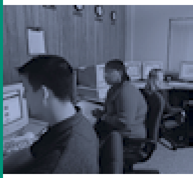

Annual Report
2001

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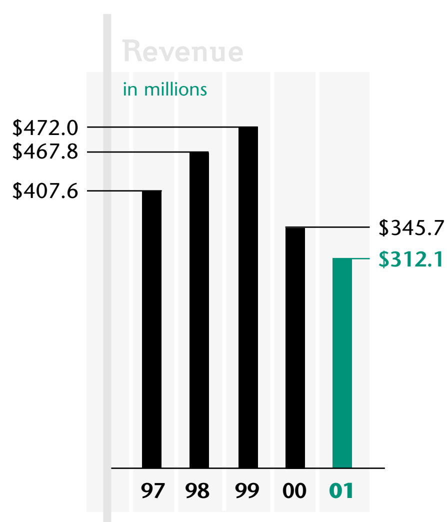
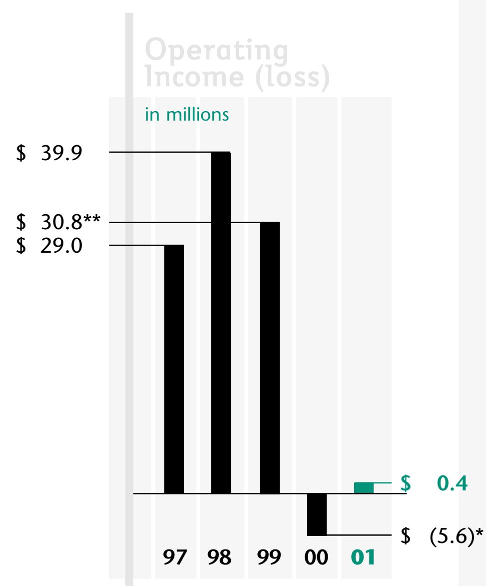
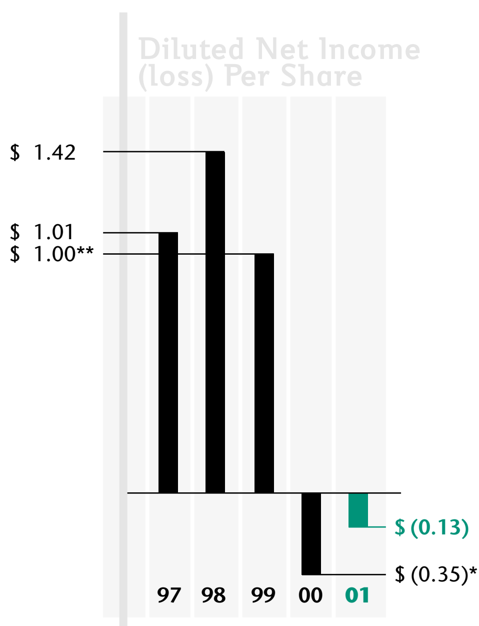
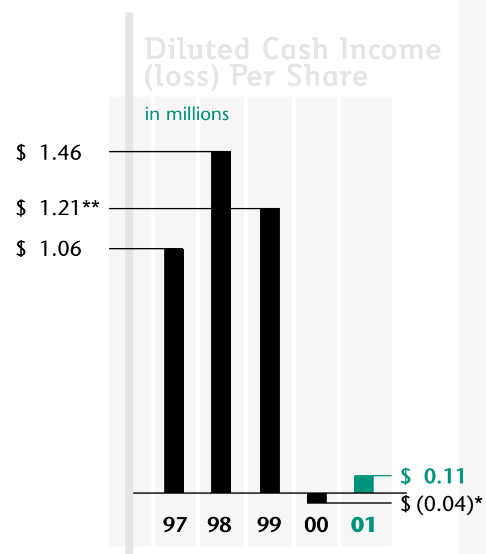








* Includes the net expense of a restructuring charge, which increased operating loss by $4.2 million and diluted net loss per share and diluted cash loss per share by $0.18

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

Consolidated Summary –

Five-Year Selected Financial Information

Consolidated Summary (amounts in millions, except per share data)	2001	2000	1999	1998	1997
Operating Data					
Revenue	$ 312.1	$ 345.7	$ 472.0	$ 467.8	$ 407.6
Operating income (loss)	$ 0.4	$ (5.6)*	$ 30.8**	$ 39.9	$ 29.0
Income (loss) before income taxes	$ (3.3)	$ (8.7)*	$ 29.9**	$ 40.8	$ 30.3
Net income (loss)	$ (2.2)	$ (5.7)*	$ 16.7**	$ 24.0	$ 17.9
Basic net income (loss) per share	$ (0.13)	$ (0.35)*	$ 1.02**	$ 1.48	$ 1.07
Diluted net income (loss) per share	$ (0.13)	$ (0.35)*	$ 1.00**	$ 1.42	$ 1.01
Cash dividend per share	$ –	$ 0.05	$ 0.05	$ 0.05	$ 0.05
Financial Position					
Working capital	$ 20.3	$ 12.5	$ 35.2	$ 74.9	$ 47.1
Total assets	$ 149.8	$ 162.4	$ 199.2	$ 156.8	$ 107.7
Long-term debt	$ 15.5	$ 9.7	$ 31.4	$ –	$ –
Shareholders' equity	$ 86.6	$ 88.8	$ 94.9	$ 83.4	$ 55.3

* 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 percentage information calculated as a percentage of consolidated revenues.

Year ended December 31, (percentage of revenue)	2001	2000	1999
Revenue	100.0 %	100.0 %	100.0 %
Direct costs	70.6 %	70.7 %	67.0 %
Selling, general, and administrative expenses, less restructuring charge in 2000 and non-recurring charge in 1999	29.3 %	29.7 %	26.0 %
Restructuring/ Non-recurring charge	0.0 %	1.2 %	0.5 %
Operating income (loss)	0.1 %	(1.6)%	6.5 %
Interest and other expense, net	(1.2)%	(0.9)%	(0.2)%
Income (loss) before income taxes	(1.1)%	(2.5)%	6.3 %
Provision (benefit) for income taxes	(0.4)%	(0.9)%	2.8 %
Net income (loss)	(0.7)%	(1.6)%	3.5 %

2001 as compared to 2000

In 2001, CTG recorded revenue of $312.1 million, a decrease of 9.7 percent when compared to 2000 revenue of $345.7 million. North American revenue decreased by $18.6 million or 6.5 percent during the year, while revenue from European operations decreased by $15.0 million or 24.4 percent. In 2001, European revenues were 14.9 percent of total Company revenues.

The companywide decrease in revenue in 2001 from 2000 is primarily due to the continued economic slowdown throughout 2001, which negatively affected the purchase of IT services by companies worldwide. Additionally, the year-over-year decline is due to a helpdesk contract in Europe that ended in the second quarter of 2000.

The 2000-to-2001 year-to-year revenue decline rate was slightly impacted by the strengthening of the U.S. dollar as compared to the currencies of the Netherlands, Belgium, the United Kingdom, and Luxembourg, the countries in which the Company's European subsidiaries operate. If there had been no change in these foreign currency exchange rates from 2000 to 2001, total consolidated revenues would have been $1.8 million higher in 2001, resulting in a year-to-year consolidated revenue decline of 9.2 percent. This additional $1.8 million increase in European revenue would have decreased the European revenue decline to 21.5 percent.

In November 2000, the Company signed a contract with IBM for three years as one of IBM's national technical service providers for the United States. This contract covered 93 percent of the total services provided to IBM by the Company in 2001. In 2001, IBM continued to be the Company's largest customer, accounting for $77.2 million or 24.7 percent of total revenue as compared to $95.3 million or 27.6 percent of 2000 revenue. Although revenues from IBM have been constrained in 2001, CTG expects to continue to derive a significant portion of its revenue from IBM in 2002 and future years. While the decline in revenue from IBM has had a negative 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 diversity of the projects performed for IBM and the number of locations and divisions involved.

Direct costs, defined as costs for billable staff, were 70.6 percent of revenue in 2001 compared to 70.7 percent of revenue in 2000. Although revenue declined during 2001, the Company was able to maintain its direct costs to revenue percentage from 2000 primarily due to maintaining the utilization of its billable employees.

Selling, general, and administrative expenses were 29.3 percent of revenue in 2001 compared to 29.7 percent of revenue in 2000. While actual selling, general, and administrative expenses decreased year over year by $11.5 million or 11.2 percent, the decrease as a percentage of revenue from 2000 to 2001 was nominal due to the revenue decline discussed above. The Company was able to reduce expenses in 2001 by implementing reductions to better align the Company's cost structure with current revenue levels.

During 2000, the Company recorded a net pre-tax restructuring charge of $4.2 million. On an after-tax basis, the charge totaled $3.0 million or $0.18 per diluted share. The restructuring plan was completed by the end of March 2001. There was no restructuring charge in 2001.

Operating income (loss) was 0.1 percent of revenue in 2001 compared to (1.6) percent of revenue in 2000. Without the restructuring charge in 2000, the operating loss would have been (0.4) percent of revenue. The year-over-year increase in operating income as a percentage of revenue is primarily due to implementing the expense reductions noted above. Operating income from North American and Corporate operations increased by $11.2 million from 2000 to 2001. European operations recorded an operating loss of $(2.7) million in 2001 as compared to operating income of $2.4 million in 2000.

Interest and other expense, net was (1.2) percent of revenue for 2001 and (0.9) percent in 2000. The increase as a percentage of revenue is due to an increase in interest expense related to outstanding long-term debt and the revenue decline discussed above.

The loss before income taxes was (1.1) percent of revenue in 2001 compared to (2.5) percent of revenue in 2000. Without the restructuring charge in 2000, the loss before income taxes would have been (1.3) percent of revenue. The benefit for income taxes calculated as a percentage of loss before income taxes was (32.9) percent in 2001 and (34.8) percent in 2000.

Net loss for 2001 was (0.7) percent of revenue, or $(0.13) basic and diluted loss per share, compared to (1.6) percent of revenue or $(0.35) basic and diluted loss per share in 2000. Earnings per share was calculated using 16.4 million (basic and diluted earnings per share) and 16.2 million (basic and diluted earnings per share) equivalent shares outstanding in 2001 and 2000, respectively.

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.

In July 2001, the Financial Accounting Standards Board (FASB) issued Financial Accounting Standard (FAS) No. 141, "Business Combinations," and FAS No. 142, "Goodwill and Other Intangible Assets." These standards make significant changes to the accounting for business combinations, goodwill, and intangible assets. FAS No. 141 eliminates the pooling-of-interests method of accounting for business combinations with limited exceptions for combinations initiated prior to July 1, 2001. In addition, it clarifies the criteria for recognition of intangible assets apart from goodwill. This standard is effective for business combinations completed after June 30, 2001.

FAS No. 142 discontinues the practice of amortizing goodwill and indefinite-lived intangible assets and initiates a review, at least annually, for impairment. Intangible assets with a determinable useful life will continue to be amortized over their useful lives. FAS No. 142 applies to existing goodwill and intangible assets, and such assets acquired after June 30, 2001.

FAS No. 142 is effective for fiscal years beginning after December 15, 2001. Accordingly, the Company adopted this standard effective January 1, 2002, and will no longer amortize its existing goodwill and indefinite-lived intangible assets after that date. The Company is currently in the process of evaluating the impact of the adoption of FAS No. 142 on its existing goodwill and indefinite-lived intangible asset balances, and has not yet determined the effect of adoption of the standard relative to those balances on its financial position and results of operations.

In August 2001, the FASB issued FAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which addresses the accounting and reporting for the impairment

or disposal of long-lived assets. The provisions of the standard are effective for the Company beginning on January 1, 2002. The Company is currently in the process of evaluating the impact, if any, that the adoption of this standard will have on its financial position and results of operations.

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 was primarily due to the completion of year 2000-related services in 1999 and continued softness in the Euro currency throughout 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 in 2000, 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. Revenues from IBM were constrained in 2000 and continued to be constrained in 2001.

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 was 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. On an after-tax basis, the restructuring charge equaled $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 was included in other current liabilities on the consolidated balance sheet. The Company completed its restructuring plan by the end of March 2001.

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 was 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, net 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 and 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 was primarily due to a reduction in the dilutive effect of outstanding stock options.

Financial Condition and Liquidity

Cash used in operating activities was $(1.0) million in 2001. Net loss totaled $(2.2) million, and non-cash adjustments, primarily consisting of depreciation expense, amortization expense, deferred taxes, and deferred compensation credits, totaled $10.3 million. Accounts receivable decreased $5.8 million or 10 percent due to the year-over-year decrease in revenue, offset by slower accounts receivable turnover. Accounts payable decreased $4.1 million due to the timing of payments at year-end 2001 as compared to year-end 2000. Accrued compensation decreased $1.8 million due to a decrease in the total number of employees year over year. Other current liabilities decreased $4.8 million due to timing of payments during 2001 as compared to 2000. At December 31, 2001, the Company's current ratio was 1.5 to 1.

Net property and equipment decreased $0.7 million. Additions to property and equipment were $4.2 million, offset by depreciation of $4.6 million and foreign currency translation adjustments of $0.3 million. The Company had no material commitments for capital expenditures at December 31, 2001.

During 2001, the Company entered into a new revolving credit agreement with its bank group, due in 2003, having an initial aggregate borrowing limit of $50 million. The new agreement's aggregate borrowing limit was increased to approximately $65 million during 2001 as the Company achieved certain financial conditions. At December 31, 2001, there was $15.2 million outstanding under this agreement and a total of $15.5 million in long-term indebtedness.

During 2000, the Company received $0.5 million from employees for 142,000 shares of stock purchased under the Employee Stock Purchase Plan, and the Company also received $0.1 million for the exercise of 28,000 stock options.

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, 2001, approximately 3.2 million shares have been repurchased under the authorizations, leaving 0.2 million shares remaining authorized for future purchases. No share purchases under these authorizations were made in 2001.

At December 31, 2001, consolidated shareholders' equity totaled $86.6 million, which is a decrease of $2.2 million or 2.5 percent from December 31, 2000. The decrease is primarily due to the 2001 net loss of $(2.2) million.

The Company believes existing internally available funds, cash potentially generated by operations, and available borrowings under the Company's revolving credit agreement totaling $49.7 million at December 31, 2001 will be sufficient to meet foreseeable working capital, capital expenditure, and possible stock repurchase requirements, and will 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 $15.2 million of borrowings at December 31, 2001 under its revolving credit agreement, which exposes the Company to risk of earnings or cash flow loss due to changes in market interest rates. Based upon average bank borrowings of $29.7 million during 2001, a one percentage point increase or decrease in market interest rates would increase or decrease the Company's interest expense by $297,000. Additionally, as the Company sells its services in North America and Europe, financial results could be negatively affected by weak economic conditions in those markets.

The Company did not have any related party transactions during either 2001 or 2000.

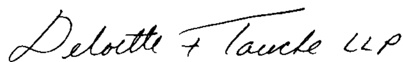
Independent
Auditors' Report

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, 2001 and 2000, 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, 2001. 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, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.



Deloitte & Touche LLP
Buffalo, New York
February 6, 2002

Consolidated
Statements of Operations

Year ended December 31, (amounts in thousands, except per share data)	2001	2000	1999
Revenue	$ 312,130	$ 345,676	$ 472,008
Direct costs	220,378	244,328	316,304
Selling, general, and administrative expenses	91,338	102,836	124,871
Restructuring charge	–	4,157	–
Operating income (loss)	414	(5,645)	30,833
Interest and other income	638	288	1,369
Interest and other expense	(4,335)	(3,322)	(2,338)
Income (loss) before income taxes	(3,283)	(8,679)	29,864
Provision (benefit) for income taxes	(1,081)	(3,018)	13,163
Net income (loss)	$ (2,202)	$ (5,661)	$ 16,701
Net income (loss) per share:			
Basic	$ (0.13)	$ (0.35)	$ 1.02
Diluted	$ (0.13)	$ (0.35)	$ 1.00

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

Consolidated Balance Sheets

December 31, (amounts in thousands, except share balances)	2001	2000
ASSETS		
Current Assets:		
Cash and temporary cash investments	$ 3,362	$ 2,562
Accounts receivable, net of allowances and reserves	51,230	57,968
Prepaids and other	2,958	2,736
Deferred income taxes	1,089	2,799
Total current assets	58,639	66,065
Property and equipment, net of accumulated depreciation and amortization	13,082	13,784
Acquired intangibles, net of accumulated amortization of $17,952 and $14,130, respectively	74,735	78,771
Deferred income taxes	2,660	3,095
Other assets	682	652
Total assets	$ 149,798	$ 162,367
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 8,193	$ 12,563
Accrued compensation	24,133	26,121
Income taxes payable	–	3,806
Advance billings on contracts	471	642
Other current liabilities	5,531	10,389
Total current liabilities	38,328	53,521
Long-term debt	15,512	9,700
Deferred compensation benefits	8,794	9,642
Other long-term liabilities	537	711
Total liabilities	63,171	73,574
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	111,500	111,564
Retained earnings	73,373	75,575
Less: Treasury stock of 6,147,810 and 6,146,759 shares at cost, respectively	(31,410)	(31,404)
Stock Trusts of 4,338,000 and 4,507,903 shares at cost, respectively	(59,239)	(59,964)
Accumulated other comprehensive income:		
Foreign currency adjustment	(7,284)	(6,406)
Minimum pension liability adjustment	(583)	(842)
Accumulated other comprehensive income	(7,867)	(7,248)
Total shareholders' equity	86,627	88,793
Total liabilities and shareholders' equity	$ 149,798	$ 162,367

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

Consolidated
Statements of Cash Flows

Year ended December 31, (amounts in thousands)	2001	2000	1999
Cash flows from operating activities:			
Net income (loss)	$ (2,202)	$ (5,661)	$ 16,701
Adjustments:			
Depreciation expense	4,638	4,607	5,009
Amortization expense	3,975	5,089	3,471
Tax benefit on stock option exercises	27	68	174
Deferred income taxes	2,145	832	(1,988)
Loss on sales or disposals of assets	80	43	23
Deferred compensation expense (forfeitures)	(589)	(280)	797
Changes in assets and liabilities, net of assets acquired and liabilities assumed:			
Decrease in accounts receivable	5,841	21,226	837
(Increase) decrease in prepaids and other	(104)	(44)	984
(Increase) decrease in other assets	(30)	12	319
Increase (decrease) in accounts payable	(4,147)	3,171	(4,356)
Decrease in accrued compensation	(1,778)	(2,529)	(3,647)
Increase (decrease) in income taxes payable	(3,769)	(6,545)	1,638
Increase (decrease) in advance billings on contracts	(171)	(119)	377
Increase (decrease) in other current liabilities	(4,752)	(1,650)	1,681
Decrease in other long-term liabilities	(174)	(74)	(39)
Net cash provided by (used in) operating activities	(1,010)	18,146	21,981
Cash flows from investing activities:			
Acquisition, net of cash acquired	–	–	(86,775)
Additions to property and equipment	(4,204)	(5,052)	(4,509)
Proceeds from sales or disposals of property and equipment	88	30	39
Net cash used in investing activities	(4,116)	(5,022)	(91,245)
Cash flows from financing activities:			
Proceeds from (payments on) long-term revolving debt, net	5,812	(21,680)	31,380
Proceeds from Employee Stock Purchase Plan	510	714	1,094
Purchase of stock for treasury	(6)	(125)	(13)
Purchase of stock by Stock Trusts	–	–	(9,940)
Proceeds from other stock plans	124	1,272	2,124
Dividends paid	–	(810)	(827)
Net cash provided by (used in) financing activities	6,440	(20,629)	23,818
Effect of exchange rate changes on cash and temporary cash investments	(514)	(617)	(1,618)
Net increase (decrease) in cash and temporary cash investments	800	(8,122)	(47,064)
Cash and temporary cash investments at beginning of year	2,562	10,684	57,748
Cash and temporary cash investments at end of year	$ 3,362	$ 2,562	$ 10,684

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

Consolidated

Statements of Changes in Shareholders' Equity

(amounts in thousands, except per share data)	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Retained Earnings
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 - $.05 per share	–	–	–	(810)
Comprehensive income (loss):				
Net loss	–	–	–	(5,661)
Foreign currency adjustment	–	–	–	–
Minimum pension liability adjustment	–	–	–	–
Total comprehensive income (loss)	–	–	–	(5,661)
Balance as of December 31, 2000	27,018	270	111,564	75,575
Employee Stock Purchase Plan share issuance	–	–	**(96)**	–
Stock Option Plan share issuance	–	–	**32**	–
Purchase of stock	–	–	–	–
Comprehensive income (loss):				
Net loss	–	–	–	**(2,202)**
Foreign currency adjustment	–	–	–	–
Minimum pension liability adjustment	–	–	–	–
Total comprehensive income (loss)	–	–	–	**(2,202)**
Balance as of December 31, 2001	**27,018**	**$ 270**	**$111,500**	**$ 73,373**

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

Treasury Stock Shares	Treasury Stock Amount	Stock Trusts Shares	Stock Trusts Amount	Unearned Portion of Restricted Stock	Foreign Currency Adjustment	Minimum Pension Liability Adjustment	Total Shareholders' Equity
6,270	$(31,850)	4,423	$(52,463)	$(69)	$(2,374)	$(2,247)	$83,449
(129)	584	–	–	–	–	–	3,200
–	–	(64)	270	–	–	–	1,094
–	–	(129)	550	–	–	–	1,114
–	–	(65)	277	–	–	–	1,158
1	(13)	658	(9,940)	–	–	–	(9,953)
–	–	–	–	26	–	–	26
–	–	–	–	–	–	–	(827)
–	–	–	–	–	–	16,701	
–	–	–	–	–	(2,412)	–	(2,412)
–	–	–	–	–	–	1,374	1,374
–	–	–	–	–	(2,412)	1,374	15,663
6,142	(31,279)	4,823	(61,306)	(43)	(4,786)	(873)	94,924
–	–	(113)	485	–	–	–	714
–	–	(71)	302	–	–	–	436
–	–	(131)	555	–	–	–	861
5	(125)	–		–	–	–	(125)
–	–	–	–	43	–	–	43
–	–	–	–	–	–	–	(810)
–	–	–	–	–	–	–	(5,661)
–	–	–	–	–	(1,620)	–	(1,620)
–	–	–	–	–	–	31	31
–	–	–	–	–	(1,620)	31	(7,250)
6,147	(31,404)	4,508	(59,964)	–	(6,406)	(842)	88,793
–	–	**(142)**	**606**	–	–	–	**510**
–	–	**(28)**	**119**	–	–	–	**151**
1	**(6)**	–	–	–	–	–	**(6)**
–	–	–	–	–	–	–	**(2,202)**
–	–	–	–	–	**(878)**	–	**(878)**
–	–	–	–	–	–	**259**	**259**
–	–	–	–	–	**(878)**	**259**	**(2,821)**
6,148	**$(31,410)**	**4,338**	**$(59,239)**	**$ –**	**$(7,284)**	**$(583)**	**$86,627**

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 accounting principles generally accepted in the United States of America. 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, developing, implementing, managing, and maintaining the IT solution. Additionally, the Company believes its business units have similar economic characteristics and meet the aggregation criteria of the Financial Accounting Standards Board (FASB) Financial Accounting Standard (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 1 percent of 2001, 2 percent of 2000, and 2 percent of 1999 revenue, respectively. The amount of revenue recorded is a factor of 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. Selling, general, and administrative costs are charged to expense as incurred.

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 $2.4 million and $1.9 million at December 31, 2001 and 2000, respectively, accounts receivable is further reduced by a reserve for projects of $0.5 million at both December 31, 2001 and 2000.

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, 2001 and 2000, the carrying amounts of the Company's financial instruments, which include cash and temporary cash investments, accounts receivable, accounts payable, 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, 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 is reflected in current earnings. Maintenance and repairs are charged to expense when incurred, while significant betterments to existing assets are capitalized.

Acquired Intangibles

Acquired intangibles consist of goodwill and other identifiable intangibles. Amortization expense 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 2001.

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, loss carryforwards, 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, 2001, 2000, and 1999, the tax expense (benefit) associated with the minimum pension liability adjustment was $(0.2) million, $0, and $(0.3) 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 Accounting Principles Board (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.

Derivatives

On January 1, 2001, the Company adopted the provisions of FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and those of FAS No. 137 and FAS No. 138, which deferred the effective date and amended FAS No. 133, respectively. These standards provide accounting and reporting guidelines for derivative investments, included those embedded in other contracts, and for hedging activities. The Company evaluated each of these standards and compared the guidance provided to its current accounting practices, and determined that the adoption of the standards had no effect on the consolidated financial condition and required minimal disclosure by the Company.

Net Income (Loss) Per Share

Basic and diluted earnings per share (EPS) for the years ended December 31, 2001, 2000, and 1999 are as follows:

(amounts in thousands, except per share data)	Net Income (Loss)	Weighted Average Shares	Earnings (Loss) per Share
For the Year Ended December 31, 2001			
Basic EPS	$ (2,202)	16,435	$ (0.13)
Dilutive effect of outstanding stock options	–	–	–
Diluted EPS	$ (2,202)	16,435	$ (0.13)
For the Year Ended December 31, 2000			
Basic EPS	$ (5,661)	16,187	$ (0.35)
Dilutive effect of outstanding stock options	–	–	–
Diluted EPS	$ (5,661)	16,187	$ (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

Weighted average shares represent the average of issued shares less treasury shares and less the shares held in the Stock Trusts. As the Company had a net loss in 2001 and 2000, the dilutive effect of outstanding stock options, totaling 125,000 and 85,000 weighted average shares at December 31, 2001 and 2000, respectively, was not included in the diluted EPS calculations.

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 2001, 2000, and 1999 amounted to $3.9 million, $2.3 million, and $2.0 million, respectively, while net income tax payments totaled $0.7 million, $1.6 million, and $12.9 million for the respective years.

Accounting Standards Pronouncements

In July 2001, the FASB issued FAS No. 141, "Business Combinations," and FAS No. 142, "Goodwill and Other Intangible Assets." These standards make significant changes to the accounting for business combinations, goodwill, and intangible assets. FAS No. 141 eliminates the pooling-of-interests method of accounting for business combinations with limited exceptions for combinations initiated prior to July 1, 2001. In addition, it clarifies the criteria for recognition of intangible assets apart from goodwill. This statement is effective for business combinations completed after June 30, 2001.

FAS No. 142 discontinues the practice of amortizing goodwill and indefinite-lived intangible assets and initiates a review, at least annually, for impairment. Intangible assets with a determinable useful life will continue to be amortized over their useful lives. FAS No. 142 applies to existing goodwill and intangible assets, and such assets acquired after June 30, 2001.

FAS No. 142 is effective for fiscal years beginning after December 15, 2001. Accordingly, the Company adopted this standard effective January 1, 2002, and no longer amortizes its existing goodwill and indefinite-lived intangible assets beginning on that date. The Company is currently evaluating the impact of the adoption of FAS No. 142 on its existing goodwill and indefinite-lived intangible asset balances, and has not yet determined the effect of adoption on its financial position and results of operations.

In August 2001, the FASB issued FAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which addresses the accounting and reporting for the impairment or disposal of long-lived assets. The provisions of the standard are effective for the Company beginning on January 1, 2002. The Company is currently in the process of evaluating the impact, if any, the adoption of this standard will have on its financial position and results of operations.

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. 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 an after-tax basis, the restructuring charge equaled $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 was included in other current liabilities on the consolidated balance sheet. The Company completed its restructuring plan by the end of March 2001.

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 acquisition.

4. Property and Equipment

Property and equipment at December 31, 2001 and 2000 are summarized as follows:

December 31, (amounts in thousands)	2001	2000
Land	$ 886	$ 886
Buildings	6,515	6,515
Equipment	18,747	20,340
Furniture	5,506	5,909
Software	6,995	4,388
Leasehold improvements	2,848	2,530
	41,497	40,568
Less accumulated depreciation	(28,415)	(26,784)
	$13,082	$13,784

At December 31, 2001, 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 2002. Receipts under this lease were approximately $0.3 million in 2001. Subsequent to December 31, 2001, the Company has accepted a purchase offer to sell this building and expects to close the sale in the second quarter of 2002. The Company does not anticipate recording a loss from this sale.

5. Debt

During 2000 and again in early 2001, the revolving line of credit agreement the Company originally entered into in 1999 with a bank group was amended. After the amendments, the resulting agreement reduced the amount of available borrowings to $44.6 million, modified the interest paid under the agreement, adjusted the commitment fee 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.

Subsequently, during the second quarter of 2001, the Company entered into a new revolving credit agreement with the same bank group, due in 2003, having an initial aggregate borrowing limit of $50 million. The borrowing limit increased to approximately $65 million during the 2001 year as the Company achieved certain financial conditions prescribed by the agreement. At December 31, 2001, the aggregate borrowing limit under this agreement was $64.9 million.

The new agreement has interest rates ranging from 75 to 200 basis points over the prime rate and 175 to 300 basis points over Libor, and provides certain of the Company's assets as security for outstanding borrowings. At December 31, 2001 and 2000, there were $15.2 million and $9.7 million outstanding, respectively, under the revolving credit agreements mentioned above. Additionally, at December 31, 2001 and 2000, there were $0.2 million and $4.5 million of outstanding letters of credit, respectively, under these agreements.

At December 31, 2000, the Company also had lines of credit 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 were unsecured and payable upon demand. There were no borrowings under these agreements at December 31, 2000. The Company did not have any lines of credit outside of the revolving credit agreement at December 31, 2001.

The maximum amounts outstanding under the revolving credit agreements during 2001, 2000, and 1999 were $40.0 million, $44.9 million, and $59.0 million, respectively. Average bank borrowings outstanding for the years 2001, 2000, and 1999 were $29.7 million, $32.8 million, and $40.9 million, respectively, and carried weighted average interest rates of 7.54 percent, 7.56 percent, and 5.75 percent, respectively.

The Company owed $0.3 million and $0 at December 31, 2001 and 2000, respectively, under capital lease agreements. The 2001 amount is included in the Company's long-term debt balance at December 31, 2001.

The carrying amount of long-term debt, as determined by a comparison to similar instruments, approximates fair value at December 31, 2001.

6. Income Taxes

The provision (benefit) for income taxes for 2001, 2000, and 1999 consists of the following:

(amounts in thousands)	2001	2000	1999
Domestic and foreign components of income (loss) before income taxes are as follows:			
Domestic	$ 162	$ (8,766)	$21,168
Foreign	(3,445)	87	8,696
	$ (3,283)	$ (8,679)	$29,864
The provision (benefit) for income taxes consists of:			
Current Tax:			
U.S. Federal	$ (1,388)	$ (4,131)	$ 8,359
Foreign	(2,657)	14	3,631
U.S. State and Local	819	290	2,194
	(3,226)	(3,827)	14,184
Deferred Tax:			
U.S. Federal	1,837	763	(836)
U.S. State and Local	308	46	(185)
	2,145	809	(1,021)
	$ (1,081)	$ (3,018)	$13,163
The effective and statutory income tax rate can be reconciled as follows:			
Tax at statutory rate of 34%	$ (1,116)	$ (2,951)	$10,153
Rate differential	–	(86)	299
State tax, net of federal benefits	541	161	1,224
Expenses for which no tax benefit is available	1,097	2,095	1,579
Change in estimate of non-deductible expenses	(1,642)	(2,187)	–
Other, net	39	(50)	(92)
	$ (1,081)	$ (3,018)	$13,163
Effective income tax rate	(32.9%)	(34.8%)	44.1%

The change in estimate of non-deductible expenses in 2001 and 2000 includes adjustments to the Company's tax accruals due to the favorable resolution of both domestic and foreign tax audits that had previously been in process.

The Company's deferred tax assets and liabilities at December 31, 2001 and 2000 consist of the following:

December 31, (amounts in thousands)	2001	2000
Assets		
Deferred compensation	$ 3,161	$ 3,461
Loss carryforwards	721	88
Accruals deductible for tax purposes when paid	537	2,443
Allowance for doubtful accounts	694	565
Other, net	–	138
Gross deferred tax assets	5,113	6,695
Liabilities		
Depreciation	524	568
Amortization	241	233
Other, net	599	–
Gross deferred tax liabilities	1,364	801
Deferred tax assets valuation allowance	–	–
Net deferred tax assets	$ 3,749	$ 5,894
Net deferred assets and liabilities are recorded at December 31, 2001 and 2000 as follows:		
Net current assets	$ 1,089	$ 2,799
Net non-current assets	2,660	3,095
Net deferred tax assets	$ 3,749	$ 5,894

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, 2001. Accordingly, no valuation allowance is required.

Undistributed earnings of the Company's foreign subsidiaries were minimal at December 31, 2001, 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 2001, 2000, and 1999, 26,000, 62,000, and 264,900 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 $27,000, $68,000, and $1.4 million in 2001, 2000, and 1999, 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, 2001, 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)	
2002	$ 7,550
2003	6,504
2004	4,409
2005	1,016
2006	479
Later years	808
Minimum future obligations	$20,766

The operating lease obligations relate to the rental of office space, office equipment, and automobiles. Total rental expense under such operating leases for 2001, 2000, and 1999 was approximately $9.6 million, $10.7 million, and $11.0 million, respectively.

8. 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 2001, 2000, and 1999 for the ESBP is as follows:

Net Periodic Pension Cost - ESBP (amounts in thousands)	2001	2000	1999
Interest cost	$ 692	$ 675	$ 641
Amortization of unrecognized net loss	30	35	85
Net periodic pension cost	$ 722	$ 710	$ 726

The Company also maintains a defined benefit plan for its employees located in the Netherlands (NDBP). Benefits paid are a function of a percentage of career average pay.

Net periodic pension cost for 2001 and 2000 for the NDBP is as follows:

Net Periodic Pension Cost - NDBP (amounts in thousands)	2001	2000
Service cost	$ 228	$ 466
Interest cost	160	224
Expected return on plan assets	(189)	(220)
Amortization of actuarial loss	–	117
Net periodic pension cost	199	587
Employee contributions	149	364
Net retirement cost	$ 50	$ 223

The change in benefit obligation and reconciliation of fair value of plan assets for 2001 and 2000 for the ESBP and for the NDBP is as follows:

Change in Benefit Obligation (amounts in thousands)	ESBP 2001	ESBP 2000	NDBP 2001	NDBP 2000
Benefit obligation at beginning of year	$ 9,443	$ 9,220	$ 3,995	$ 4,421
Service cost, net	–	–	79	102
Interest cost	692	675	160	224
Amortization of unrecognized net loss	30	35	–	–
Employee contributions	–	–	149	364
Curtailment	–	–	–	(110)
Benefits paid	(1,073)	(435)	(6)	(9)
Adjustment to minimum liability	(432)	(52)	–	–
Actuarial (gain) loss	–	–	128	(876)
Effect of exchange rate changes	–	–	–	(121)
Benefit obligation at end of period	8,660	9,443	4,505	3,995
Reconciliation of fair value of plan assets				
Fair value of plan assets at beginning of year	–	–	3,646	2,972
Expected return on plan assets	–	–	189	220
Employer contributions	–	–	(149)	188
Employee contributions	–	–	149	364
Benefits paid	–	–	(6)	(9)
Unrecognized net gain (loss)	–	–	(186)	22
Effect of exchange rate changes	–	–	–	(111)
Fair value of plan assets at end of year	–	–	3,643	3,646
Funded status	8,660	9,443	862	349
Unrecognized net actuarial loss	(971)	(1,403)	(558)	(252)
Accrued benefit cost	$ 7,689	$ 8,040	$ 304	$ 97
Weighted average discount rate	7.00%	7.50%	5.00%	5.34%
Salary increase rate	–	–	4.00%	4.00%
Expected return on plan assets	–	–	5.50%	6.50%

For the ESBP, 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 also maintains a non-qualified defined-contribution deferred compensation plan for certain key executives. The Company contributions to this plan, $0 in both 2001 and 2000, and $71,000 in 1999, 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, which are discretionary, may consist of cash and the Company's stock, and were funded and charged to operations in the amounts of $1.9 million, $2.6 million, and $3.5 million for 2001, 2000, and 1999, respectively.

Other Retirement Plans

The Company maintains various retirement plans other than the NDBP discussed in Note 8. above, covering substantially all of the remaining European employees. Company contributions charged to operations were $0.2 million in 2001, and $0.1 million in both 2000 and 1999.

Other Postretirement Benefits

The Company provides limited healthcare and life insurance benefits to nine retired employees and their spouses, totaling 14 participants, pursuant to contractual agreements.

Net periodic postretirement benefit cost for 2001, 2000, and 1999 is as follows:

Net Periodic Postretirement Benefit Cost (amounts in thousands)	2001	2000	1999
Interest cost	$ 17	$ 35	$ 35
Amortization of transition amount	29	29	29
Amortization of gain	(33)	(10)	(6)
Net periodic postretirement benefit cost	$ 13	$ 54	$ 58

The change in postretirement benefit obligation at December 31, 2001 and 2000 is as follows:

Change in Postretirement Benefit Obligation (amounts in thousands)	2001	2000
Postretirement benefit obligation at beginning of year	$ 237	$ 500
Interest cost	17	35
Amortization of transition amount	29	29
Benefits paid	(42)	(28)
Amortization of gain	(33)	(10)
Adjustment to unrecognized transition obligation	(29)	(29)
Adjustment to unrecognized gain	239	(260)
Postretirement benefit obligation at end of year	418	237
Fair value of plan assets at end of year	–	–
Funded status	418	237
Unrecognized transition obligation	(322)	(351)
Unrecognized gain	213	452
Accrued postretirement benefit cost	$ 309	$ 338
Weighted average discount rate	7.00 %	7.50 %
Salary increase rate	–	–

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

The rate of increase in healthcare costs is assumed to be 10 percent for medical and 8 percent for dental in 2002, gradually declining to 5 percent by the year 2007 and remaining at that level thereafter. Increasing the assumed healthcare cost trend rate by one percentage point would increase the accumulated postretirement benefit obligation by $29,000 at December 31, 2001, and the net periodic cost by $1,000 for the year. A one-percentage-point decrease in the healthcare cost trend would decrease the accumulated postretirement benefit obligation by $26,000 at December 31, 2001, and the net periodic pension by $1,000 for the year.

10. Shareholders' Equity

Employee Stock Purchase Plan

Under the Company's First Employee Stock Purchase Plan (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. During 2001, an additional 0.5 million shares were authorized under the Plan. As of December 31, 2001, 422,000 shares remain unissued under the Plan, of the total of 11.5 million shares that had been authorized under the Plan. During 2001, 2000, and 1999, 142,000, 113,000, and 64,000 shares, respectively, were purchased under the plan at an average price of $3.59, $6.29, and $17.30 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 2001 and 2000, 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, 2001, all shares remaining in the SECT were unallocated and, therefore, are not considered outstanding for purposes of calculating earnings per share.

SECT activity for 2001, 2000, and 1999 is as follows:

(amounts in thousands)	2001	2000	1999
Share balance at beginning of year	4,449	4,764	4,423
Shares purchased	–	–	599
Shares released:			
Stock option plans	(28)	(71)	(129)
Employee Stock Purchase Plan	(142)	(113)	(64)
Other stock plans	–	(131)	(65)
Share balance at end of year	4,279	4,449	4,764

During 1999, shares were purchased by the SECT at an average price of $14.92. No shares were purchased during 2001 or 2000.

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 for $1 million. Shares are released from the OST by the trustee at the request of

the compensation committee of the Board of Directors. During 2001 and 2000, no shares were purchased by the trust, and no shares were released from the trust in 2001, 2000, or 1999.

Restricted Stock Plan

Under the Company's Restricted Stock Plan, 800,000 shares of restricted stock may be granted to certain key employees. During 2000, all outstanding restricted stock grants were canceled.

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 20 or 25 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-option weighted-average fair value on the date of grant of stock options granted in 2001, 2000, and 1999, using the Black-Scholes option pricing model, was $2.17, $3.72, and $10.77, respectively. The fair value of the options at the date of grant was estimated with the following weighted-average assumptions:

	2001	2000	1999
Expected life (years)	4.0	4.0	5.4
Dividend yield	0.0%	1.0%	0.2%
Risk-free interest rate	4.4%	6.1%	5.0%
Expected volatility	70.9%	58.5%	47.8%

The Company applies APB Opinion No. 25 in accounting for its stock option plans. 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 FAS 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 below:

(amounts in thousands, except per share data)		2001	2000	1999
Net income (loss)	As reported	$ (2,202)	$ (5,661)	$ 16,701
	Pro forma	$ (4,551)	$ (8,725)	$ 14,525
Basic earnings (loss) per share	As reported	$ (0.13)	$ (0.35)	$ 1.02
	Pro forma	$ (0.28)	$ (0.54)	$ 0.89
Diluted earnings (loss) per share	As reported	$ (0.13)	$ (0.35)	$ 1.00
	Pro forma	$ (0.28)	$ (0.54)	$ 0.87

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:

(amounts in thousands, except per share data)	Equity Plan Options	Weighted-Average Exercise Price	1991 Plan Options	Weighted-Average Exercise Price
Outstanding at December 31, 1998	–	–	1,946,326	$ 17.54
Granted	–	–	132,750	$ 23.13
Exercised	–	–	(127,025)	$ 7.33
Canceled, expired, and forfeited	–	–	(94,500)	$ 22.24
Outstanding at December 31, 1999	–	–	1,857,551	$ 18.48
Granted	265,000	$ 4.10	1,222,500	$ 8.62
Exercised	–	–	(70,576)	$ 5.19
Canceled, expired, and forfeited	–	–	(867,350)	$ 17.73
Outstanding at December 31, 2000	265,000	$ 4.10	2,142,125	$ 13.59
Granted	1,298,000	$ 3.53	226,000	$ 5.94
Exercised	–	–	(27,450)	$ 4.43
Canceled, expired, and forfeited	(266,000)	$ 4.87	(676,250)	$ 10.09
Outstanding at December 31, 2001	**1,297,000**	**$ 3.38**	**1,664,425**	**$ 14.13**

At December 31, 2001 and 2000, the number of options exercisable under the Equity Plan was 64,000 and 0, respectively, and the weighted average exercise price of those options was $3.16 and $0, respectively. At December 31, 2001 and 2000, the number of options exercisable under the 1991 Plan was 933,988 and 873,535, respectively, and the weighted average exercise price of those options was $18.14 and $18.44, respectively.

The Company previously had a 1981 Stock Option Plan. At December 31, 2001 and 2000, the number of options exercisable under the 1981 Plan was 0 and 500, respectively, and the weighted average exercise price of those options was $0 and $5.31, respectively. The 500 options exercisable at December 31, 2000 were exercised during 2001.

A summary of the range of exercise prices and the weighted average remaining contractual life of outstanding options at December 31, 2001 for the Equity and 1991 Plans is as follows:

	Range of Exercise Prices	Options Outstanding at December 31, 2001	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Equity Plan	$ 1.40 to $ 1.96	280,000	$ 1.60	9.2
	$ 2.35 to $ 3.08	680,000	$ 2.83	11.3
	$ 5.70 to $ 7.49	337,000	$ 5.96	9.9
1991 Plan	$ 2.88 to $ 3.75	249,875	$ 2.88	7.3
	$ 4.38 to $ 6.13	351,750	$ 5.88	10.3
	$ 8.00 to $ 9.44	43,200	$ 9.17	3.8
	$ 12.50 to $18.44	524,250	$ 15.75	5.6
	$ 21.81 to $30.31	480,350	$ 23.98	5.9
	$ 37.19	15,000	$ 37.19	8.0

At December 31, 2001, there were 703,000 and 0 shares available for grant under the Equity Plan and 1991 Plan, respectively.

During 2001 and 2000, the Company received stock for treasury valued at $6,000 and $125,000, 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 $77.2 million or 24.7 percent, $95.3 million or 27.6 percent, and $128.9 million or 27.3 percent of consolidated 2001, 2000, and 1999 revenue, respectively. The Company's accounts receivable from IBM at December 31, 2001 and 2000 amounted to $17.7 million and $15.9 million, respectively. No other customer accounted for more than 10 percent of revenue in 2001, 2000, or 1999.

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, developing, implementing, 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.

Financial Information Relating to Domestic and Foreign Operations (amounts in thousands)	2001	2000	1999
Revenue			
North America	$ 265,641	$ 284,169	$ 391,496
Europe	46,489	61,507	80,512
Total Revenue	$ 312,130	$ 345,676	$ 472,008
Depreciation and Amortization			
North America	$ 6,052	$ 7,300	$ 5,801
Europe	1,076	834	1,004
Corporate and Other	1,485	1,562	1,675
Total Depreciation and Amortization	$ 8,613	$ 9,696	$ 8,480
Operating Income (loss)			
North America	$ 15,947	$ 8,127	$ 36,434
Europe	(2,728)	2,410	9,860
Corporate and Other	(12,805)	(16,182)	(15,461)
Total Operating Income (loss)	$ 414	$ (5,645)	$ 30,833
Identifiable Assets			
North America	$ 127,537	$ 133,841	$ 154,951
Europe	10,958	15,947	22,736
Corporate and Other	11,303	12,579	21,472
Total Identifiable Assets	$ 149,798	$ 162,367	$ 199,159
Capital Expenditures			
North America	$ 2,065	$ 2,914	$ 2,295
Europe	710	693	1,038
Corporate and Other	1,429	1,445	1,176
Total Capital Expenditures	$ 4,204	$ 5,052	$ 4,509

15. Quarterly Financial Data (Unaudited)

Quarters (amounts in thousands, except per share data)	First	Second	Third	Fourth	Total
2001					
Revenue	$ 82,768	$ 83,756	$ 75,065	$ 70,541	$ 312,130
Direct costs	59,188	59,092	52,723	49,375	220,378
Gross profit	23,580	24,664	22,342	21,166	91,752
Selling, general, and administrative expenses	26,802	23,225	21,275	20,036	91,338
Operating income (loss)	(3,222)	1,439	1,067	1,130	414
Interest and other expense, net	(727)	(1,406)	(808)	(756)	(3,697)
Income (loss) before income taxes	(3,949)	33	259	374	(3,283)
Net income (loss)	$ (1,380)	$ (1,357)	$ 182	$ 353	$ (2,202)
Basic net income (loss) per share	$ (0.08)	$ (0.08)	$ 0.01	$ 0.02	$ (0.13)
Diluted net income (loss) per share	$ (0.08)	$ (0.08)	$ 0.01	$ 0.02	$ (0.13)
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	$ (0.29)	$ (0.05)	$ (0.01)	$ 0.01	$ (0.35)*

* Includes the net expense of a restructuring charge which increased selling, general, and administrative expenses (including a charge of $5.7 million in the first quarter and a credit of $1.5 million in the third quarter), 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

Stock Market Information	High	Low
Year ended December 31, 2001		
First Quarter	$ 7.13	$ 3.88
Second Quarter	$ 6.40	$ 3.45
Third Quarter	$ 3.85	$ 2.00
Fourth Quarter	$ 3.98	$ 1.30
Year ended December 31, 2000		
First Quarter	$ 20.00	$ 10.00
Second Quarter	$ 11.00	$ 4.75
Third Quarter	$ 7.75	$ 3.00
Fourth Quarter	$ 6.38	$ 2.69

The Company's common shares are traded on the New York Stock Exchange under the symbol CTG, commonly abbreviated Cptr Task.

On February 13, 2002, there were 3,276 record holders of the Company's common shares. The Company did not pay a dividend in 2001. The Company paid an annual cash dividend of $.05 per share from 1993 to 2000 and, prior to that, paid $.025 per share annually since 1976 plus a 10 percent share dividend in 1980.

Annual Meeting

The annual meeting of shareholders has been scheduled for May 1, 2002 in Buffalo, New York, for shareholders of record on March 15, 2002.

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:

EquiServe Trust Company, N.A.
P.O. Box 43010
Providence, RI 02940-3010

(781) 575-3170 (MA residents)
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(781) 828-8813 (fax)
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CTG Board of Directors

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

James R. Boldt
President and Chief Executive Officer of CTG

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

Randolph A. Marks
Chairman and Co-founder of CTG;
Retired Chairman of American Brass Company

CTG Officers

Alex P. Alexander
Vice President, CTG Retail Solutions™

G. David Baer
Executive Vice President and Co-founder of CTG

James R. Boldt
President and Chief Executive Officer

Arthur W. Crumlish
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Vice President and General Manager,
CTG HealthCare Solutions™

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

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

Top (left to right)
James R. Boldt, Filip J.L. Gydé

Middle Upper (left to right)
G. David Baer, Peter P. Radetich, Paul F. Dimouro

Middle Lower (left to right)
Rick N. Sullivan, Arthur W. Crumlish, Gregory M. Dearlove

Bottom (left to right)
Stephen D'Anna, Jonathan M. Harding, Alex P. Alexander,
Thomas J. Niehaus

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