulated postretirement benefit obligation by $14,000 at December 31, 2000, and the net periodic cost by $2,000 for the year. A one percentage point decrease in the health care cost trend would decrease the accumulated postretirement benefit obligation by $13,000 at December 31, 2000, and the net periodic pension by $2,000 for the year.

10. Shareholders' Equity

Employee Stock Purchase Plan

Under the Company's First Employee Stock Purchase Plan, employees may apply up to 10 percent of their compensation to purchase the Company's common stock. Shares are purchased at the market price on the business day preceding the date of purchase. As of December 31, 2000, 64,000 shares remain unissued under the Plan, of the total of 11 million shares that have been authorized under the Plan. During 2000, 1999, and 1998, 113,000, 64,000, and 45,000 shares, respectively, were purchased under the plan at an average price of $6.29, $17.30, and $32.40 per share, respectively.

Management Stock Purchase Plan

Under the Company's Management Stock Purchase Plan approved in 1992, 800,000 common shares have been designated (up to 400,000 shares from treasury) for purchase by certain key employees using loans from the Company. During 2000 and 1999, no loans were made to employees.

Shareholder Rights Plan

The Board of Directors adopted a Shareholder Rights Plan in January 1989. Under the plan, one right was distributed for each share of common stock outstanding on January 27, 1989, and on each additional share of common stock issued after that date and prior to the date the rights become exercisable. The rights become exercisable when 20 percent or more of the Company's outstanding common stock is acquired by a person or group, other than Company-provided employee benefit plans, and when an offer to acquire is made. Each right entitles the holder to purchase Series A preferred stock (which is essentially equivalent to common stock) at a 50 percent discount from the then-market price of the common stock or, in the event of a merger, consolidation, or sale of a major part of the Company's assets, to purchase common stock of the acquiring company at a 50 percent discount from its then-market price. The Shareholder Rights Plan was amended in 1999 to provide that the rights expire in November 2008. The rights may be redeemed by the Company at a price of $.01 per right.

Stock Trusts

The Company maintains a Stock Employee Compensation Trust (SECT) to provide funding for existing employee stock plans and benefit programs. Shares are purchased by and 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, 2000, all shares remaining in the SECT were unallocated and therefore are not considered outstanding for purposes of calculating earnings per share.

SECT activity for 2000, 1999, and 1998 is as follows:

(amounts in thousands)

	2000	1999	1998
Share balance at beginning of year	**4,764**	4,423	4,694
Shares purchased	**–**	599	80
Shares released:			
Stock option plans	**(71)**	(129)	(272)
Employee Stock Purchase Plan	**(113)**	(64)	(45)
Other stock plans	**(131)**	(65)	(34)
Share balance at end of year	**4,449**	4,764	4,423

During 1999 and 1998, shares were purchased by the SECT at an average price of $14.92 and $30.69, respectively. No shares were purchased during 2000.

In 1998, the SECT was adjusted through a decrease to capital in excess of par value totaling $(112.4) million, from fair value

to original cost basis, based upon new interpretive guidance issued by the Financial Accounting Standards Board. The cost basis of the shares held by the SECT is reported as a reduction to shareholders' equity.

During 1999, the Company created an Omnibus Stock Trust (OST) to provide funding for various employee benefit programs. Shares are released from the OST by the trustee at the request of the compensation committee of the Board of Directors. During 2000, no shares were purchased. During 1999, the OST purchased 59,000 shares for $1 million. No shares were released from the trust in either 1999 or 2000.

Restricted Stock Plan

Under the Company's Restricted Stock Plan, 800,000 shares of restricted stock may be granted to certain key employees. During 1998, 1,500 shares were granted to an employee of the Company. Under the grant, the shares vest to the employee over 48 months beginning at the date of grant, and become forfeit if the employee is no longer employed by the Company at the end of the vesting period. During 2000, all outstanding restricted stock grants were canceled, as the employee who received the stock grants left the Company.

11. Stock Option Plans

On April 24, 1991, the shareholders approved the Company's 1991 Employee Stock Option Plan (1991 Plan), which came into effect after the Company's 1981 Employee Stock Option Plan (1981 Plan) terminated on April 21, 1991. Under the provisions of the plan, options may be granted to employees and directors of the Company. The option price for options granted under each 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 percent 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 25 or 20 percent 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.

On April 26, 2000, the shareholders approved the Company's Equity Award Plan (Equity Plan). Under the provisions of the plan, stock options, 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.

The per share weighted-average fair value on the date of grant of stock options granted in 2000, 1999, and 1998, using the Black-Scholes option pricing model, was $3.72, $10.77, and $10.64, respectively. The fair value of the options at the date of grant was estimated with the following weighted-average assumptions:

	2000	1999	1998
Expected life (years)	**4.0**	5.4	5.4
Dividend yield	**1.0%**	0.23%	0.23%
Risk-free interest rate	**6.14%**	4.98%	4.62%
Expected volatility	**58.48%**	47.75%	46.36%

The Company applies APB Opinion No. 25 in accounting for the Equity, 1991, and 1981 Plans, and, accordingly, no compensation cost has been recognized for its stock options in the consolidated financial statements. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, the Company's net income (loss) and basic and diluted earnings (loss) per share would have been reduced to the pro forma amounts indicated in the chart on the right:

(amounts in thousands, except per share data)

	2000	1999	1998
Net income (loss)			
As reported	**$ (5,661)**	$ 16,701	$ 24,045
Pro forma	**$ (8,725)**	$ 14,525	$ 21,626
Basic earnings (loss) per share			
As reported	**$ (0.35)**	$ 1.02	$ 1.48
Pro forma	**$ (0.54)**	$ 0.89	$ 1.33
Diluted earnings (loss) per share			
As reported	**$ (0.35)**	$ 1.00	$ 1.42
Pro forma	**$ (0.54)**	$ 0.87	$ 1.28

1998 pro forma net income reflects only options granted subsequent to December 31, 1994. Accordingly, the full impact of calculating compensation cost for stock options under SFAS No. 123 is not reflected in the pro forma net income amounts presented above as compensation cost is reflected over the options' vesting period as discussed above, and compensation cost for options granted prior to January 1, 1995 is not considered. Pro forma amounts for compensation cost may not be indicative of the effects on earnings for future years.

A summary of stock option activity under these plans is as follows:

	Equity Plan Options	Weighted Average Exercise Price	1991 Plan Options	Weighted Average Exercise Price	1981 Plan Options	Weighted Average Exercise Price
Outstanding at December 31, 1998	–	$ –	1,946,326	$ 17.54	2,975	$ 5.40
Granted	–	$ –	132,750	$ 23.13	–	$ –
Exercised	–	$ –	(127,025)	$ 7.33	(1,750)	$ 5.55
Canceled, expired, and forfeited	–	$ –	(94,500)	$ 22.24	–	$ –
Outstanding at December 31, 1999	–	$ –	1,857,551	$ 18.48	1,225	$ 5.17
Granted	**265,000**	**$ 4.10**	**1,222,500**	**$ 8.62**	**–**	**$ –**
Exercised	**–**	**$ –**	**(70,576)**	**$ 5.19**	**(500)**	**$ 5.31**
Canceled, expired, and forfeited	**–**	**$ –**	**(867,350)**	**$ 17.73**	**(225)**	**$ 4.56**
Outstanding at December 31, 2000	**265,000**	**$ 4.10**	**2,142,125**	**$ 13.59**	**500**	**$ 5.31**

At December 31, 2000, there were no options exercisable under the Equity Plan. At December 31, 2000 and 1999, the number of options exercisable under the 1991 Plan was 873,535 and 1,150,815, respectively, and the weighted average exercise price of those options was $18.44 and $16.03, respectively. At December 31, 2000 and 1999, the number of options exercisable under the 1981 Plan was 500 and 1,225, respectively, and the weighted average exercise price of those options was $5.31 and $5.17, respectively.

A summary of the range of exercise prices and the weighted average remaining contractual life of outstanding options at December 31, 2000 for the Equity, 1991, and 1981 Plans is as follows:

Range of Exercise Prices	Options Outstanding at December 31, 2000	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)
Equity Plan			
$ 2.88	65,000	$ 2.88	3.8
$ 4.50	200,000	$ 4.50	8.3
1991 Plan			
$ 2.88 to $ 4.00	320,200	$ 2.92	8.1
$ 4.38 to $ 6.13	502,750	$ 4.98	11.7
$ 7.50 to $ 9.44	76,200	$ 8.86	4.1
$ 12.50 to $ 18.44	626,250	$ 15.75	6.6
$ 20.40 to $ 30.31	589,225	$ 23.97	7.0
$ 36.75 to $ 37.19	27,500	$ 36.99	7.2
1981 Plan			
$ 5.31	500	$ 5.31	0.2

At December 31, 2000, there were 1,735,000, 186,000, and 0 shares available for grant under the Equity Plan, 1991 Plan, and 1981 Plan, respectively.

During 2000 and 1999, the Company acquired stock for treasury valued at $124,000 and $13,000, respectively, from employees through stock option exercise transactions and the cancellation of outstanding restricted stock grants.

12. Significant Customer

International Business Machines (IBM) is the Company's largest customer. IBM accounted for $95.3 million or 27.6 percent, $128.9 million or 27.3 percent, and $151.4 million or 32.4 percent of consolidated 2000, 1999, and 1998 revenue, respectively. The Company's accounts receivable from IBM at December 31, 2000 and 1999 amounted to $15.9 million and $19.7 million, respectively. No other customer accounted for more than 10 percent of revenue in 2000, 1999, or 1998.

13. Litigation

The Company is involved in litigation arising in the normal course of business. In the opinion of management, an adverse outcome to any of this litigation would not have a material effect on the financial condition of the Company.

14. Segment Information

The Company operates in one industry segment, providing IT professional services to its clients. The services provided typically encompass the IT business solution life cycle, including phases for planning, development and implementation, and managing and maintaining the IT solution. All of the Company's revenues are generated from these services. Additionally, the Company believes its business units have similar economic characteristics and meet the aggregation criteria of FAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." CTG's two reportable segments are based on geographical areas, which is consistent with prior years and prior to the adoption of FAS No. 131.

The accounting policies of the individual segments are the same as those described in Note 1, "Summary of Significant Accounting Policies." CTG evaluates the performance of its segments at the operating income level.

Corporate and other identifiable assets consist principally of cash and temporary cash investments and other assets.

(amounts in thousands)

Financial Information Relating to Domestic and Foreign Operations	2000	1999	1998
Revenue			
North America	**$ 284,169**	$ 391,496	$ 394,609
Europe	**61,507**	80,512	73,229
Total Revenue	**$ 345,676**	$ 472,008	$ 467,838
Depreciation and Amortization			
North America	**$ 7,300**	$ 5,801	$ 2,404
Europe	**834**	1,004	848
Corporate and Other	**1,562**	1,675	1,750
Total Depreciation and Amortization	**$ 9,696**	$ 8,480	$ 5,002
Operating Income (loss)			
North America	**$ 8,127**	$ 36,434	$ 46,427
Europe	**2,410**	9,860	8,243
Corporate and Other	**(16,182)**	(15,461)	(14,819)
Total Operating Income (loss)	**$ (5,645)**	$ 30,833	$ 39,851
Identifiable Assets			
North America	**$ 133,841**	$ 154,951	$ 67,128
Europe	**15,947**	22,736	22,999
Corporate and Other	**12,579**	21,472	66,682
Total Identifiable Assets	**$ 162,367**	$ 199,159	$ 156,809
Capital Expenditures			
North America	**$ 2,914**	$ 2,295	$ 2,591
Europe	**693**	1,038	1,158
Corporate and Other	**1,445**	1,176	1,308
Total Capital Expenditures	**$ 5,052**	$ 4,509	$ 5,057

15. Quarterly Financial Data (Unaudited)

(amounts in thousands, except per share data)

Quarters	First	Second	Third	Fourth	Total
2000					
Revenue	$ 95,995	$ 86,468	$ 79,842	$ 83,371	**$ 345,676**
Direct costs	69,516	61,501	55,190	58,121	**244,328**
Gross profit	26,479	24,967	24,652	25,250	**101,348**
Selling, general, and administrative expenses	33,572	27,169	22,092	24,160	**106,993**
Operating income (loss)	(7,093)	(2,202)	2,560	1,090	**(5,645) ***
Net interest and other expense	(782)	(674)	(766)	(812)	**(3,034)**
Income (loss) before income taxes	(7,875)	(2,876)	1,794	278	**(8,679) ***
Net income (loss)	$ (4,771)	$ (852)	$ (209)	$ 171	**$ (5,661) ***
Basic net income (loss) per share	$ (0.30)	$ (0.05)	$ (0.01)	$ 0.01	**$ (0.35) ***
Diluted net income (loss) per share	$ (.29)	$ (0.05)	$ (0.01)	$ 0.01	**$ (0.35) ***

Quarters	First	Second	Third	Fourth	Total
1999					
Revenue	$ 116,618	$ 125,464	$ 114,526	$ 115,400	**$ 472,008**
Direct costs	78,197	82,672	75,429	80,006	**316,304**
Gross profit	38,421	42,792	39,097	35,394	**155,704**
Selling, general, and administrative expenses	30,405	31,052	31,969	31,445	**124,871**
Operating income	8,016 **	11,740	7,128	3,949	**30,833**
Net interest and other income (expense)	180	(644)	(584)	79	**(969)**
Income before income taxes	8,196 **	11,096	6,544	4,028	**29,864**
Net income	$ 4,699 **	$ 6,317	$ 3,530	$ 2,155	**$ 16,701**
Basic net income per share	$ 0.29 **	$ 0.38	$ 0.21	$ 0.13	**$ 1.02**
Diluted net income per share	$ 0.28 **	$ 0.38	$ 0.21	$ 0.13	**$ 1.00**

* Includes the net expense of a restructuring charge which increased operating loss and loss before income taxes by $4.2 million, net loss by $3.0 million, and basic and diluted net loss per share by $0.18

** Includes the expense of a non-recurring arbitration award which lowered operating income and income before income taxes by $2.5 million, net income by $1.5 million, and basic and diluted net income per share by $0.09

Corporate Information

Stock Market Information	High	Low
Year ended December 31, 2000		
First Quarter	$ 20	$ 10
Second Quarter	$ 11	$ 4 $^{3}/_{4}$
Third Quarter	$ 7 $^{3}/_{4}$	$ 3
Fourth Quarter	$ 6 $^{3}/_{8}$	$ 2 $^{11}/_{16}$
Year ended December 31, 1999		
First Quarter	$ 29 $^{1}/_{2}$	$ 16 $^{1}/_{16}$
Second Quarter	$ 21 $^{7}/_{8}$	$ 15 $^{3}/_{8}$
Third Quarter	$ 18 $^{1}/_{4}$	$ 13 $^{1}/_{8}$
Fourth Quarter	$ 15 $^{13}/_{16}$	$ 12 $^{5}/_{16}$

The Company's common shares are traded on the New York Stock Exchange under the symbol CTG, commonly abbreviated Cptr Task. The shares are listed on the Amsterdam Stock Exchange and are traded by means of the Amsterdam Security Account System (ASAS).

On February 9, 2001, there were 3,362 record holders of the Company's common shares. The Company paid an annual cash dividend of $.05 per share from 1993 to 2000 and, prior to that, had paid $.025 per share annually since 1976 plus a 10 percent share dividend in 1980. The Company expects to continue to pay cash dividends subject to the availability of earnings, the financial condition of the Company, and other relevant factors at the time.

Annual Meeting

The annual meeting of shareholders has been scheduled for May 9, 2001 in Buffalo, New York, for shareholders of record on March 14, 2001.

Form 10-K Available

Copies of the Company's Form 10-K Annual Report, which is filed with the Securities and Exchange Commission, may be obtained without charge upon written or verbal request to:

Computer Task Group, Incorporated
Investor Relations Department
800 Delaware Avenue
Buffalo, NY 14209-2094
(716) 887-7400

Transfer Agent and Registrar

EquiServe

Our Transfer Agent is responsible for our shareholder records, issuance of stock certificates, and distribution of our dividends and the IRS Form 1099. Your requests, as shareholders, concerning these matters are most efficiently answered by corresponding directly with EquiServe:

Fleet National Bank
c/o EquiServe, L.P.
P.O. Box 43010
Providence, Rhode Island 02940-3010

(781) 575-3170 (MA residents)
(800) 730-4001
(781) 828-8813 (fax)
www.equiserve.com

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Buffalo, NY 14202

CTG Officers

Alex P. Alexander
Vice President and Chief Information Officer

Henri R. Bersoux
Vice President, E-Staffing

James R. Boldt
Executive Vice President; Chief Financial Officer; and Vice President, Strategic Staffing Services

J. Lawrence Cody
Vice President, Global Practices

Anthony K. Connor
Vice President and General Manager, North America

Stephen D'Anna
Vice President, Delivery, North America

Valerie J. DeBerry
Vice President, Human Resources

Filip J.L. Gydé
Vice President and General Manager, CTG Europe

Joel I. Ivers
Chief Marketing Officer

Darrell L. Jennings
Chairman, President, and Chief Executive Officer

Richard F. Kohler, Jr.
Vice President, Sales, North America

Thomas J. Niehaus
Vice President and General Manager, CTG HealthCare Solutions

John R. Poncy
Vice President, Eastern Region, Strategic Staffing Services

Peter P. Radetich
Vice President, Secretary, and General Counsel

Rick N. Sullivan
Vice President, Western Region, Strategic Staffing Services

CTG Board of Directors

George B. Beitzel
Retired Senior Vice President and Director of IBM

Richard L. Crandall
Managing Director of Arbor Partners LLC; Retired Chairman and Chief Executive Officer of Comshare, Inc.

R. Keith Elliott
Retired Chairman and Chief Executive Officer of Hercules Incorporated

Gale S. Fitzgerald
Former Chairman and Chief Executive Officer of CTG

Darrell L. Jennings
Chairman, President, and Chief Executive Officer of CTG

Randolph A. Marks
Co-Founder and former Chairman, President, and Chief Executive Officer of CTG; Retired Chairman of American Brass Company

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