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COMPUTER TASK GROUP INC  
Form 10-Q/A  
November 12, 2002

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q/A  
(Amendment No. 1)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED JUNE 28, 2002

Commission file number 1-9410  
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COMPUTER TASK GROUP, INCORPORATED  
-----

(Exact name of Registrant as specified in its charter)

New York  
-----

(State of incorporation)

16-0912632  
-----

(IRS Employer Identification No.)

800 Delaware Avenue, Buffalo, New York  
-----

(Address of principal executive offices)

14209  
-----

(Zip Code)

Registrant's telephone number, including area code (716) 882-8000

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No  
--- ---

Number of shares of common stock outstanding:

Title of each class -----	Shares outstanding at June 28, 2002 -----
Common stock, par value \$.01 per share	20,868,834

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## PARTS AND ITEMS AMENDED

The registrant hereby amends Part I. Financial Information, Items 1, 2 and Part II. Other Information, Item 6, in the registrant's quarterly report on Form 10-Q for the quarterly period ended June 28, 2002 to reflect the adoption of Financial Accounting Standard (FAS) No. 142, "Goodwill and Other Intangible Assets," which requires the cumulative effect of the change in accounting principle to be recorded in the Company's year-to-date financial results.

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## PART I. FINANCIAL INFORMATION

### ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### COMPUTER TASK GROUP, INCORPORATED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	FOR THE QUARTER ENDED JUNE 28, 2002	JUNE 29, 2001	FOR THE TWO QUARTERS ENDED JUNE 28, 2002
	-----	-----	-----
	(amounts in thousands, except per share)		
Revenue	\$ 67,667	\$ 86,113	\$ 137,561
Direct costs	48,986	61,449	99,135
Selling, general and administrative expenses	17,374	23,225	35,317
Operating income (loss)	----- 1,307	----- 1,439	----- 3,109
Interest and other income	88	134	168
Interest and other expense	(286)	(1,540)	(1,426)
Income (loss) before income taxes and cumulative effect of change in accounting principle	----- 1,109	----- 33	----- 1,851
Provision (benefit) for income taxes	438	1,390	731
Net income (loss) before cumulative effect of change in accounting principle	----- 671	----- (1,357)	----- 1,120
Cumulative effect of change in accounting principle	----- -	----- -	----- (37,038)
Net income (loss)	----- \$ 671	----- \$ (1,357)	----- \$ (35,918)
Basic net income (loss) per share:	=====	=====	=====

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Income (loss) before cumulative effect of change in accounting principle	\$ 0.04	\$ (0.08)	\$ 0.07
Cumulative effect of change in accounting principle	-	-	(2.24)
Basic net income (loss) per share	\$ 0.04	\$ (0.08)	\$ (2.17)
Diluted net income (loss) per share:			
Income (loss) before cumulative effect of change in accounting principle	\$ 0.04	\$ (0.08)	\$ 0.07
Cumulative effect of change in accounting principle	-	-	(2.18)
Diluted net income (loss) per share	\$ 0.04	\$ (0.08)	\$ (2.11)
Weighted average shares outstanding:			
Basic	16,557	16,418	16,545
Diluted	17,029	16,418	17,000

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

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COMPUTER TASK GROUP, INCORPORATED  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

	JUNE 28, 2002
	----- (amounts in thousands)
ASSETS	
-----	
Current Assets:	
Cash and temporary cash investments	\$ 2,731
Accounts receivable, net of allowances and reserves	52,280
Prepays and other	3,657
Deferred income taxes	1,142
-----	
TOTAL CURRENT ASSETS	59,810
Property and equipment, net of accumulated depreciation and amortization	10,889
Property held for sale	1,777
Goodwill, net of accumulated amortization	37,292

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Deferred income taxes	2,350
Other assets	636
-----	
TOTAL ASSETS	\$ 112,754
=====	
LIABILITIES AND SHAREHOLDERS' EQUITY	
-----	
Current Liabilities:	
Accounts payable	\$ 8,238
Accrued compensation	21,985
Income taxes payable	2,802
Advance billings on contracts	377
Other current liabilities	5,707
-----	
TOTAL CURRENT LIABILITIES	39,109
Long-term debt	13,234
Deferred compensation benefits	8,864
Other long-term liabilities	350
-----	
TOTAL LIABILITIES	61,557
Shareholders' Equity:	
Common stock, par value \$.01 per share, 150,000,000 shares authorized; 27,017,824 shares issued	270
Capital in excess of par value	111,516
Retained earnings	37,455
Less: Treasury stock of 6,148,990 and 6,147,810 shares, at cost, respectively	(31,416)
Stock Trusts of 4,295,983 and 4,338,000 shares, at cost, respectively	(59,060)
Other comprehensive income:	
Foreign currency adjustment	(6,985)
Minimum pension liability adjustment	(583)
-----	
Accumulated other comprehensive income	(7,568)
-----	
TOTAL SHAREHOLDERS' EQUITY	51,197
-----	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 112,754
=====	

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

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	2002
	-----
	(amounts in tho
Cash flows from operating activities:	
Net loss	\$ (35,918)
Adjustments:	
Depreciation expense	1,898
Amortization expense	-
Change in accounting principle	37,038
Deferred income taxes	257
Tax benefit from stock option exercises	-
Loss on sales or disposals of fixed assets	-
Deferred compensation expense	70
Changes in assets and liabilities:	
Increase in accounts receivable	(502)
Increase in prepaids and other	(690)
(Increase) decrease in other assets	46
Decrease in accounts payable	(211)
Increase (decrease) in accrued compensation	(2,394)
Increase (decrease) in income taxes payable	2,995
Decrease in advance billings on contracts	(94)
Increase (decrease) in other current liabilities	27
Increase (decrease) in other long-term liabilities	(310)
	-----
Net cash provided by (used in) operating activities	2,212
	-----
Cash flows from investing activities:	
Additions to property and equipment	(1,304)
Proceeds from sales of fixed assets	-
	-----
Net cash used in investing activities	(1,304)
	-----
Cash flows from financing activities:	
Proceeds from (payments on) long-term revolving debt, net	(2,278)
Proceeds from Employee Stock Purchase Plan	182
Purchase of stock for treasury	(6)
Proceeds from other stock plans	13
	-----
Net cash provided by (used in) financing activities	(2,089)
	-----
Effect of exchange rate changes on cash and temporary cash investments	550
	-----
Net increase (decrease) in cash and temporary cash investments	(631)
Cash and temporary cash investments at beginning of year	3,362
	-----
Cash and temporary cash investments at end of quarter	\$ 2,731
	=====

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

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## COMPUTER TASK GROUP, INCORPORATED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

### 1. Financial Statements

The condensed consolidated financial statements included herein reflect, in the opinion of the management of Computer Task Group, Incorporated ("CTG" or "the Company"), all normal recurring adjustments necessary to present fairly the condensed consolidated financial position, results of operations and cash flows for the periods presented.

### 2. Basis of Presentation

The condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the SEC rules and regulations. Management believes that the information and disclosures provided herein are adequate to present fairly the consolidated financial position, results of operations and cash flows of the Company. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the Company's latest Annual Report on Form 10-K filed with the SEC.

### 3. Comprehensive Income

Accumulated other comprehensive income totaled \$(7,568,000) and \$(7,867,000) at June 28, 2002 and December 31, 2001, respectively. Total comprehensive loss for the two quarters ended June 28, 2002 and June 29, 2001 totaled \$(35,619,000) and \$(4,031,000), respectively. Total comprehensive income (loss) for the quarters ended June 28, 2002 and June 29, 2001 was \$1,745,000 and \$(1,689,000), respectively.

### 4. Accounting Standards Pronouncements

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 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 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 after that date.

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In conjunction with the adoption of FAS No. 142, 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 based upon the fair market values of similar companies and the subsequent independent valuation of the implied goodwill, the Company recorded a \$37.0 million non-cash charge for impairment of goodwill in that business unit in the Company's financial results for the year-to-date period ended June 28, 2002. There was no tax associated with this impairment as the amortization of this goodwill was not deductible for tax purposes.

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 quarters and two quarters ended June 28, 2002 and June 29, 2001, respectively, is as follows:

	For the quarter ended	
	June 28, 2002	June 29, 2001
	-----	-----
NET INCOME (LOSS):		
Reported net income (loss)	\$ 671	\$ (1,357)
Goodwill amortization	-	995
	-----	-----
Adjusted net income (loss)	\$ 671	\$ (362)
	=====	=====
BASIC AND DILUTED NET INCOME (LOSS) PER SHARE:		
Reported basic and diluted net income (loss) per share	\$ 0.04	\$ (0.08)
Goodwill amortization	-	0.06
	-----	-----
Adjusted basic and diluted net income (loss) per share	\$ 0.04	\$ (0.02)
	=====	=====

	For the two quarters ended	
	June 28, 2002	June 29, 2001
	-----	-----
NET INCOME (LOSS):		
Reported net loss	\$ (35,918)	\$ (2,737)
Goodwill amortization	-	1,988
	-----	-----
Adjusted net loss	\$ (35,918)	\$ (749)
	=====	=====
BASIC NET LOSS PER SHARE:		

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Reported basic net loss per share	\$ (2.17)	\$ (0.17)
Goodwill amortization	-	0.12
	-----	-----
Adjusted basic net loss per share	\$ (2.17)	\$ (0.05)
	=====	=====
 DILUTED NET LOSS PER SHARE:		
Reported diluted net loss per share	\$ (2.11)	\$ (0.17)
Goodwill amortization	-	0.12
	-----	-----
Adjusted diluted net loss per share	\$ (2.11)	\$ (0.05)
	=====	=====

Included in the net loss for the two quarters ended June 29, 2002 is the charge for the cumulative effect of a change in accounting principle related to the adoption of FAS No. 142 of \$37.0 million, or \$2.24 per basic share and \$2.18 per diluted share. Without this charge, reported, net income in 2002 would have been \$1.1 million, or \$0.07 per basic and diluted share.

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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 condensed consolidated balance sheet as of June 28, 2002. As the Company does not anticipate a loss on the sale of this property, no adjustment was made to the carrying value of this asset in either the first or second quarter of 2002.

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 \$1.9 million and \$2.4 million in the second quarter of 2002 and 2001, respectively, and \$3.8 million and \$4.4 million in the year-to-date periods for 2002 and 2001, respectively. The 2001 revenue and direct cost balances on the condensed consolidated statement of operations have been restated by these amounts from that which was previously reported.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION  
FOR THE QUARTER AND TWO QUARTERS ENDED JUNE 28, 2002

FORWARD-LOOKING STATEMENTS



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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 in 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.

### RESULTS OF OPERATIONS

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

FOR THE QUARTER ENDED:

JUNE 28,  
2002

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Revenue	100.0%	\$67,667	100.0%
Direct costs	72.4%	48,986	71.3%
Selling, general, and administrative expenses	25.7%	17,374	27.0%
-----			
Operating income	1.9%	1,307	1.7%
Interest and other expense, net	(0.3)%	(198)	(1.7)%
-----			
Income before income taxes	1.6%	1,109	0.0%
Provision for income taxes	0.6%	438	1.6%
-----			
Net income (loss)	1.0%	\$ 671	(1.6)%
	=====	=====	=====

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FOR THE TWO QUARTERS ENDED:

JUNE 28,  
2002

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Revenue	100.0%	\$137,561	100.0%
Direct costs	72.0%	99,135	71.7%
Selling, general, and administrative expenses	25.7%	35,317	29.3%
<hr style="border-top: 1px dashed black;"/>			
Operating income (loss)	2.3%	3,109	(1.0)%
Interest and other expense, net	(1.0)%	(1,258)	(1.3)%
<hr style="border-top: 1px dashed black;"/>			
Income (loss) before income taxes and cumulative effect of change in accounting principle	1.3%	1,851	(2.3)%
Provision (benefit) for income taxes	0.5%	731	(0.7)%
<hr style="border-top: 1px dashed black;"/>			
Net income (loss) before cumulative effect of change and accounting principle	0.8%	1,120	(1.6)%
<hr style="border-top: 1px dashed black;"/>			
Cumulative effect of change in accounting principle	(26.9)%	(37,038)	0.0%
<hr style="border-top: 1px dashed black;"/>			
Net loss	(26.1)%	\$(35,918)	(1.6)%
	=====	=====	=====

CTG's second quarter 2002 revenue was \$67.7 million, a decrease of 21.4 percent when compared to second quarter 2001 revenue of \$86.1 million, while 2002 year-to-date revenues were \$137.6 million, a decrease of 19.5 percent from 2001 year-to-date revenues of \$170.9 million. The year-over-year revenue decrease is a result of the ongoing recession in the technology sector which has had a significant negative effect on customer spending for information technology services. North American revenue decreased by \$26.0 million or 17.9 percent in the year-to-date 2002 period as compared to 2001, while revenue from European operations decreased by \$7.3 million, or 28.4 percent. The European decrease is also due to a general economic slowdown in the countries in which the Company operates.

The 2001 to 2002 year-to-date 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. If there had been no change in these foreign currency exchange rates from 2001 to 2002, total consolidated revenues would have been \$0.4 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. In the second quarter of 2002, IBM continued to be the Company's largest customer, accounting for \$12.9 million or 19.1 percent of total revenue as compared to \$22.4 million or 26.0 percent of second quarter 2001 revenue. For the 2002 year-to-date period, revenues from IBM were \$26.7 million or 19.4 percent of consolidated revenue, as compared to \$46.4 million or 27.2 percent of consolidated 2001 revenues. Although revenues from IBM have been constrained in 2002, the Company expects to continue to derive a significant portion of its revenue from IBM throughout the remainder of 2002 and in future years. While the decline in revenue from IBM has had an adverse effect on the Company's revenues and profits, the Company believes a simultaneous loss of all IBM business is unlikely to occur due to the 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 72.4 percent of revenue in the second quarter of 2002 as compared to 71.3 percent of second quarter 2001 revenue, and 72.0 percent of 2002 year-to-date revenue as compared to 71.7 percent of 2001 year-to-date revenue. The increase in direct costs as a percentage of revenue in 2002 as compared to 2001 is primarily due to the recession mentioned above which has negatively affected the rates at which the Company bills customers for its

services.

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Selling, general and administrative (SG&A) expenses were 25.7 percent of revenue in the second quarter of 2002 as compared to 27.0 percent of revenue in the second quarter of 2001, and 25.7 percent in the 2002 year-to-date period as compared to 29.3 percent in the 2001 year-to-date period. During 2002, due to the adoption of Financial Accounting Standard (FAS) No. 142, the Company discontinued the amortization of its existing goodwill. In the 2001 second quarter and year-to-date period, such amortization totaled approximately \$1.0 million and \$2.0 million, respectively. If such amortization expense was excluded from the 2001 balances, SG&A expense as a percentage of revenue would have been 25.8 percent in the 2001 second quarter, and 28.1 percent in the 2001 year-to-date period. 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 was 1.9 percent of revenue in the 2002 second quarter as compared to 1.7 percent of revenue in the 2001 second quarter, and 2.3 percent in the 2002 year-to-date period as compared to an operating loss of 1.0 percent in the 2001 year-to-date period. Without the amortization expense in 2001, operating income would have been 2.8 percent in the second quarter, and 0.1 percent in the year-to-date period. Operating income from North American operations was \$2.5 million and \$5.5 million in the 2002 second quarter and year-to-date period, respectively, while European operations recorded an operating loss of \$1.2 million and \$ 2.4 million, respectively, in such periods.

Interest and other expense, net was 1.0 percent of revenue in the 2002 year-to-date period and 1.3 percent in the corresponding 2001 period. The decrease as a percentage of revenue from 2001 to 2002 is primarily due to lower average outstanding indebtedness balances and lower interest rates. The provision (benefit) for income taxes was 39.5 percent in the 2002 year-to-date period and (30.1) percent in the corresponding 2001 period. The provision (benefit) rate in each year is calculated based upon the estimated tax rate (benefit) for the entire year.

Net income for the second quarter of 2002 was 1.0 percent of revenue or \$0.04 per diluted share, compared to a loss of (1.6) percent of revenue or \$(0.08) per diluted share in 2001. Excluding the effect of the change in accounting principle, net income for the 2002 year-to-date period was 0.8 percent of revenue or \$0.07 per diluted share, compared to a loss of (1.6) percent of revenue or \$(0.17) per diluted share in 2001. Without the amortization expense, the net loss in the 2001 second quarter would have been (0.4) percent of revenue or \$(0.02) per diluted share, and in the 2001 year-to-date period would have been (0.4) percent of revenue or \$(0.05) per diluted share. Diluted earnings per share were calculated using 17.0 million and 16.4 million equivalent shares outstanding in 2002 and 2001, respectively. The increase in equivalent shares outstanding in 2002 is due additional weighted average shares outstanding and the diluted effect of outstanding stock options.

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

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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 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 after that date.

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In conjunction with the adoption of FAS No. 142, 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 based upon the fair market values of similar companies and the subsequent independent valuation of the implied goodwill, the Company recorded a \$37.0 million non-cash charge for impairment of goodwill in that business unit in the Company's financial results for the year-to-date period ended June 28, 2002. There was no tax associated with this impairment as the amortization of this goodwill was not deductible for tax purposes.

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 condensed consolidated balance sheet as of June 28, 2002. As the Company does not anticipate a loss on the sale of this property, no adjustment was made to the carrying value of this asset in either the first or second quarter of 2002.

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 \$1.9 million and \$2.4 million in the second quarter of 2002 and 2001, respectively, and \$3.8 million and \$4.4 million in the year-to-date periods for 2002 and 2001, respectively. The 2001 revenue and direct cost balances on the condensed consolidated statement of operations have been restated by these amounts from that which was previously reported.

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FINANCIAL CONDITION

Cash provided by operating activities was \$2.2 million through the first two quarters of 2002. Net loss totaled \$35.9 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 \$2.2 million. Accounts receivable increased by \$0.5 million as compared to December 31, 2001 due to the timing of the collection of outstanding balances in the second quarter of 2002. Prepaid and other assets increased \$0.7 million due to payments made in the first half of 2002 that will be amortized in future periods. Accounts payable decreased \$0.2 million primarily due to the timing of certain payments. Accrued compensation decreased \$2.4 million due to the timing of the US bi-weekly payroll, and fewer total employees. Income taxes payable increased \$3.0 million due to the Company having taxable income in the 2002 year-to-date period as compared to a significant loss in the corresponding 2001 period.

Net property and equipment and property held for sale decreased \$0.4 million. Additions to property and equipment were \$1.3 million, offset by depreciation expense of \$1.9 million, and foreign currency translation adjustments of \$0.2 million. The Company has no material commitments for capital expenditures at June 28, 2002.

Financing activities used \$2.1 million of cash through the first two quarters of 2002. Net payments on long-term revolving debt totaled \$2.3 million, and the Company received \$0.2 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 June 28, 2002, approximately 3.2 million shares have been repurchased under the authorizations, leaving 0.2 million shares authorized for future purchases. No share purchases have been made in 2002.

The Company believes existing internally available funds, cash potentially generated by operations, and available borrowings under the Company's revolving line of credit will be sufficient to meet foreseeable working capital, capital expenditure, and possible stock repurchase requirements, and to allow for future internal growth and expansion.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is nominally exposed to market risk in the normal course of its business operations. The Company has \$13.1 million of borrowings at June 28, 2002 under a revolving credit agreement, which expose the Company to risk of earnings or cash flow loss due to changes in market interest rates. Additionally, as the Company sells its services in North America and in Europe,

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financial results could be affected by weak economic conditions in those markets.

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PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Exhibit	Description	Page
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11.	Statement re: computation of earnings per share	18
99.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	19

REPORTS ON FORM 8-K

The following reports on Form 8-K were filed during the second quarter of 2002:

Date	Description
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April 9, 2002	Press release entitled "CTG Announces 2002 First Quarter Conference Call Information."
April 15, 2002	Press release entitled "CTG Reports 2002 First Quarter Financial Results."

\* \* \* \* \*

SIGNATURE

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Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COMPUTER TASK GROUP, INCORPORATED

By: /s/ Gregory M. Dearlove

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Gregory M. Dearlove  
Principal Accounting and  
Financial Officer

Title: Vice President and  
Chief Financial Officer

Date: November 11, 2002

CERTIFICATION

I, James R. Boldt, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Computer Task Group, Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

Date: November 11, 2002

/s/ James R. Boldt

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James R. Boldt  
Chairman, President and CEO

CERTIFICATION

I, Gregory M. Dearlove, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Computer Task Group, Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

Date: November 11, 2002

/s/ Gregory M. Dearlove

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Gregory M. Dearlove  
Vice President and CFO

