Vertical Market Experience

Information Technology Expertise

Annual Report | 2002

Company Profile

In 2002, CTG began our 37th year of delivering information technology (IT) services that provide real business value to our customers. Our fully integrated array of IT staffing, application management outsourcing, and industry-focused IT solutions is backed by a time-tested suite of formal methodologies, a proprietary database of best practices, and an international network of strategic alliances and partnerships. Our 2,800 business and IT experts, based in an international network of offices in North America and Europe, help our clients use IT to achieve their business objectives.

Mission

CTG's mission is to provide IT services and solutions that add real business value to our customers while creating professional opportunities for our employees and value for our shareholders.

Vision

CTG's vision is to be recognized as a leading provider of value-added IT services and solutions in our selected markets.

Table of Contents

14 Consolidated Summary: Selected Financial Information
15 Management's Discussion and Analysis
20 Independent Auditors' Report
21 Consolidated Financial Statements
26 Notes to Consolidated Financial Statements
36 Corporate Information
37 CTG Board of Directors and Officers

Statements included 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 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.

Consolidated Summary –

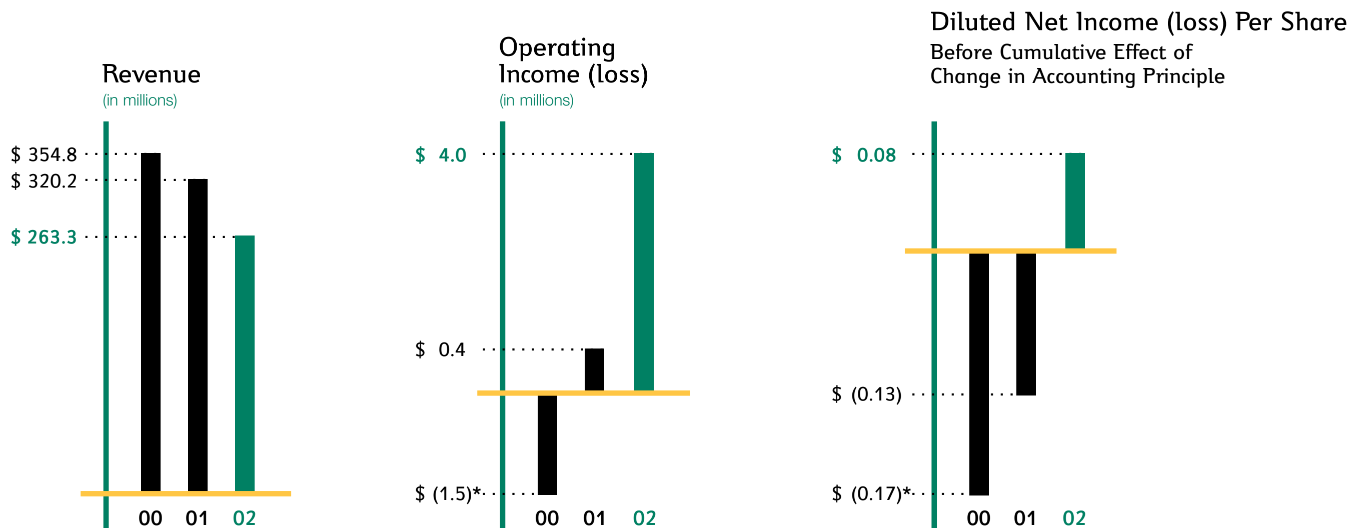
Five-Year Selected Financial Information

Consolidated Summary (amounts in millions, except per-share data)	2002	2001	2000	1999	1998
Operating Data					
Revenue	$ 263.3	$ 320.2	$ 354.8	$ 486.3	$ 477.8
Operating income (loss)	$ 4.0	$ 0.4	$ (5.6)**	$ 30.8***	$ 39.9
Net income (loss) before cumulative effect of change in accounting principle	$ 1.4	$ (2.2)	$ (5.7)**	$ 16.7***	$ 24.0
Net income (loss)	$ (35.7)*	$ (2.2)	$ (5.7)**	$ 16.7***	$ 24.0
Basic net income (loss) per share before cumulative effect of change in accounting principle	$ 0.08	$ (0.13)	$ (0.35)**	$ 1.02***	$ 1.48
Basic net income (loss) per share	$ (2.15)*	$ (0.13)	$ (0.35)**	$ 1.02***	$ 1.48
Diluted net income (loss) per share before cumulative effect of change in accounting principle	$ 0.08	$ (0.13)	$ (0.35)**	$ 1.00***	$ 1.42
Diluted net income (loss) per share	$ (2.11)*	$ (0.13)	$ (0.35)**	$ 1.00***	$ 1.42
Cash dividend per share	$ –	$ –	$ 0.05	$ 0.05	$ 0.05
Financial Position					
Working capital	$ 17.2	$ 20.3	$ 12.5	$ 35.2	$ 74.9
Total assets	$ 99.2	$ 149.5	$ 162.4	$ 199.2	$ 156.8
Long-term debt	$ 8.5	$ 15.5	$ 9.7	$ 31.4	$ –
Shareholders' equity	$ 52.4	$ 86.6	$ 88.8	$ 94.9	$ 83.4

* Includes a charge for the cumulative effect of a change in accounting principle related to the adoption of Financial Accounting Standard (FAS) No. 142, "Goodwill and Other Intangible Assets," which reduced net income by $37.0 million, basic net income per share by $2.23, and diluted net income per share by $2.19

** Includes the net expense of a restructuring charge, which increased operating loss 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 by approximately $2.5 million, net income by approximately $1.5 million, and basic and diluted net income per share by $0.09



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

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 table below sets forth data as contained on the consolidated statements of operations, with the percentage information calculated as a percentage of consolidated revenues.

2002 as compared to 2001

In 2002, CTG recorded revenue of $263.3, a decrease of 17.8 percent when compared to 2001 revenue of $320.2 million. The year-over-year revenue decrease is a result of the ongoing recession in the technology sector that has had a significant negative effect on customer spending for information technology services. North American revenue decreased by $46.9 million or 17.1 percent in 2002 as compared to 2001, while revenue from European operations decreased by $10.0 million or 21.6 percent. European revenues were 13.8 percent and 14.5 percent of total Company revenues in 2002 and 2001, respectively.

The 2001 to 2002 revenue decline was slightly offset by the weakening 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 2001 to 2002, total consolidated revenues would have been $1.7 million lower.

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 95 percent of the total services provided to IBM by the company in 2002. In 2002, IBM continued to be the Company's largest customer, accounting for $51.9 million or 19.7 percent of total revenue as compared to $78.3 million or 24.5 percent of 2001 revenue. Although revenues from IBM have been constrained in 2002, the Company expects to continue to derive a significant portion of its revenue from IBM in 2003 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

Year ended December 31, (percentage of revenue)	2002	2001	2000
Revenue	100.0 %	100.0 %	100.0 %
Direct costs	72.5 %	71.4 %	71.4 %
Selling, general, and administrative expenses, less restructuring charge in 2000	26.0 %	28.5 %	29.0 %
Restructuring charge	0.0 %	0.0 %	1.2 %
Operating income (loss)	1.5 %	0.1 %	(1.6) %
Interest and other expense, net	(0.6) %	(1.1) %	(0.9) %
Income (loss) before income taxes and cumulative effect of change in accounting principle	0.9 %	(1.0) %	(2.5) %
Provision (benefit) for income taxes	0.4 %	(0.3) %	(0.9) %
Net income (loss) before cumulative effect of change in accounting principle	0.5 %	(0.7) %	(1.6) %
Cumulative effect of change in accounting principle	(14.1) %	–	–
Net loss	(13.6) %	(0.7) %	(1.6) %

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 including billable out-of-pocket expenses, were 72.5 percent of revenue in 2002 as compared to 71.4 percent of 2001 revenue. The increase in direct costs as a percentage of revenue in 2002 as compared to 2001 is primarily due to the costs, including severance, associated with the reduction of unutilized personnel in the Company's European operations and the recession previously mentioned, which has adversely affected the rates at which the Company bills customers for its services.

Selling, general, and administrative (SG&A) expenses were 26.0 percent of revenue in 2002 as compared to 28.5 percent of revenue in 2001. During 2002, due to the adoption of Financial Accounting Standard (FAS) No. 142, "Goodwill and Other Intangible Assets," the Company discontinued the amortization of its existing goodwill. In 2001, such amortization totaled $4.0 million, or $0.24 basic and diluted earnings per share. If such amortization expense were excluded from the 2001 balances, SG&A expense as a percentage of revenue would have been 27.3 percent in 2001. The decline in SG&A expense year over year is due to the Company continuing to align its cost structure to the current level of revenue. Operating income from North American and Corporate operations was $7.7 million and $2.8 million in 2002 and 2001, respectively, while European operations recorded an operating loss of $3.7 million and $2.4 million in 2002 and 2001, respectively.

Interest and other expense, net was (0.6) percent of revenue in 2002 and (1.1) percent in 2001. The decrease as a percentage of revenue from 2001 to 2002 is primarily due to lower average outstanding indebtedness balances and lower interest rates in 2002. The provision (benefit) for income taxes was 39.5 percent in 2002 and (32.9) percent in 2001. The 2001 effective rate was favorably impacted by the resolution of both domestic and foreign tax matters.

Net loss for 2002 was (13.6) percent of revenue or $(2.11) per diluted share, compared to a net loss of (0.7) percent of revenue or $(0.13) per diluted share in 2001. Net income before the cumulative effect of change in accounting principle for 2002 was 0.5 percent of revenue or $0.08 per diluted share, compared to a loss of (0.7) percent of revenue or $(0.13) per diluted share in 2001. Diluted earnings per share were calculated using 16.9 million and 16.4 million equivalent shares outstanding in 2002 and 2001, respectively. The increase in equivalent shares outstanding in 2002 is due to additional weighted-average shares outstanding and the dilutive effect of outstanding stock options.

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

FAS No. 142 discontinued the practice of amortizing goodwill and indefinite-lived intangible assets and initiated 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 was effective for fiscal years beginning after December 15, 2001. Accordingly, the Company adopted this standard as of January 1, 2002, and no longer amortizes its existing goodwill since that date.

In conjunction with the adoption of FAS No. 142, the initial valuation of the business unit to which the Company's goodwill relates was completed by an independent appraisal company. Such valuation indicated that the carrying value of the business unit was greater than the determined fair value. The goodwill on the Company's balance sheet primarily relates to the acquisition in February 1999 of the healthcare information technology services provider Elumen Solutions, Inc. Although the revenues and profits for this unit dipped in 2000 and 2001, in 2002 the revenues and profits for that unit are similar to when the acquisition was completed in 1999. However, the valuation of technology companies in 1999 was relatively high as compared to the valuations at the beginning of 2002. Accordingly, as a result of the independent appraisal which considered the fair market values of similar companies, the Company recorded a $37.0 million non-cash charge for impairment of goodwill in that business unit in the Company's year-to-date financial results, as a cumulative effect of a change in accounting principle. There was no tax associated with this impairment, as the amortization of this goodwill was not deductible for tax purposes.

As of January 1, 2003, the Company completed its annual valuation of the business unit to which the Company's goodwill relates. This valuation indicated that the estimated fair value of the business unit exceeded the carrying value of this unit. Accordingly, the Company believes no additional impairment is required to be recorded in its consolidated financial results.

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 Company adopted this standard effective January 1, 2002. During the first quarter of 2002, the Company began to actively market one of its owned properties for sale, and has classified this property as held for sale on its consolidated balance sheet. During 2002, the Company made an adjustment of approximately $0.1 million to the carrying value of this asset in order to write down the property's value to the anticipated net fair value.

During the first quarter of 2002, based upon new interpretive guidance issued for the accounting for billable expenses under Emerging Issues Task Force issue No. D-103, "Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred," the Company began to record its billable expenses on a gross basis as both revenue and direct costs, rather than on a net basis. Such costs totaled $6.8 million and $8.1 million in 2002 and 2001, respectively. The 2001 revenue and direct cost balances on the consolidated statement of operations have been restated from those which were previously reported.

In June 2002, the FASB issued FAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which addresses the accounting and reporting for costs associated with the exit from or disposal of a portion of a company's operations. The provisions of this standard are effective for any exit or disposal activities initiated after December 31, 2002. At this time, the adoption of this standard is not expected to impact the financial position or results of operations of the Company.

In December 2002, the FASB issued FAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure." This standard provides alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation. Additionally, the standard also requires prominent disclosures in the Company's financial statements about the method of accounting used for stock-based employee compensation, and the effect of the method used when reporting financial results. The provisions of this standard are effective for financial statements for fiscal years ending after December 15, 2002. As allowed by FAS No. 123, "Accounting for Stock-Based Compensation," the Company continues to apply Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations when accounting for its stock option plans. No compensation cost has been recognized in these consolidated financial statements for outstanding stock options. As required, the Company has applied the additional disclosure provisions as prescribed by FAS No. 148, which can be found in Footnote No. 1 under the heading "Stock-Based Employee Compensation."

Critical Accounting Policies

The SEC issued Financial Reporting Release No. 60, "Cautionary Advice Regarding Disclosure of Critical Accounting Policies" (FR No. 60) in December 2001 that requires companies to disclose those accounting policies that include estimates that could be of a critical nature. In evaluating FR No. 60, CTG has determined that its sole critical accounting estimate involves the valuation of its existing goodwill balance. As previously discussed, FAS No. 142 discontinued the practice of amortizing goodwill and indefinite-lived intangible assets and initiated a review, at least annually, for impairment. With the adoption of FAS No. 142 in 2002, CTG recorded a charge of $37.0 million, representing the cumulative effect of the change in accounting principle. Going forward, the remaining goodwill balance will be evaluated annually, or more frequently if facts and circumstances indicate impairment may exist. These evaluations will be based on estimates and assumptions that may analyze the appraised value of similar transactions from which the goodwill arose, the appraised value of similar companies, or estimates of future discounted cash flows. The estimates and assumptions on which the Company's evaluations are based necessarily involve judgments and are based on currently available information, any of which could prove wrong or inaccurate when made, or become wrong or inaccurate as a result of subsequent events.

As of January 1, 2003, the Company completed its annual valuation of the business unit to which the Company's goodwill relates. This valuation indicated that the estimated fair value of the business unit exceeded the carrying value of this unit. Accordingly, the Company believes no additional impairment is required to be recorded in its consolidated financial results.

Changes in future valuations, however, could lead to additional impairment charges.

2001 as compared to 2000

In 2001, CTG recorded revenue of $320.2 million, a decrease of 9.8 percent when compared to 2000 revenue of $354.8 million. North American revenue decreased by $19.6 million or 6.7 percent during the year, while revenue from European operations decreased by $15.0 million or 24.4 percent. European revenues were 14.5 percent and 17.3 percent of total Company revenues in 2001 and 2000, respectively.

The companywide decrease in revenue in 2001 from 2000 was primarily due to the continued economic slowdown throughout 2001, which negatively affected the purchase of IT services by companies worldwide. This economic slowdown also continued throughout 2002. Additionally, the year-over-year decline was due to a help desk 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 9.3 percent. This additional $1.8 million increase in European revenue would have decreased the European revenue decline to 21.5 percent. Conversely, in 2002, the strength of the U.S. dollar diminished as compared to the respective currencies of the countries in which the Company operates in Europe.

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 $78.3 million or 24.5 percent of total revenue as compared to $95.4 million or 26.9 percent of 2000 revenue. Revenues from IBM were constrained in 2001 and continue to be constrained in 2002.

Direct costs, defined as costs for billable staff, were 71.4 percent of revenue in both 2001 and 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 28.5 percent of revenue in 2001 compared to 29.0 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 either 2001 or 2002.

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 was primarily due to implementing the expense reductions noted above. Operating income from North American and Corporate operations increased by $10.9 million from 2000 to 2001. European operations recorded an operating loss of $(2.4) million in 2001 as compared to operating income of $2.4 million in 2000.

Interest and other expense, net was (1.1) percent of revenue for 2001 and (0.9) percent in 2000. The increase as a percentage of revenue was due to an increase in interest expense related to outstanding long-term debt and the revenue decline discussed above. 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.

During the first quarter of 2002, based upon new interpretive guidance issued for the accounting for billable expenses under Emerging Issues Task Force issue No. D-103, "Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred," the Company began to record its billable expenses on a gross basis as both revenue and direct costs, rather than on a net basis. Such costs totaled $8.1 million and $9.1 million in 2001 and 2000, respectively. The 2001 and 2000 revenue and direct cost balances on the consolidated statement of operations have been restated by these amounts from those which were previously reported.

Financial Condition and Liquidity

Cash provided by operating activities was $4.6 million in 2002. Net loss totaled $(35.7) million, while the non-cash adjustment for the change in accounting principle totaled $37.0 million, and other non-cash adjustments, primarily consisting of depreciation expense and deferred income taxes, totaled $4.3 million. Accounts receivable decreased by $8.3 million as compared to December 31, 2001 due primarily to lower revenues in 2002 and the timing of the collection of outstanding balances near year-end 2002. Accounts payable decreased $2.1 million, and other current liabilities decreased $1.5 million, primarily due to the timing of certain payments. Accrued compensation decreased $5.4 million due to the timing of the U.S. bi-weekly payroll, fewer total employees, and the timing of certain payments.

Net property and equipment and property held for sale decreased $2.0 million. Additions to property and equipment were $1.8 million, offset by depreciation expense of $3.9 million and foreign currency translation adjustments of $0.1 million. The Company has no significant commitments for capital expenditures at December 31, 2002.

Financing activities used $6.7 million of cash in 2002. Net payments on long-term revolving debt totaled $7.0 million, and the Company received $0.3 million from employees for stock purchased under the Employee Stock Purchase Plan.

The Company is authorized to repurchase a total of 3.4 million shares of its common stock for treasury and the Company's stock trusts. At December 31, 2002, approximately 3.2 million shares have been repurchased under the authorizations, leaving 0.2 million shares authorized for future purchases. No share purchases were made in 2002.

At December 31, 2002, consolidated shareholders' equity totaled $52.4 million, which is a decrease of $34.2 million or 39.5 percent from December 31, 2001. The decrease is primarily due to the 2002 net income before the cumulative effect of change in accounting principle of $1.4 million and the effect of foreign currency translation of $1.2 million, and is offset by the $37.0 million non-cash charge for impairment of goodwill.

The Company believes existing internally available funds, cash potentially generated by operations, and available borrowings under the Company's revolving line of credit, totaling approximately $41.6 million at December 31, 2002, will be sufficient to meet foreseeable working capital, capital expenditure, and possible stock repurchase 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 $8.5 million of borrowings at December 31, 2002 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 $20.5 million during 2002, a one percentage point increase or decrease in market interest rates would increase or decrease the Company's interest expense by $205,000. 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 2002, 2001, or 2000.

Independent Auditors' Report

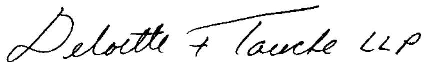
To the Board of Directors and Shareholders of
Computer Task Group, Incorporated
Buffalo, New York

We have audited the accompanying consolidated balance sheets of Computer Task Group, Incorporated and subsidiaries ("the Company") as of December 31, 2002 and 2001, 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, 2002. 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, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, in 2002 the Company changed its method of accounting for goodwill to conform to Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."



Deloitte & Touche LLP
Buffalo, New York
February 5, 2003

Consolidated

Statements of Operations

Year ended December 31, (amounts in thousands, except per-share data)	2002	2001	2000
Revenue	$ 263,276	$ 320,213	$ 354,846
Direct costs	190,736	228,461	253,498
Selling, general, and administrative expenses	68,518	91,338	102,836
Restructuring charge	–	–	4,157
Operating income (loss)	4,022	414	(5,645)
Interest and other income	242	638	288
Interest and other expense	(2,012)	(4,335)	(3,322)
Income (loss) before income taxes and cumulative effect of change in accounting principle	2,252	(3,283)	(8,679)
Provision (benefit) for income taxes	890	(1,081)	(3,018)
Net income (loss) before cumulative effect of change in accounting principle	1,362	(2,202)	(5,661)
Cumulative effect of change in accounting principle	(37,038)	–	–
Net loss	$ (35,676)	$ (2,202)	$ (5,661)
Basic net income (loss) per share:			
Net income (loss) before cumulative effect of change in accounting principle	$ 0.08	$ (0.13)	$ (0.35)
Cumulative effect of change in accounting principle	(2.23)	–	–
Basic net loss per share	$ (2.15)	$ (0.13)	$ (0.35)
Diluted net income (loss) per share:			
Net income (loss) before cumulative effect of change in accounting principle	$ 0.08	$ (0.13)	$ (0.35)
Cumulative effect of change in accounting principle	(2.19)	–	–
Diluted net loss per share	$ (2.11)	$ (0.13)	$ (0.35)

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

Consolidated
Balance Sheets

December 31, (amounts in thousands, except share balances)	2002	2001
Assets		
Current assets:		
Cash and temporary cash investments	$ 69	$ 3,362
Accounts receivable, net	43,696	50,920
Prepaids and other	2,406	2,958
Deferred income taxes	623	1,089
Total current assets	46,794	58,329
Property and equipment, net of accumulated depreciation	8,939	13,082
Property held for sale	2,190	–
Goodwill	35,678	73,121
Deferred income taxes	4,412	4,274
Other assets	1,171	682
Total assets	$ 99,184	$ 149,488
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 6,520	$ 8,193
Accrued compensation	19,139	24,133
Advance billings on contracts	359	471
Other current liabilities	3,555	5,221
Total current liabilities	29,573	38,018
Long-term debt	8,497	15,512
Deferred compensation benefits	8,394	8,794
Other long-term liabilities	350	537
Total liabilities	46,814	62,861
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	111,465	111,500
Retained earnings	37,697	73,373
Less: Treasury stock of 6,148,990 and 6,147,810 shares at cost, respectively	(31,416)	(31,410)
Stock Trusts of 4,246,337 and 4,338,000 shares at cost, respectively	(58,848)	(59,239)
Accumulated other comprehensive income:		
Foreign currency adjustment	(6,116)	(7,284)
Minimum pension liability adjustment	(682)	(583)
Accumulated other comprehensive income	(6,798)	(7,867)
Total shareholders' equity	52,370	86,627
Total liabilities and shareholders' equity	$ 99,184	$ 149,488

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

Consolidated
Statements of Cash Flows

Year ended December 31, (amounts in thousands)	2002	2001	2000
Cash flows from operating activities:			
Net loss	$ (35,676)	$ (2,202)	$ (5,661)
Adjustments:			
Depreciation expense	3,903	4,638	4,607
Amortization expense	–	3,975	5,089
Change in accounting principle	37,038	–	–
Deferred income taxes	216	2,145	832
Tax benefit on stock option exercises	–	27	68
Loss on sales, disposals, or impairment of fixed assets	142	80	43
Deferred compensation forfeitures	(499)	(589)	(280)
Changes in assets and liabilities:			
Decrease in accounts receivable	8,347	5,531	21,226
(Increase) decrease in prepaids and other	736	(104)	(44)
(Increase) decrease in other assets	(489)	(30)	12
Increase (decrease) in accounts payable	(2,100)	(4,147)	3,171
Decrease in accrued compensation	(5,387)	(1,778)	(2,529)
Increase (decrease) in income taxes payable	102	(3,769)	(6,545)
Decrease in advance billings on contracts	(112)	(171)	(119)
Decrease in other current liabilities	(1,480)	(4,442)	(1,650)
Decrease in other long-term liabilities	(187)	(174)	(74)
Net cash provided by (used in) operating activities	4,554	(1,010)	18,146
Cash flows from investing activities:			
Additions to property and equipment	(1,849)	(4,204)	(5,052)
Proceeds from sales of fixed assets	22	88	30
Net cash used in investing activities	(1,827)	(4,116)	(5,022)
Cash flows from financing activities:			
Proceeds from (payments on) long-term revolving debt, net	(7,015)	5,812	(21,680)
Proceeds from Employee Stock Purchase Plan	331	510	714
Purchase of stock for treasury	(6)	(6)	(125)
Proceeds from other stock plans	24	124	1,272
Dividends paid	–	–	(810)
Net cash provided by (used in) financing activities	(6,666)	6,440	(20,629)
Effect of exchange rate changes on cash and temporary cash investments	646	(514)	(617)
Net increase (decrease) in cash and temporary cash investments	(3,293)	800	(8,122)
Cash and temporary cash investments at beginning of year	3,362	2,562	10,684
Cash and temporary cash investments at end of year	$ 69	$ 3,362	$ 2,562

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

Consolidated
Statements of Changes in Shareholders' Equity

(amounts in thousands, except share data)	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Retained Earnings
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	–
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	–
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
Employee Stock Purchase Plan share issuance	–	–	(27)	–
Stock Option Plan share issuance	–	–	(8)	–
Comprehensive income (loss):				
Net loss	–	–	–	(35,676)
Foreign currency adjustment	–	–	–	–
Minimum pension liability adjustment	–	–	–	–
Total comprehensive income (loss)	–	–	–	(35,676)
Balance as of December 31, 2002	27,018	$270	$111,465	$37,697

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
6,142	$(31,279)	4,823	$(61,306)	$(43)	$(4,786)	$(873)	$94,924
–	–	(113)	485	–	–	–	714
5	(125)	(71)	302	–	–	–	311
–	–	(131)	555	–	–	–	861
–	–	–	–	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
1	(6)	(28)	119	–	–	–	145
–	–	–	–	–	–	–	(2,202)
–	–	–	–	–	(878)	–	(878)
–	–	–	–	–	–	259	259
–	–	–	–	–	(878)	259	(2,821)
6,148	(31,410)	4,338	(59,239)	–	(7,284)	(583)	86,627
–	–	(84)	358	–	–	–	331
1	(6)	(8)	33	–	–	–	19
–	–	–	–	–	–	–	(35,676)
–	–	–	–	–	1,168	–	1,168
–	–	–	–	–	–	(99)	(99)
–	–	–	–	–	1,168	(99)	(34,607)
6,149	$(31,416)	4,246	$(58,848)	$ –	$(6,116)	$(682)	$52,370

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 the valuation of goodwill, allowances for doubtful accounts receivable 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 include flexible and strategic staffing and the planning, design, implementation, and maintenance of comprehensive IT solutions.

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 approximately 2 percent of 2002, 1 percent of 2001, and 2 percent of 2000 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 receivable of approximately $1.2 million and $2.4 million at December 31, 2002 and 2001, respectively, accounts receivable is further reduced by a reserve for projects of $0.4 million at December 31, 2002 and $0.5 million at December 31, 2001. The decrease in the allowance for doubtful accounts from 2001 to 2002 is primarily due to the resolution of several significant accounts during 2002 totaling approximately $1.0 million.

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, 2002 and 2001, the carrying amounts of the Company's financial instruments, which include cash and temporary cash investments, accounts receivable, other assets, accounts payable, and long-term debt, approximate fair value.

Property and Equipment

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

Goodwill

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 made significant changes to the accounting for business combinations, goodwill, and intangible assets. FAS No. 141 eliminated the pooling-of-interests method of accounting for business combinations with limited exceptions for combinations initiated prior to July 1, 2001. In addition, it clarified the criteria for recognition of intangible assets apart from goodwill. This standard was effective for business combinations completed after June 30, 2001.

FAS No. 142 discontinued the practice of amortizing goodwill and indefinite-lived intangible assets and initiated 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 was effective for fiscal years beginning after December 15, 2001. Accordingly, the Company adopted this standard as of January 1, 2002, and no longer amortizes its existing goodwill since that date.

In conjunction with the adoption of FAS No. 142, "Goodwill and Other Intangible Assets," the initial valuation of the business unit for which the Company's goodwill relates was completed by an independent appraisal company. Such valuation indicated that the carrying value of the business unit was greater than the determined fair value. The goodwill on the Company's balance sheet primarily relates to the acquisition in February 1999 of the healthcare information technology services provider Elumen Solutions, Inc. Although the revenues and profits for this unit dipped in 2000 and 2001, in 2002 the revenues and profits for that unit are similar to when the acquisition was completed in 1999. However, the valuation of technology companies in 1999 was relatively high as compared to the valuations at the beginning of 2002. Accordingly, as a result of the independent appraisal which considered the fair market values of similar companies, the Company recorded a $37.0 million non-cash charge for impairment of goodwill in that business unit in the Company's year-to-date financial results, as a cumulative effect of a change in accounting principle. There was no tax associated with this impairment as the amortization of this goodwill was not deductible for tax purposes.

As of January 1, 2003, the Company completed its annual valuation of the business unit to which the Company's goodwill relates. This valuation indicated that the estimated fair value of the business unit exceeded the carrying value of this unit. Accordingly, the Company believes no additional impairment is required to be recorded in its consolidated financial results.

FAS No. 142 also discontinued the practice of amortizing goodwill and indefinite-lived intangible assets. The effect of the amortization of the Company's existing goodwill on net income

(loss), and basic and diluted net income (loss) per share for the years ended December 31, 2002, 2001, and 2000 is as follows:

For the year ended December 31, (amounts in thousands, except per-share data)	2002	2001	2000
Net income (loss):			
Net income (loss) before cumulative effect of change in accounting principle	$ 1,362	$ (2,202)	$ (5,661)
Cumulative effect of change in accounting principle	(37,038)	–	–
Net loss	(35,676)	(2,202)	(5,661)
Goodwill amortization	–	3,975	5,089
Adjusted net income (loss)	$(35,676)	$ 1,773	$ (572)
Basic net income (loss) per share:			
Income (loss) before cumulative effect of change in accounting principle	$ 0.08	$ (0.13)	$ (0.35)
Cumulative effect of change in accounting principle	(2.23)	–	–
Reported basic net loss per share	(2.15)	(0.13)	(0.35)
Goodwill amortization	–	0.24	0.31
Adjusted basic net income (loss) per share	$ (2.15)	$ 0.11	$ (0.04)
Diluted net income (loss) per share:			
Income (loss) before cumulative effect of change in accounting principle	$ 0.08	$ (0.13)	$ (0.35)
Cumulative effect of change in accounting principle	(2.19)	–	–
Reported diluted net loss per share	(2.11)	(0.13)	(0.35)
Goodwill amortization	–	0.24	0.31
Adjusted diluted net income (loss) per share	$ (2.11)	$ 0.11	$ (0.04)

The change in the goodwill balance on the consolidated balance sheets for 2002 and 2001 is as follows:

	2002	2001
Goodwill, beginning of year	$ 73,121	$ 77,157
Amortization	–	(3,975)
Cumulative effect of change in accounting principle	(37,038)	–
Other	(405)	–
Effect of foreign currency	–	(61)
Goodwill, end of year	$ 35,678	$ 73,121

The remaining goodwill balance at December 31, 2002 of $35.7 million is included in the Company's North American segment.

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 by sale are reported at the lower of the carrying amount or fair value less costs to sell.

During the first quarter of 2002, the Company began to actively market one of its owned properties for sale, and has therefore classified this property as held for sale on the consolidated balance sheet as of December 31, 2002. During the 2002 third quarter, the Company made an adjustment of approximately $0.1 million to the carrying value of this asset in order to write down the property's value to the anticipated net fair value.

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 carry-forwards, non-deductible accrued expenses, goodwill, and accelerated depreciation.

Tax credits, if any, 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, 2002, 2001, and 2000, the tax expense (benefit) associated with the minimum pension liability adjustment was $0.1 million, $(0.2) million, and $0, respectively.

Stock-Based Employee Compensation

The Company accounts for its stock-based employee compensation plans in accordance with the provisions of FAS No. 123, "Accounting for Stock-Based Compensation," and FAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," which allows entities to continue to apply the recognition and measurement provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. As such, no stock-based employee compensation cost is reflected in the net loss of the Company for the periods presented in these consolidated financial statements, as all options granted by the Company had an exercise price that was equal to or greater than the underlying common stock at the date of grant. See Note 10, "Stock Option Plans."

The following table details the effect on net loss and basic and diluted net loss per share as if the Company had adopted the fair value recognition provisions of FAS No. 123 as they apply to stock-based employee compensation:

(amounts in thousands, except per-share data)	2002	2001	2000
Net loss, as reported	$(35,676)	$ (2,202)	$ (5,661)
Stock-based employee compensation expense as calculated under the fair value method for all awards, net of tax	1,581	2,204	2,581
Pro forma net loss	$(37,257)	$ (4,406)	$ (8,242)
Basic net loss per share:			
As reported	$ (2.15)	$ (0.13)	$ (0.35)
Pro forma	$ (2.25)	$ (0.27)	$ (0.51)
Diluted net loss per share:			
As reported	$ (2.11)	$ (0.13)	$ (0.35)
Pro forma	$ (2.21)	$ (0.27)	$ (0.51)

Pro forma amounts for compensation cost may not be indicative of the effects on earnings for future years.

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, including 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 statements 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, 2002, 2001, and 2000 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, 2002			
Basic EPS			
Net income before cumulative effect of change in accounting principle	$ 1,362	16,567	$ 0.08
Cumulative effect of change in accounting principle	(37,038)	16,567	(2.23)
Net loss	$(35,676)	16,567	$ (2.15)
Diluted EPS			
Net income before cumulative effect of change in accounting principle	$ 1,362	16,895	$ 0.08
Cumulative effect of change in accounting principle	(37,038)	16,895	(2.19)
Net loss	$(35,676)	16,895	$ (2.11)
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)

Weighted-average shares represent the average of issued shares less treasury shares and less the shares held in the Stock Trusts. In 2002, the dilutive effect of outstanding stock options was 328,000 weighted-average shares. 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, were not included in the diluted EPS calculation.

Options to purchase 1,794,652, 2,484,936, and 2,031,764 shares of common stock were outstanding at December 31, 2002, 2001, and 2000, respectively, but were not included in the computation of diluted earnings per share, as the options' exercise price was greater than the average market price of the common shares.

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 2002, 2001, and 2000 amounted to $1.6 million, $3.9 million, and $2.3 million, respectively, while net income tax payments totaled $1.9 million, $0.7 million, and $1.6 million for the respective years.

Accounting Standards Pronouncements

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 other than goodwill and other intangible assets. The Company adopted this standard effective January 1, 2002. During the first quarter of 2002, the Company began to actively market one of its owned properties for sale, and has classified this property as held for sale on its consolidated balance sheet. During 2002, the Company made an adjustment of approximately $0.1 million to the carrying value of this asset in order to write down the property's value to the anticipated net fair value.

During the first quarter of 2002, based upon new interpretive guidance issued for the accounting for billable expenses under Emerging Issues Task Force issue No. D-103, "Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred," the Company began to record its billable expenses on a gross basis as both revenue and direct costs, rather than on a net basis. Such costs totaled $6.8 million, $8.1 million, and $9.1 million in 2002, 2001, and 2000, respectively. The 2001 and 2000 revenue and direct cost balances on the consolidated statement of operations have been restated by these amounts from those which were previously reported.

In June 2002, the FASB issued FAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which addresses the accounting and reporting for costs associated with the exit from or disposal of a portion of a company's operations. The provisions of this standard are effective for any exit or disposal activities initiated after December 31, 2002. At this time, the adoption of this standard is not expected to impact the financial position or results of operations of the Company.

In December 2002, the FASB issued FAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" (FAS No. 148). This standard provides alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation. Additionally, the standard also requires prominent disclosures in the Company's financial statements about the method of accounting used for stock-based employee compensation, and the effect of the method used when reporting financial results. The provisions of this standard are effective for financial statements for fiscal years ending after December 15, 2002. As allowed by FAS No. 123, "Accounting for Stock-Based Compensation," the Company continues to apply Accounting Principles Board (APB) Opinion No. 25, "Accounting for

Stock Issued to Employees," and related interpretations when accounting for its stock option plans. No compensation cost has been recognized in these consolidated financial statements for outstanding stock options. As required, the Company has applied the additional disclosure provisions as prescribed by FAS No. 148.

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. The Company completed its restructuring plan by the end of March 2001.

3. Property and Equipment

Property and equipment at December 31, 2002 and 2001 are summarized as follows:

December 31, (amounts in thousands)	2002	2001
Land	$ 886	$ 886
Buildings	7,065	6,999
Equipment	17,668	18,747
Furniture	5,160	5,506
Software	7,965	6,995
Leasehold improvements	2,511	2,364
	41,255	41,497
Less accumulated depreciation	(30,126)	(28,415)
	$ 11,129	$ 13,082

At December 31, 2002, property and equipment of $11,129 is included in the consolidated balance sheet as property and equipment of $8,939 and property held for sale of $2,190.

At December 31, 2002, the Company owned three buildings, two of which are in use by the Company as Corporate offices. During 2002, the third building, with a net fair value of $2.2 million, was leased to a third party for approximately eight months, which ended in August 2002. Receipts under this lease were approximately $0.2 million in 2002.

During 2002, the Company began to actively market for sale the third building it owns, and has classified this property as held for sale on the consolidated balance sheet at December 31, 2002. During the third quarter of 2002, the Company made an adjustment of approximately $0.1 million to the carrying value of this building in order to adjust the property's value to the anticipated net fair value.

4. Debt

During 2002, the Company amended and restated its existing revolving line of credit agreement (Agreement). The new Agreement has a borrowing limit of $50 million and is due in 2005. The Agreement has interest rates ranging from 25 to 200 basis points over the prime rate and 125 to 300 basis points over Libor, and provides certain of the Company's assets as security for outstanding borrowings. The Company is required to meet certain financial covenants in order to maintain borrowings under the Agreement, pay dividends, and make acquisitions. At December 31, 2002 and 2001, there were $8.4 million and $15.2 million outstanding, respectively, under the Company's revolving credit agreements. Additionally, at December 31, 2002 and 2001, there were $0.1 million and $0.2 million of outstanding letters of credit, respectively, under these agreements.

The maximum amounts outstanding under the revolving credit agreements during 2002, 2001, and 2000 were $29.7 million, $40.0 million, and $44.9 million, respectively. Average bank borrowings outstanding for the years 2002, 2001, and 2000 were $20.5 million, $29.7 million, and $32.6 million, respectively, and carried weighted-average interest rates of 4.1 percent, 7.5 percent, and 7.6 percent, respectively.

The Company owed $0.1 million and $0.3 million at December 31, 2002 and 2001, respectively, under capital lease agreements. These amounts are included in the Company's long-term debt balance at December 31, 2002 and 2001.

The carrying amount of long-term debt, as determined by a comparison to similar instruments, approximates fair value at December 31, 2002.

5. Income Taxes

The provision (benefit) for income taxes for 2002, 2001, and 2000 consists of the following:

(amounts in thousands)	2002	2001	2000
Domestic and foreign components of income (loss) before income taxes are as follows:			
Domestic	$ 6,126	$ 162	$ (8,766)
Foreign	(3,874)	(3,445)	87
	$ 2,252	$ (3,283)	$ (8,679)
The provision (benefit) for income taxes consists of:			
Current tax:			
U.S. federal	$ 494	$ (1,388)	$ (4,131)
Foreign	(524)	(2,657)	14
U.S. state and local	592	819	290
	562	(3,226)	(3,827)
Deferred tax:			
U.S. federal	197	1,837	763
U.S. state and local	131	308	46
	328	2,145	809
	$ 890	$ (1,081)	$ (3,018)
The effective and statutory income tax rate can be reconciled as follows:			
Tax at statutory rate of 34 percent	$ 765	$ (1,116)	$ (2,951)
Rate differential	–	–	(86)
State tax, net of federal benefits	415	541	161
Expenses for which no tax benefit (expense) is available	(70)	1,097	2,095
Change in estimate of non-deductible expenses	(215)	(1,642)	(2,187)
Other, net	(5)	39	(50)
	$ 890	$ (1,081)	$ (3,018)
Effective income tax rate	39.5%	(32.9%)	(34.8%)

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

The Company's deferred tax assets and liabilities at December 31, 2002 and 2001 consist of the following:

December 31, (amounts in thousands)	2002	2001
Assets		
Deferred compensation	$ 3,015	$ 3,161
Loss carryforwards	1,048	721
Accruals deductible for tax purposes when paid	319	537
Allowance for doubtful accounts	290	694
Amortization	1,156	1,275
Gross deferred tax assets	5,828	6,388
Liabilities		
Depreciation	550	524
Amortization	81	81
Other, net	162	420
Gross deferred tax liabilities	793	1,025
Deferred tax assets valuation allowance	–	–
Net deferred tax assets	$ 5,035	$ 5,363
Net deferred assets and liabilities are recorded at December 31, 2002 and 2001 as follows:		
Net current assets	$ 623	$ 1,089
Net non-current assets	4,412	4,274
Net deferred tax assets	$ 5,035	$ 5,363

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, 2002. Accordingly, no valuation allowance is required.

Undistributed earnings of the Company's foreign subsidiaries were minimal at December 31, 2002, 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 2002, 2001, and 2000, 3,000, 26,000, and 62,000 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 $2,000, $27,000, and $68,000 in 2002, 2001, and 2000, respectively. These tax benefits have also been recognized in the consolidated balance sheets as a reduction of current taxes payable.

6. Lease Commitments

At December 31, 2002, 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)	
2003	$ 6,813
2004	5,285
2005	3,393
2006	1,042
2007	629
Later years	936
Minimum future obligations	$ 18,098

The operating lease obligations relate to the rental of office space, office equipment, and automobiles leased in Europe. Total rental expense under such operating leases for 2002, 2001, and 2000 was approximately $8.5 million, $9.6 million, and $10.7 million, respectively.

7. Deferred Compensation Benefits

The Company maintains a non-qualified defined-benefit Executive Supplemental Benefit Plan (ESBP) that provides a current and 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 2002, 2001, and 2000 for the ESBP is as follows:

Net Periodic Pension Cost - ESBP (amounts in thousands)	2002	2001	2000
Interest cost	$ 586	$ 692	$ 675
Amortization of unrecognized net loss	7	30	35
Net periodic pension cost	$ 593	$ 722	$ 710

The Company also maintains a contributory 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 2002, 2001, and 2000 for the NDBP is as follows:

Net Periodic Pension Cost - NDBP (amounts in thousands)	2002	2001	2000
Service cost	$ 278	$ 228	$ 466
Interest cost	237	160	224
Expected return on plan assets	(227)	(189)	(220)
Amortization of actuarial loss	14	–	117
Net periodic pension cost	302	199	587
Employee contributions	199	149	364
Net retirement cost	$ 103	$ 50	$ 223

The change in benefit obligation and reconciliation of fair value of plan assets for 2002 and 2001 for the ESBP and the NDBP are as follows:

	ESBP		NDBP	
Changes in Benefit Obligation (amounts in thousands)	2002	2001	2002	2001
Benefit obligation at beginning of year	$ 8,660	$ 9,443	$ 4,505	$ 3,995
Service cost, net	–	–	79	79
Interest cost	586	692	237	160
Amortization of unrecognized net loss	7	30	14	–
Employee contributions	–	–	199	149
Benefits paid	(1,147)	(1,073)	(14)	(6)
Adjustment to minimum liability	166	(432)	–	–
Actuarial (gain) loss	–	–	(1,285)	128
Effect of exchange rate changes	–	–	234	–
Benefit obligation at end of period	8,272	8,660	3,969	4,505
Reconciliation of Fair Value of Plan Assets				
Fair value of plan assets at beginning of year	–	–	3,643	3,646
Expected return on plan assets	–	–	227	189
Employer contributions	–	–	392	(149)
Employee contributions	–	–	199	149
Benefits paid	–	–	(14)	(6)
Unrecognized net gain (loss)	–	–	(1,059)	(186)
Effect of exchange rate changes	–	–	202	–
Fair value of plan assets at end of year	–	–	3,590	3,643
Unfunded status	8,272	8,660	379	862
Unrecognized net actuarial loss	(1,137)	(971)	(348)	(558)
Accrued benefit cost	$ 7,135	$ 7,689	$ 31	$ 304
Weighted-average discount rate	6.75 %	7.00 %	5.00 %	5.00 %
Salary increase rate	–	–	4.00 %	4.00 %
Expected return on plan assets	–	–	5.50 %	5.50 %

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 maintains a non-qualified defined-contribution deferred compensation plan for certain key executives. The Company contributions to this plan, if any, are based on annually defined financial performance objectives. There were no contributions to the plan in 2002, 2001, or 2000.

8. 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, consist of cash, and may include the Company's stock, were funded and charged to operations in the amounts of $1.4 million, $1.9 million, and $2.6 million for 2002, 2001, and 2000, respectively.

Other Retirement Plans

The Company maintains various retirement plans other than the NDBP discussed in Note 7, covering substantially all of the remaining European employees. Company contributions charged to operations were $0.4 million in 2002, $0.2 million in 2001, and $0.1 million in 2000.

Other Postretirement Benefits

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

Net periodic postretirement benefit cost for 2002, 2001, and 2000 is as follows:

Net Periodic Postretirement Benefit Cost (amounts in thousands)	2002	2001	2000
Interest cost	$ 28	$ 17	$ 35
Amortization of transition amount	29	29	29
Amortization of gain	(14)	(33)	(10)
	$ 43	$ 13	$ 54

The change in postretirement benefit obligation at December 31, 2002 and 2001 is as follows:

Change in Postretirement Benefit Obligation (amounts in thousands)	2002	2001
Postretirement benefit obligation at beginning of year	$ 418	$ 237
Interest cost	28	17
Amortization of transition amount	29	29
Benefits paid	(52)	(42)
Amortization of gain	(14)	(33)
Adjustment to unrecognized transition obligation	(14)	(29)
Adjustment to unrecognized gain	165	239
Postretirement benefit obligation at end of year	560	418
Fair value of plan assets at end of year	–	–
Funded status	560	418
Unrecognized transition obligation	(292)	(322)
Unrecognized gain	32	213
Accrued postretirement benefit cost	$ 300	$ 309
Weighted-average discount rate	6.75 %	7.00 %
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 9 percent for medical and 7 percent for dental in 2003, 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 $30,000 at December 31, 2002, and the net periodic cost by $2,000 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, 2002, and the net periodic pension cost by $2,000 for the year.

9. 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, 2002, 338,000 shares remain unissued under the Plan, of the total of 11.5 million shares that had been authorized under the Plan. During 2002, 2001, and 2000, 84,000, 142,000, and 113,000 shares, respectively, were purchased under the plan at an average price of $3.93, $3.59, and $6.29 per share, respectively.

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, 2002, all shares remaining in the SECT were unallocated and, therefore, are not considered outstanding for purposes of calculating earnings per share.

SECT activity for 2002, 2001, and 2000 is as follows:

(amounts in thousands)	2002	2001	2000
Share balance at beginning of year	4,279	4,449	4,764
Shares purchased	–	–	–
Shares released:			
Stock option plans	(8)	(28)	(71)
Employee Stock Purchase Plan	(84)	(142)	(113)
Other stock plans	–	–	(131)
Share balance at end of year	4,187	4,279	4,449

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 2002, 2001, and 2000, no shares were purchased or released by the trust.

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.

10. Stock Option Plans

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.

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.

The per-option weighted-average fair value on the date of grant of stock options granted in 2002, 2001, and 2000, using the Black-Scholes option pricing model, was $2.70, $2.17, and $3.72, respectively. The fair value of the options at the date of grant was estimated with the following weighted-average assumptions:

	2002	2001	2000
Expected life (years)	3.8	4.0	4.0
Dividend yield	0.0%	0.0%	1.0%
Risk-free interest rate	3.5%	4.4%	6.1%
Expected volatility	82.6%	70.9%	58.5%

The Company accounts for its stock-based employee compensation plans in accordance with the provisions of FAS No. 123, "Accounting for Stock-Based Compensation," and FAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," which allows entities to continue to apply the recognition and measurement provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. No stock-based employee compensation cost is reflected in the net loss of the Company for

the periods presented in these consolidated financial statements, as all options granted by the Company had an exercise price that was equal to or greater than the underlying common stock at the date of grant.

The following table details the effect on net income (loss) and basic and diluted net income (loss) per share as if the Company had adopted the fair value recognition provisions of FAS No. 123 as they apply to stock-based employee compensation:

		2002	2001	2000
Net loss, as reported		$ (35,676)	$ (2,202)	$ (5,661)
Stock-based employee compensation expense as calculated under the fair value method for all awards, net of tax		1,581	2,204	2,581
Pro forma net loss		$ (37,257)	$ (4,406)	$ (8,242)
Basic net loss per share:	As reported	$ (2.15)	$ (0.13)	$ (0.35)
	Pro forma	$ (2.25)	$ (0.27)	$ (0.51)
Diluted net loss per share:	As reported	$ (2.11)	$ (0.13)	$ (0.35)
	Pro forma	$ (2.21)	$ (0.27)	$ (0.51)

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
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
Granted	498,000	$ 4.47	–	–
Exercised	–	–	(7,650)	$ 3.19
Canceled, expired, and forfeited	(140,250)	$ 5.56	(279,025)	$ 14.01
Outstanding at December 31, 2002	1,654,750	$ 3.52	1,377,750	$ 14.21

At December 31, 2002 and 2001, the number of options exercisable under the Equity Plan was 362,250 and 64,000, respectively, and the weighted-average exercise price of those options was $3.35 and $3.16, respectively. At December 31, 2002 and 2001, the number of options exercisable under the 1991 Plan was 1,012,063 and 933,988, respectively, and the weighted-average exercise price of those options was $16.50 and $18.14, respectively.

A summary of the range of exercise prices and the weighted-average remaining contractual life of outstanding options at December 31, 2002 for the Equity and 1991 Plans is as follows:

	Range of Exercise Prices	Options Outstanding at December 31, 2002	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (years)
Equity Plan	$ 1.40 to $ 1.96	280,000	$ 1.60	8.9
	$ 2.35 to $ 3.08	755,000	$ 2.83	10.8
	$ 4.35 to $ 7.49	619,750	$ 5.23	9.6
1991 Plan	$ 2.88 to $ 3.75	199,000	$ 2.88	6.3
	$ 5.13 to $ 6.13	279,250	$ 5.94	9.7
	$ 8.00 to $ 9.44	41,200	$ 9.23	2.5
	$ 12.50 to $ 18.44	443,000	$ 15.63	4.4
	$ 21.81 to $ 30.31	400,300	$ 23.74	5.0
	$ 37.19	15,000	$ 37.19	7.0

At December 31, 2002, there were 1,345,250 and 0 shares available for grant under the Equity Plan and 1991 Plan, respectively.

In both 2002 and 2001, the Company received stock for treasury valued at $6,000 from employees through stock option exercise transactions.

11. Significant Customer

International Business Machines (IBM) is the Company's largest customer. IBM accounted for $51.9 million or 19.7 percent, $78.3 million or 24.5 percent, and $95.4 million or 26.9 percent of consolidated 2002, 2001, and 2000 revenue, respectively. The Company's accounts receivable from IBM at December 31, 2002 and 2001 amounted to $11.6 million and $17.7 million, respectively. No other customer accounted for more than 10 percent of revenue in 2002, 2001, or 2000.

12. 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.

13. Segment Information

The Company operates in one industry segment, providing information technology (IT) professional services to its clients. The services provided include flexible and strategic staffing and the planning, design, implementation, and maintenance of comprehensive IT solutions. All of the Company's revenues are generated from these services. 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)	2002	2001	2000
Revenue			
North America	$ 226,824	$ 273,724	$ 293,339
Europe	36,452	46,489	61,507
Total revenue	$ 263,276	$ 320,213	$ 354,846
Depreciation and Amortization			
North America	$ 1,921	$ 6,052	$ 7,300
Europe	754	1,076	834
Corporate and other	1,228	1,485	1,562
Total depreciation and amortization	$ 3,903	$ 8,613	$ 9,696
Operating Income (loss)			
North America	$ 19,577	$ 15,618	$ 8,127
Europe	(3,698)	(2,399)	2,410
Corporate and other	(11,857)	(12,805)	(16,182)
Total operating income (loss)	$ 4,022	$ 414	$ (5,645)
Identifiable Assets			
North America	$ 79,816	$ 127,227	$ 133,841
Europe	9,866	10,958	15,947
Corporate and other	9,502	11,303	12,579
Total identifiable assets	$ 99,184	$ 149,488	$ 162,367
Capital Expenditures			
North America	$ 832	$ 2,065	$ 2,914
Europe	589	710	693
Corporate and other	428	1,429	1,445
Total capital expenditures	$ 1,849	$ 4,204	$ 5,052

14. Quarterly Financial Data (Unaudited)

(amounts in thousands, except per-share data)	First	Second	Quarters Third	Fourth	Total
2002					
Revenue	$ 69,894	$ 67,667	$ 62,149	$ 63,566	$ 263,276
Direct costs	50,149	48,986	45,250	46,351	190,736
Gross profit	19,745	18,681	16,899	17,215	72,540
Selling, general, and administrative expenses	17,943	17,374	16,399	16,802	68,518
Operating income	1,802	1,307	500	413	4,022
Interest and other expense, net	1,060	198	267	245	1,770
Income before income taxes and cumulative effect of change in accounting principle	742	1,109	233	168	2,252
Net income before cumulative effect of change in accounting principle	449	671	141	101	1,362
Cumulative effect of change in accounting principle	(37,038)	–	–	–	(37,038)
Net income (loss) per share	$ (36,589)	$ 671	$ 141	$ 101	$ (35,676)
Basic net income per share before cumulative effect of change in accounting principle	$ 0.03	$ 0.04	$ 0.01	$ 0.01	$ 0.08
Cumulative effect of change in accounting principle	(2.24)	–	–	–	(2.23)
Basic net income (loss) per share	$ (2.21)	$ 0.04	$ 0.01	$ 0.01	$ (2.15)
Diluted net income per share before cumulative effect of change in accounting principle	$ 0.03	$ 0.04	$ 0.01	$ 0.01	$ 0.08
Cumulative effect of change in accounting principle	(2.19)	–	–	–	(2.19)
Diluted net income (loss) per share	$ (2.16)	$ 0.04	$ 0.01	$ 0.01	$ (2.11)
2001					
Revenue	$ 84,763	$ 86,113	$ 77,122	$ 72,215	$ 320,213
Direct costs	61,183	61,449	54,780	51,049	228,461
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)

Corporate Information

Stock Market Information

Stock Price	High	Low
Year ended December 31, 2002		
Fourth Quarter	$ 3.85	$ 2.50
Third Quarter	$ 5.05	$ 2.70
Second Quarter	$ 5.83	$ 4.15
First Quarter	$ 6.08	$ 3.75
Year ended December 31, 2001		
Fourth Quarter	$ 3.98	$ 1.30
Third Quarter	$ 3.85	$ 2.00
Second Quarter	$ 6.40	$ 3.45
First Quarter	$ 7.13	$ 3.88

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

On February 12, 2003, there were 3,182 record holders of the Company's common shares. The Company did not pay a dividend in 2002 or 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 8, 2003 in Buffalo, New York, for shareholders of record on March 26, 2003.

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)
(800) 730-4001
(781) 828-8813 (fax)
www.equiserve.com

Independent Certified Public Accountants

Deloitte & Touche LLP
Key Bank Tower, Suite 250
50 Fountain Plaza
Buffalo, NY 14202

CTG Board of Directors

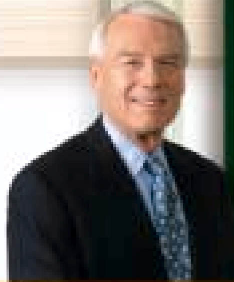
George B. Beitzel
Retired Senior Vice President and Director of IBM

James R. Boldt
Chairman and CEO of CTG

Randall L. Clark
Chairman of Dunn Tire Corporation

R. Keith Elliott
Retired Chairman and CEO of Hercules Incorporated

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



Dr. John M. Palms
Professor of Physics and former President of the University of South Carolina

Daniel J. Sullivan
President and CEO of FedEx Ground

CTG Officers

Alex P. Alexander - Vice President, CTG Retail Solutions™
G. David Baer - Executive Vice President and Co-Founder
James R. Boldt - Chairman and Chief Executive Officer
Arthur W. Crumlish - Vice President, Strategic Staffing Services
Stephen D'Anna - Vice President, Operations, North America
Gregory M. Dearlove - Vice President and Chief Financial Officer
Paul F. Dimouro - Vice President, Operations
Filip J.L. Gydé - Vice President and General Manager, CTG Europe
Thomas J. Niehaus - Vice President and General Manager, CTG HealthCare Solutions®
Newton H. Parkes - Vice President and General Manager, North America
Peter P. Radetich - Vice President, Secretary, and General Counsel
Rick N. Sullivan - Vice President, Western Region, Strategic Staffing Services

Stephen D'Anna, Rick N. Sullivan, Newton H. Parkes, Thomas J. Niehaus

Paul F. Dimouro, G. David Baer, Gregory M. Dearlove

Arthur W. Crumlish, Peter P. Radetich, Filip J.L. Gydé, Alex P. Alexander

CTG
800 Delaware Avenue
Buffalo, New York 14209-2094
716.882.8000
800.992.5350
www.ctg.com

0554-AR-03