

Staying the Course



Our Vision

Keane's vision is to be recognized as one of the world's great information technology (IT) services firms by its:

Clients — due to the quality and business value of its IT solutions;

Employees — because Keane is a great place to work where people matter and can make a difference; and

Shareholders — because of Keane's ability to consistently generate long-term per share value.

Our Mission

Keane's mission is to help clients maximize the performance of their IT organizations. Keane delivers business value through its Application Lifecycle Optimization services.

we get **IT** done.

What We Do

Keane, Inc. (AMEX:KEA) helps clients Plan, Build, Manage, and Rationalize their application software portfolios. Keane strives to build long-term relationships with customers by providing a broad range of service offerings that enable clients to optimize their portfolio of applications throughout their useful life. Specifically, Keane focuses on three highly synergistic service offerings: Business Consulting, Application Development & Integration (AD&I), and Application Development and Management Outsourcing (Applications Outsourcing), which is Keane's flagship service offering. As part of its Build services, Keane also provides a full-line of healthcare information systems. Keane delivers its services through an integrated network of local branch offices in North America and the United Kingdom, and through Advanced Development Centers in the United States, Canada, and India.

How We Build Long-Term Shareholder Value

Keane believes that maximizing the generation of cash from operations is fundamental to building long-term per share value. Keane believes that selling and delivering Applications Outsourcing and cross-selling its other services and its ability to attract, retain, and develop talented personnel are critical to its long-term success. In addition, leveraging Selling, General & Administrative (SG&A) expense over a broader base of revenue is crucial to increasing net income and cash provided from operations.

Financial Highlights

(in thousands except per share amounts)

December 31,	2002	2001	2000
Income Statement Data			
Total revenues	\$873,203	\$779,159	\$871,956
Operating income	10,357	19,753	27,921
Net income	8,181	17,387	20,354
Net income per share (diluted)	.11	.25	.29
Balance Sheet Data			
Total cash and marketable securities	\$68,255	\$129,243	\$115,212
Total assets	685,674	679,903	463,594
Total debt	45,647	15,357	8,616
Stockholders' equity	490,584	529,173	370,677
Book value per share	7.06	7.00	5.48
Year-end shares outstanding	69,521	75,509	67,675
Cash Flow Data			
Net cash provided by operating activities	\$56,671	\$83,182	\$96,078
Financial Performance (Including Non-GAAP Measures)			
DSO*	59 days	70 days	77 days
Cash EPS (diluted)**	.38	.46	.51

Reconciliation to Cash EPS	2002	2001	2000
Income before income taxes	\$13,636	\$29,221	\$34,186
Add:			
Amortization of goodwill and other intangible assets and stock based compensation	16,429	14,574	12,351
Restructuring charges	17,604	10,358	13,549
Adjusted income before income taxes	47,669	54,153	60,086
Provision for income taxes	19,068	21,932	24,335
Adjusted net income	\$28,601	\$32,221	\$35,751
Weighted average diluted shares	74,406	69,396	69,993
Cash earnings per share	\$.38	\$.46	\$.51

*DSO calculated using trailing three months total revenue divided by 91 days in period to equal daily revenue. The average A/R balance for three month period is then divided by daily revenue.

**Keane believes that cash performance is the primary driver of long-term per share value, thus Keane's management views cash earnings per share (CEPS) as an important indicator of performance. CEPS excludes special charges along with amortization of goodwill and other intangible assets and stock-based compensation. CEPS is not a measurement in accordance with Generally Accepted Accounting Principles (GAAP).



Brian T. Keane
President and Chief Executive Officer

During 2002, the headlines were dominated by the economy, global instability, and depressed capital markets. In each case, the news was not good as the world seemed trapped in the clutches of uncertainty. In this environment, Keane had a very simple focus: execute operationally and strengthen our competitive positioning for the future.

2002 was a difficult, yet important year for Keane. Despite the weak economy and continued declines in IT spending, Keane recorded a series of important accomplishments during the year. Each, on an individual basis, is significant to Keane. Together, they represent a coordinated set of initiatives, driven by our strategy, which have enabled the Company to gain competitive strength.

The first was completing the integration of Metro Information Services, which we acquired in November of 2001. Metro increased Keane's average branch size and critical mass, enabling us to lower our Selling, General & Administrative (SG&A) expense as a percentage of revenue. Metro also provided Keane with hundreds of new customers to which we can cross-sell Keane's full array of services, an asset that will be particularly beneficial as customers again invest in new technology initiatives.

Second, we added an offshore delivery capability with the acquisition of SignalTree Solutions in March of 2002. The buying behavior of our customers is changing, driven by the need to lower costs without sacrificing quality. For Keane to maintain market leadership in Application Development and Management Outsourcing (Applications Outsourcing),

it was essential to add an offshore capability to our global delivery model. With the addition of SignalTree, re-branded Keane India, Keane now offers its clients a next-generation global delivery model, which includes an integrated and highly flexible combination of on-site, near-shore, and offshore delivery. This model enables us to be price competitive with pure-play offshore firms, while delivering a more customer-centric and lower-risk solution to clients. I believe that history will show that SignalTree will be one of Keane's most important strategic acquisitions. In the past year, we have grown our offshore operations by more than 80 percent, and more than doubled the number of projects and customers we are supporting from India. Simply put, adding an offshore capability was an essential investment for Keane's future growth.

Third, despite the difficult environment, Keane generated strong cash flow during 2002. This performance reflects the importance Keane places on cash flow as the ultimate driver of shareholder value. A major factor aiding this cash generation was reducing our working capital requirements by improving Days Sales Outstanding (DSO). DSO declined to 59 days at the close of 2002, improving from 70 days at the close of 2001. Keane's cash position was \$68 million at the end of 2002, after the acquisition of SignalTree and our continuing investment in the repurchase of Keane stock. During 2002, we invested \$54 million to repurchase 6.5 million shares of Keane stock. This represented approximately 9 percent of shares outstanding as of year-end 2002. We believe the repurchase program is an important value

creation investment because of our confidence in Keane's long-term prospects.

Fourth, during the First Quarter of 2002, Keane signed the largest Applications Outsourcing deal in its history, a \$500 million, 10-year engagement with PacifiCare Health Systems. I am pleased to report that Keane's delivery performance has been strong, and we have provided significant value to the customer. This project clearly demonstrates Keane's ability to compete effectively for large outsourcing projects against other top-tier providers, and it underscores our delivery excellence regardless of project size.

Fifth, during 2002, Keane took advantage of market conditions to strengthen our sales and management team. At the executive level, we added Russ Cappellino as Senior Vice President and head of Keane's Global Services Group, Don Hillier as Senior Vice President of Human Resources, and Laurence Shaw as Managing Director of Keane's operations in the United Kingdom. These individuals are just three of the many high-caliber leaders that we added last year to help drive our next phase of growth.

More recently, in February of 2003, Keane announced a transatlantic business alliance with The Unilog Group, a firm similar to Keane in both service offerings and size with operations throughout Continental Europe. This alliance enables Keane to offer its customers the combined resources of over 18,000 business and technical professionals in North America and Europe. More importantly, it allows Keane to compete for deals that have a Continental

European component, and gain incremental business by supporting Unilog's customers in North America. And unlike an acquisition, this alliance involves no outlay of capital. We are already working together with Unilog on several project opportunities in North America and Europe.

I believe that the combination of these achievements has significantly improved Keane's competitive positioning and enabled Keane to outperform much of the IT services industry in a very difficult environment.

I would now like to provide my assessment of where things are going well within Keane and areas where I believe further improvements can be made.

On the positive side, Keane's Healthcare Solutions Division (HSD) had a record year in 2002 in terms of revenue and profit. The HSD acquisitions we made a few years ago are fully integrated and we are benefiting from an excellent management team and a stable market. Our open-architecture, award-winning products are well positioned in the marketplace and we believe that we can gain market share in the near-term. In addition, we are realizing increased synergies between HSD and our other North American business units, particularly in helping clients achieve HIPAA compliance. We are now increasing our focus on winning more Applications Outsourcing deals within the healthcare sector, an area where we believe there is significant opportunity.

We are also seeing growth and success in the public sector, particularly with the Federal government. Keane Federal Systems, a division devoted to

In the past year, we have grown our off-shore operations by more than 80 percent, and more than doubled the number of projects and customers we are supporting from India

cultivating relationships with the Federal government, is well positioned with the departments of Defense and Homeland Security and Intelligence agencies. And although many state governments are currently facing budget deficits, we have strong client relationships and a good delivery track record that should help to weather some of the inevitable cutbacks in spending.

Earlier I mentioned the success we have had in leveraging our offshore operations in India to close new business with clients. Keane India and our global delivery model are a core part of our strategy moving forward. With it, we have further improved Keane's industry-leading Applications Outsourcing capabilities, and our sales activities are increasing accordingly. It is encouraging to me that our sales teams have fully adopted the global delivery model and see it as a critical element of driving sales growth. In fact, most of the Applications Outsourcing sales pipeline has an offshore and/or near-shore component.

I am also very pleased and proud of Keane's delivery excellence. Applications development and applications management projects are complex undertakings in the best of circumstances. Keane's superior track record for successfully delivering IT projects is an important differentiator of Keane and a key reason why Keane enjoys very high levels of repeat business.

As mentioned, there are also areas where Keane is facing challenges and where I believe that we can

and must improve our performance. Within our United Kingdom and North American Branch Operations (NABO), we experienced revenue pressure throughout 2002. Not surprisingly, those business units that had the greatest focus on Applications Outsourcing performed best, while those with a greater focus on applications development projects or staffing performed less well. The implications are clear: we need all of our operations to be highly effective at selling and delivering Applications Outsourcing deals, especially in an environment where discretionary expenditures on development projects and staffing are significantly depressed compared to historical norms. The additional benefit of outsourcing projects is that once IT spending does increase, Keane will be ideally suited to capture the inevitable flow of new development projects because of our incumbent positioning. Over the past several months we have taken a series of steps that we believe will improve our sales effectiveness and allow more broad-based organic growth in the United Kingdom and NABO branches.

Keane Consulting Group (KCG), our management consulting arm, was challenged throughout 2002 by the dramatic decline in major new capital projects by our clients. This led to pressure on both bill rates and utilization, causing KCG to miss its targets for the year. Long term, we are optimistic that KCG will return to its historical profit margins. Near term, although the environment for management consulting remains tough, we are encouraged by KCG's early success in launching our new Applications

Rationalization service which helps clients streamline their IT environment and improve the business value of their IT investments.

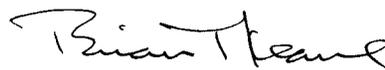
As we proceed through 2003, Keane's management team will stay the course and maintain our focus on executing our strategy. Keane's vision is to be recognized as one of the world's great IT services firms by its clients, employees, and shareholders. We will achieve this vision by helping clients maximize the performance of their IT organizations and generate substantial value to their respective businesses. The primary means by which we seek to accomplish this goal is through our Application Lifecycle Optimization services, especially our flagship Applications Outsourcing service.

Keane's strategy is based on a simple yet powerful philosophy. Solid leadership backed by exemplary performance generates superior, measurable business benefit. We help our clients to focus on the right things, and to do them rightly, exceeding their expectations. In addition, we believe in measuring results, which helps us demonstrate the value of our services to clients, and provides us with the data necessary to continuously improve the effectiveness of our solutions. You can read more about our strategy and the value we generate for clients in the body of this report.

Keane's management team has identified a handful of priorities which we are intensely focused on during 2003. We will continue to place attention on

generating cash flow, the ultimate driver of shareholder value. We will invest in and expand our off-shore operations and global delivery model, which are essential to address changing customer buying behavior. We are committed to maintaining our industry leadership in Applications Outsourcing, and we will further enhance the quality processes and performance metrics we use that have proven to be significant differentiators for Keane in the marketplace. And finally, we will improve Keane's organizational effectiveness and operating leverage by implementing streamlined and internally consistent business processes, compensation systems, technology, and performance metrics. In aggregate, we believe that these initiatives will help Keane to maximize business benefit to clients, while increasing revenues, earnings, and shareholder value in 2003.

In closing, I would like to thank our shareholders and customers for their continuing support, and Keane's employees for their efforts on behalf of the Company during 2002. As both an executive of Keane and one of its largest shareholders, I strongly believe that we are doing the right things to enhance Keane's positioning and maximize shareholder value. You have my commitment to put in whatever efforts are necessary to make these goals a reality.



Brian T. Keane
President and Chief Executive Officer

We help our clients to focus on the right things, and to do them rightly, exceeding their expectations

Keane's Leadership Team is an experienced group of managers from field operations and critical corporate functions. They focus on continuously improving the quality and effectiveness of the Company's IT solutions for customers, creating a positive and supportive work environment for employees, and promoting the consistent generation of long-term per share value.



*Pictured (left to right): Keane's Leadership Team: **Raymond W. Paris**, Senior Vice President, Healthcare Solutions; **Laurence D. Shaw**, Managing Director, Keane Ltd; Vice President, Keane, Inc.; **John J. Leahy**, Senior Vice President, Finance and Administration and Chief Financial Officer; **Brian T. Keane**, President and Chief Executive Officer; **Robert B. Atwell**, Senior Vice President, North American Branch Operations; **Donald E. Hillier**, Senior Vice President, Human Resources; **Linda B. Toops**, President, Keane Consulting Group; Senior Vice President, Keane, Inc.; **Russell A. Cappellino**, Senior Vice President, Global Services.*

For the IT services industry, 2002 marked another year of challenges and targeted opportunities. In the short term, the industry remains in a severe downturn resulting from the confluence of the weak economy, geopolitical uncertainties, and lack of compelling new technologies. Many analysts expect this weakness to continue through 2003. With notable exceptions in key industry sectors such as healthcare and the Federal government, companies continue to carefully control IT expenditures. In contrast to the late 1990s, today's tight corporate budgets and abundant supply of IT talent create a buyer's market for IT services.

Despite these challenges, corporations still spent \$557 billion on IT services, up slightly from \$542 billion in 2001. Analysts predict worldwide IT spending will grow to \$591 and \$634 billion in 2003 and 2004, respectively. Buyers continue to invest in high return on investment (ROI) business initiatives and on baseline IT services, and a growing backlog of deferred development and enhancement activities may provide significant new consulting business as the economy improves. In the current environment, buyers seek services that provide near-term business ROI, value-adding capabilities, and attractive price/performance.

Economic conditions and changes in customer buying patterns are permanently restructuring the IT services industry. Intense customer focus on cost effectiveness and the demand for full-service solutions has caused significant market consolidation, eliminating many niche players. Global sourcing has

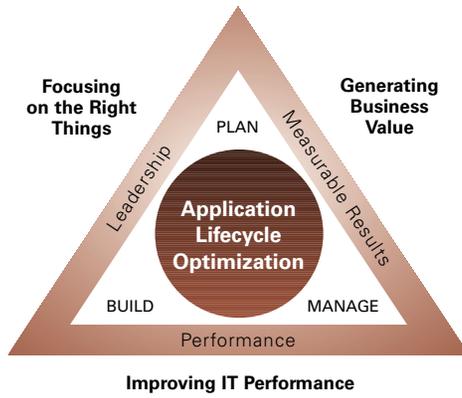
become a viable component within overall corporate IT sourcing strategies as companies seek to geographically spread risk, take advantage of new pools of skilled resources, and gain cost benefits from rate arbitrage. Strong customer demand for lower-priced resources has led many major U.S.-based IT services firms to establish offshore development centers and shift increasing volumes of work overseas.

Application outsourcing has become an indispensable component of corporate IT strategies. Increasingly, companies require their internal IT organizations to compete against external service providers, outsourcing functions and activities to the most effective deliverer. Gartner analysts note that the percentage of work performed by internal IT organizations fell below 50 percent in the late 1990s and predict the rate will fall below 40 percent by 2005. This trend is particularly strong in application outsourcing, which is expected to grow at a five-year compounded annual growth rate of 11.6 percent in North America.

Demand in the IT services market is cyclical. Current conditions belie significant future opportunities as the economy inevitably improves. As shown in the late 1990s, success in a strong market is easy, but long-term viability requires steady, conservative leadership and a portfolio of offerings that withstand the conditions imposed by economic changes. ■

IT Industry Trends

- Companies continue to carefully control IT expenditures
- Buyers are seeking services that provide near-term ROI
- Global sourcing has become a viable component of corporate sourcing
- Application outsourcing is now an indispensable part of IT strategy



Keane unifies its Plan, Build, and Manage services within an Application Lifecycle Optimization framework that encompasses an application's useful life from conception to retirement and provides the services needed to maximize value at each stage.

Keane's vision is to be recognized as one of the world's great IT services firms by its clients, employees, and shareholders. We seek to achieve this vision through a cohesive, highly integrated set of services and capabilities that help our clients improve the performance of their IT organizations by maximizing the business benefits of their technology investments.

Customers demand cost-effective solutions to achieve their business objectives. More important than the lowest unit cost of services is generating higher business returns from their investments and reaping long-term recurring benefits from associated IT process improvements. Driven by these demands, our strategy follows the philosophy that solid leadership backed by exemplary performance generates superior, measurable business results. This strategy unifies our core Plan, Build, and Manage services in a framework that is centered on our specialization in Application Lifecycle Optimization.

Application Lifecycle Optimization

Since our inception, we have specialized in helping customers optimize the value of their most important IT asset — their portfolios of business applications. We believe we are second-to-none in helping customers plan, build, and manage their application assets to gain measurable business benefits. For Keane, this specialization offers some benefit in a down market. In tight times, customers seek to manage their portfolios more efficiently and reap cost savings from consolidation and rationalization efforts.

When funds are available, they invest in developing new applications. Maintenance and enhancement activities are required regardless of the state of the economy.

With the unifying conceptual framework for packaging, marketing, and selling Keane's services, our Application Lifecycle Optimization (ALO) model follows an application's useful life from conception to retirement and maps the plan, build, and manage services needed to maximize value at each stage.

- Application Development creates business value by building new applications. Keane's Business Consulting and Application Development and Integration (AD&I) services identify a client's greatest business impact opportunities and implement new systems on time, within budget, and optimized to reduce total cost of ownership.
- Keane's flagship Applications Outsourcing service maximizes application business value during the application management phase of the lifecycle. It increases return on investment by enhancing organizational flexibility, improving operational efficiency, and proactively managing and enhancing applications to extend their useful life.
- As they decline in quality, end-of-life applications diminish in value. Our Applications Rationalization offering helps streamline application portfolios by decommissioning end-of-life applications, eliminating redundant software, and renovating high-potential, under-performing systems.

Public Service Enterprise Group



Public Service Enterprise Group (PSEG), the diversified energy company based in New Jersey, has several subsidiaries including PSE&G, one of the largest combined electric and gas companies in the United States. In 1996, Keane began providing Applications Outsourcing services to PSEG for a variety of business applications while leading its Y2K compliance program.

Since then, Keane has provided ongoing maintenance and support of mission critical software including PSE&G's Customer Interface System, the epicenter for data from customer interaction, maintenance requests, and back-office systems. In 2002, PSEG transitioned from an on-site support model to a mixed team with a project office interfacing with business users in New Jersey, and offshore resources providing maintenance and support services from India.

This shift was made in response to changing dynamics in the energy sector according to Bert Simpson, CIO of PSEG. Keane provided PSEG the ability to access the cost benefit of offshore labor through a long-term partner that understood its application environment. Today, PSEG is benefiting from the cost advantage of offshore resources, while maintaining high quality delivery with a proven, long-term partner.

Pictured (left to right): Barbara Wentzel, Regional Sales Vice President, Keane, with Bert Simpson, Senior Vice President of Information Technology and CIO, PSEG.

The National Oceanic and Atmospheric Administration (NOAA), the largest agency within the U.S. Department of Commerce, is faced with complex challenges from weather forecasting through the National Weather Service, to managing coastal and marine resources and predicting changes in the Earth's environment.

Today, Keane Federal Systems provides technical and project management services to NOAA's Information Technology Center (ITC) in Largo, Maryland. The ITC supports NOAA's Financial and Administrative operations with Keane providing technical support services for data center operations and infrastructure support.

Keane's work with NOAA began in 1998 through ANSTEC, which became part of Keane in 1999. In the last several years, the NOAA relationship evolved as Keane assumed project responsibility and accountability through a level-of-service based arrangement. Using its world-class project management approach, Keane has instituted Project Control and Reporting Processes at the ITC, providing standardized reporting and metric collection, and implementing a Project Risk Assessment Management process. According to Joseph Smith, Director of NOAA's ITC, Keane has helped the ITC improve productivity, contain costs, and benefit from process improvements.

Pictured (left to right): Joseph C. Smith III, Director, NOAA Information Technology Center with Bill Bassford, Program Manager, Keane Federal Systems.

National Oceanic and Atmospheric Administration



Leadership

We believe leadership means achieving preeminence in the markets we serve, finding and capitalizing on the highest value opportunities, and driving initiatives to successful completion.

Recognized by analysts and customers as a premier application outsourcing provider in North America, we plan to enhance our position through continued research and investment in our metrics, processes, and delivery capabilities. In particular, we intend to be an industry leader in the use of metrics to measure the business value of IT.

We help our clients find the highest value opportunities through our Business Consulting services, using workflow improvements to enhance client performance and drive new technology projects, and Applications Rationalization to focus IT investments.

We will seek to increase the success of our clients' initiatives through our core strength of effective program and project management. Effective project leadership is more critical than ever as projects increase in complexity and delivery efforts become more geographically distributed. Well known for our Productivity Management approach, we continue to invest in building our own project management capabilities.

Performance

We strive to continuously improve our clients' performance as well as our own. Exceeding our clients' delivery expectations is essential for winning repeat business. Helping our clients enhance business results through high-performing IT organiza-

tions to support their application portfolios increases the value of their IT investments and builds long-term relationships for Keane. We offer the flexibility, scalability, and economic advantage of our three-tier delivery model that allocates work on-site, near-shore to our facilities in Nova Scotia, and offshore to Keane India, to optimally match client objectives. To support our efforts, we are continually enhancing our world-class processes and metrics capabilities to gain greater predictability in the critical areas of cost, schedule, quality, performance, and customer satisfaction.

Generating Measurable Results

Keane is willing to be measured and held accountable for results. For our customers, we generate concrete results by providing a standard means of measuring business value, using those measures to understand which resources, assets, and activities provide the greatest value, and continually redirecting our efforts to optimize business performance. For our shareholders, we create measurable benefit through a commitment to grow per share value by increasing the ultimate driver of valuation — the Company's operational cash flow. To maximize cash flow, we seek to build long-term customer relationships that earn recurring revenue through high impact solutions designed to meet current and future customer needs. We plan to use excess cash to create shareholder value through share repurchases and mergers and acquisitions, and continued investment in metrics, internal capabilities, and process leadership. ■

Our strategy follows the philosophy that solid leadership backed by exemplary performance generates measurable business results

Business Consulting

Client Benefits

- Maximizes productivity, improves efficiency, and aligns business objectives and IT
- Applications Rationalization reduces costs while improving the flexibility and scalability of application assets

Keane Benefits

- Develops strong relationships with senior executives
- Provides follow-on IT projects

Keane’s solutions are designed to optimize our customers’ most valuable IT assets — their portfolios of business applications. We plan, build, and manage application software through our Business Consulting, Application Development and Integration (AD&I), and Applications Outsourcing services. Our services cover the entire application lifecycle from conception to retirement and allow us to optimize our clients’ portfolio effectiveness at any stage or assume full responsibility for all stages.

Business Consulting (Plan)

Keane’s business consulting services help clients identify and implement initiatives that deliver measurable business value by increasing their strategic, operational, and competitive effectiveness. We provide these services through our business consulting organization, Keane Consulting Group (KCG). Specializing in operational improvements, KCG’s four core competency areas are insurance and financial services, manufacturing and distribution, technology, and public sector services.

Taking a broad view of business processes, organizational design, and technology architecture, KCG focuses on identifying and addressing opportunities that create significant business benefits. Typical client engagements include streamlining customer processes and operations, optimizing supply chains, and aligning IT and business strategies. Providing direction for Application Lifecycle Optimization efforts, KCG also guides IT investments to areas of highest return and identifies opportunities for new value-creating applications. Its Applications Rationalization

service analyzes a company’s application portfolios to reduce costs and improve return on investment by identifying and eliminating software with redundant functionality, end-of-life systems, and those that use obsolete, non-core technologies.

Application Development and Integration (Build)

Keane’s Application Development and Integration (AD&I) services help clients address high value business opportunities by implementing new applications and by integrating and enhancing existing applications. With a broad base of technical expertise and a reputation for exceptional delivery, Keane has become a top-tier provider of large, complex software

Application Development

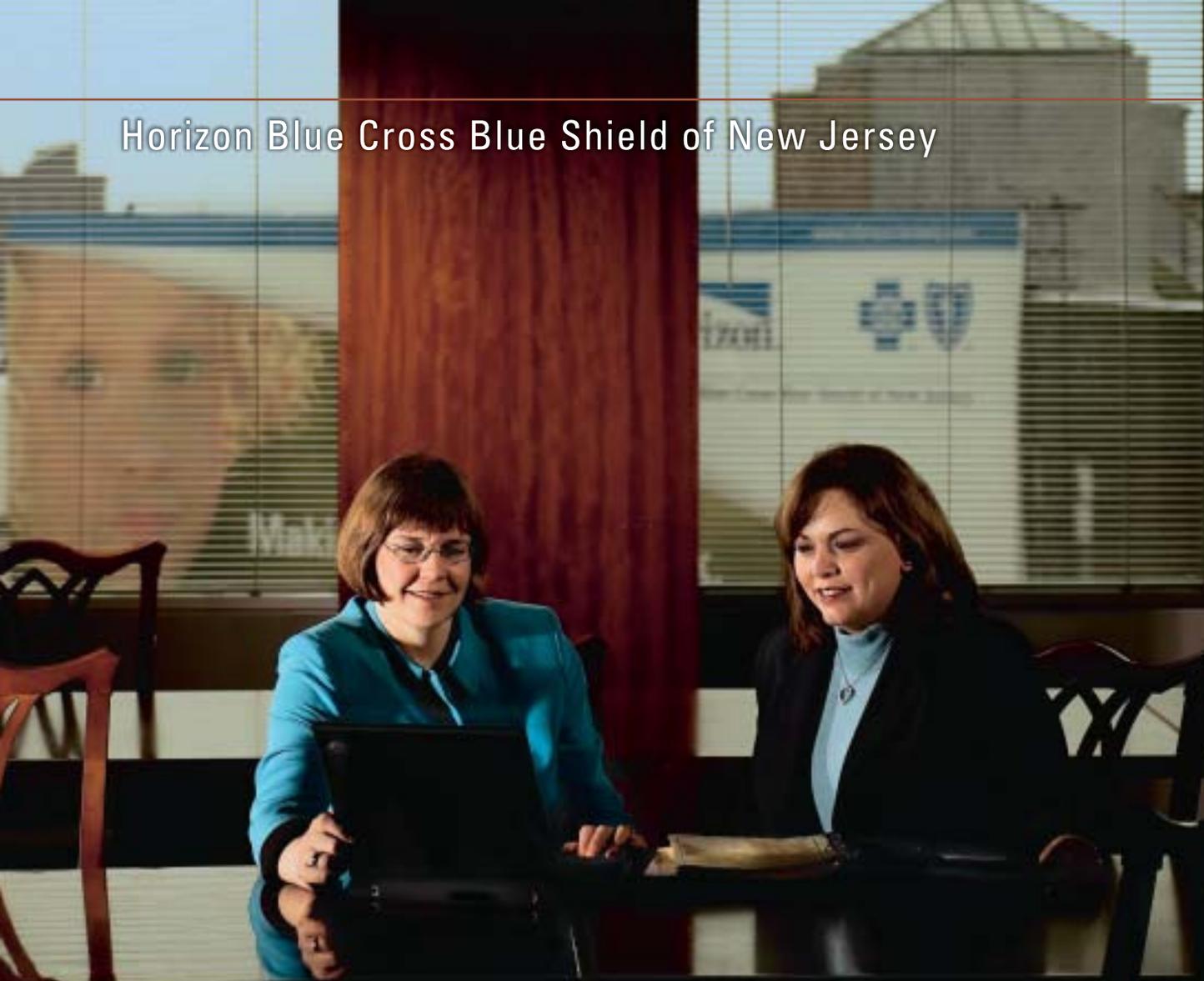
Client Benefits

- Lower risk, high value development investments as a result of strong project management and execution, and flexible global delivery
- Application integration enhances access to data and increases the value and effective life of existing applications

Keane Benefits

- When budgets are tight, Keane can help clients by integrating and enhancing existing applications
- During “up” economic cycles, Keane can leverage long-term customer relationships to capture large-scale development projects

Horizon Blue Cross Blue Shield of New Jersey



Improving responsiveness to clients' needs is critical to organizations like Horizon Blue Cross Blue Shield of New Jersey (Horizon BCBSNJ), with more than 2.8 million members, the largest health insurer in New Jersey.

When the service department for Horizon BCBSNJ's Federal Employee Program (FEP) wanted to improve their Performance Improvement Plan (PIP) scores (performance measures which are mandated by the Blue Cross Blue Shield Association), they partnered with Keane Consulting Group (KCG). Working together, Horizon BCBSNJ and KCG strove to improve performance to achieve Horizon BCBSNJ's mission of providing affordable, quality health care coverage and service.

Horizon BCBSNJ and KCG began by assessing the skills of current staff, reducing the resources required for claims and correspondence, realigning roles and responsibilities, providing training to establish accountability, and promoting and rewarding strong performance. Results included streamlining core work processes for claims, correspondence, and customer service. This reduced repeat calls from subscribers and providers by 20 percent, improved the quality of customer service, and decreased overall operating expenses by nearly 10 percent. Overall, Horizon BCBSNJ's PIP performance scores improved by 17 percent, helping this leading insurer deliver on its promise of *Making Healthcare Work* for all its members.

Pictured (left to right): Carol E. Fahy, Vice President, Keane Consulting Group and Kim Dans, Director FEP Program, Horizon Blue Cross Blue Shield of New Jersey.

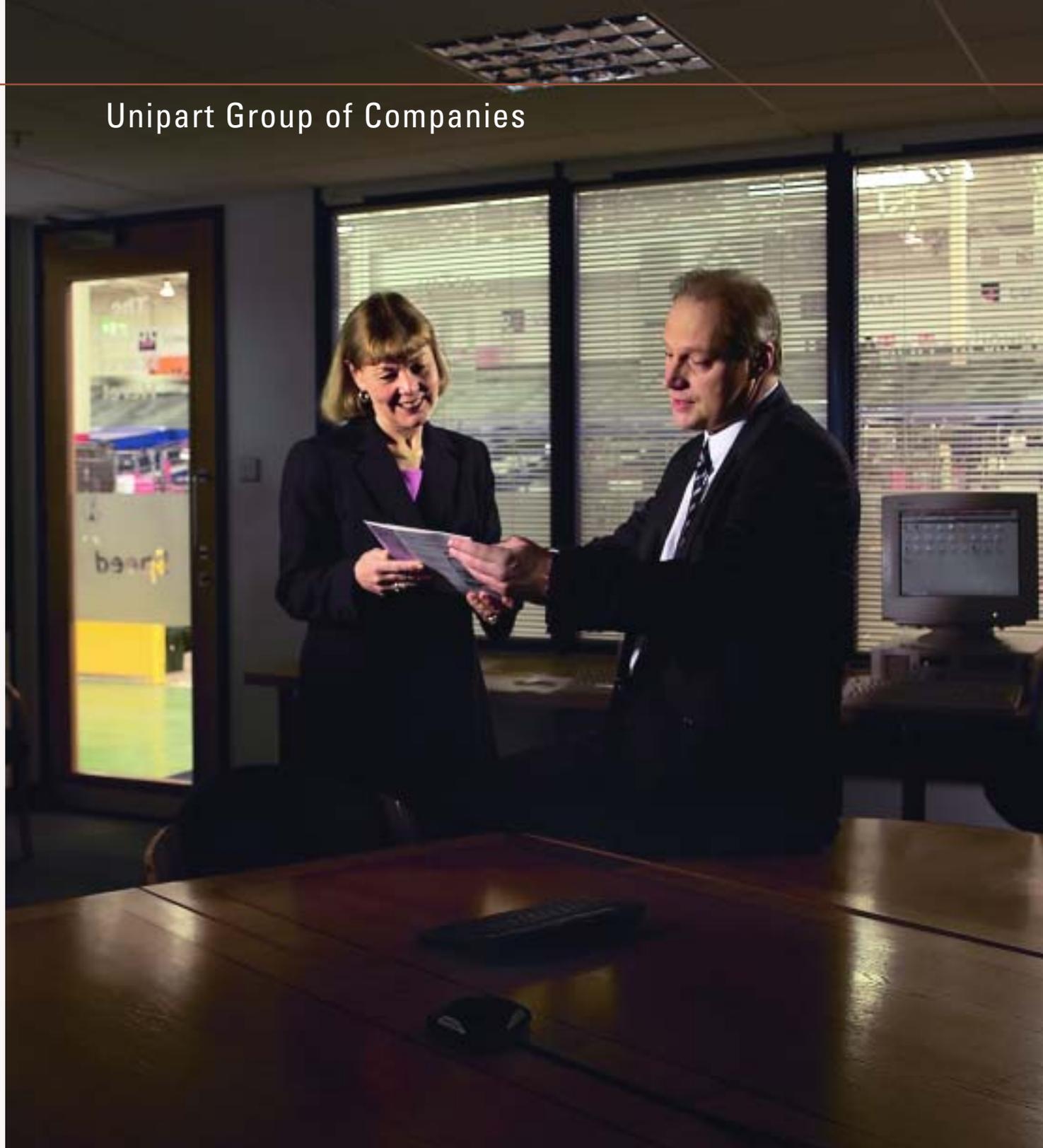
Unipart Logistics, part of the Unipart Group of Companies, is one of Europe's leading independent logistics companies providing service to the automotive, technology, and industrial sectors. As part of Unipart's goal to increase market share and provide superior customer service to existing clients, it recognized the need to optimize the performance of its IT assets.

Since 1999, Unipart has partnered with Keane Ltd. The team has established a structured environment of continuous improvement alongside guaranteed reduced maintenance costs. Keane has consistently delivered business benefits like higher quality deliverables and higher user satisfaction. Today, Keane continues to provide development and management services for a broad range of Unipart's core IT business applications across multiple platforms and technologies.

Mark Tonks, IT Director for Unipart, identified Keane's professionalism, experience, and commitment to measured improvement as critical deciding factors toward his continued reliance on Keane. Keane's engagement at Unipart was independently assessed at Level 3 against the SEI CMM within 12 months of transition into the project, testament to Keane's ability to deliver.

Pictured (left to right): Beryl Overton, Engagement Executive, Keane Ltd with Mark Tonks, IT Director, Unipart Logistics.

Unipart Group of Companies



development and integration projects for Global 2000 companies and for federal, state, and local governments. We achieved this position through our core disciplines in project and program management, our flexibility and responsiveness to changing business requirements, and our three-tier (on-site, near-shore, and offshore) delivery model that allows customers to select delivery options that best meet their cost, resource, and time-to-market needs.

AD&I services include technology architecture design and implementation, application development, software package implementation and customization, and application enhancement and integration. We have particular expertise in Enterprise Application Integration (EAI), supply chain, and customer service areas.

Application Development and Management Outsourcing (Manage)

Keane's Applications Outsourcing service helps customers manage their portfolios of business applications, generating measurable business benefits by improving efficiency and reliability, reducing costs, and enhancing effectiveness. We are acknowledged as a market leader in application outsourcing by industry analysts at Gartner and Giga Information Group. We achieve this distinction through our rigorous adherence to process, management disciplines, and performance metrics. We demonstrate our performance using the Software Engineering Institute's (SEI) Capability Maturity Model (CMM). Our Application Development Centers in India are independently rated at CMM Level 5, the highest level of

process maturity, and our center in Halifax is expected to reach that level in 2003. Of distinction in the industry is our ability to transfer this process knowledge and its performance gains to our customers' organizations, allowing them to achieve measurable business benefits. To date, 43 of our client engagements have been independently assessed at CMM Level 3 or 4.

Although its primary focus is application management, Applications Outsourcing can cover all phases of Application Lifecycle Optimization. It provides benefits by instituting operational efficiencies, establishing controls through service level metrics, and redirecting work from non-value-adding break/fix activities to enhancements and other value-creating activities.

Applications Outsourcing is designed to provide our customers with outstanding service, performance improvements, and significant cost advantages from operational improvements and the ability to distribute work locally on-site, near-shore, and offshore. Local management reduces risk, ensures swift response to issues, and maintains continual alignment with changing business needs.

Applications Outsourcing provides a powerful platform for Keane to achieve its growth and strategic objectives, including building long-term customer relationships, winning large engagements, and gaining contractually-obligated recurring revenue. Additionally, it provides an incumbent position that enables Keane to cross-sell other solutions and win new outsourcing engagements from existing clients.

Applications Outsourcing

Client Benefits

- Operational improvements from use of industry-leading performance metrics and management disciplines as well as global delivery
- Local management reduces risk and ensures responsive customer service and swift resolution of service issues

Keane Benefits

- Provides contractually-obligated base of recurring revenue on which to build long-term customer relationships
- Establishes an incumbent position that enables Keane to cross-sell other solutions and win additional outsourcing engagements

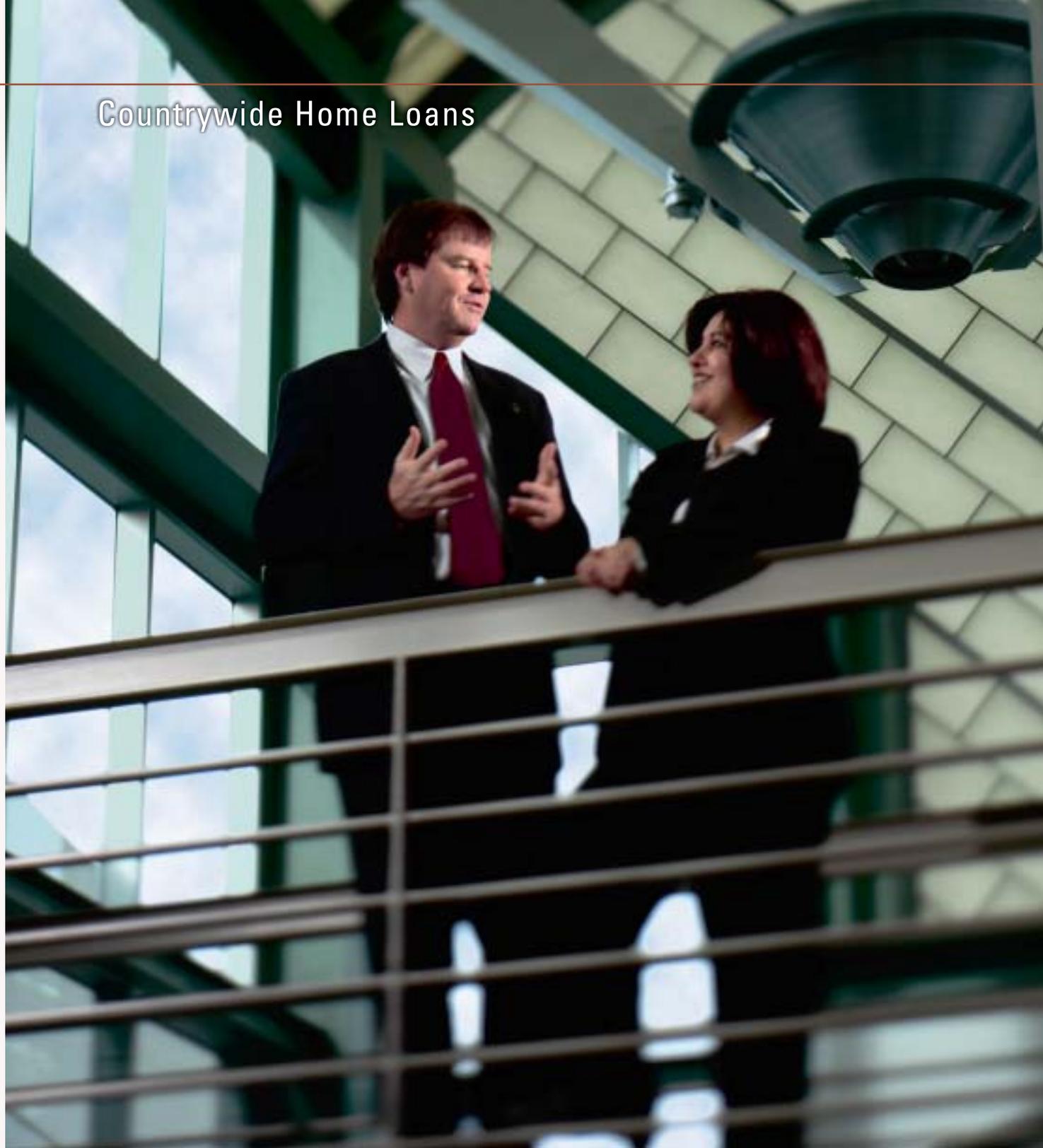
Since 1995, Countrywide Home Loans, the nation's leading independent residential mortgage lender has utilized Keane's global delivery model to leverage the cost and quality advantages of offshore delivery for maintenance of mission critical applications and development of new application software.

In the highly competitive financial services space, Countrywide's success is directly impacted by its ability to offer its customers superior products and customer service. In recent years with more than 40 percent of its loan originations handled via the Internet, Countrywide had to improve the functionality of Internet-based applications. Keane helped Countrywide maximize return on investments in new technology utilizing its Advanced Development Centers in India to scale its resource base as needed.

Countrywide's CIO, Richard Jones, credits effective project management and strong communication at the project management, business, and technical levels as key factors to the long-term success of this relationship. Keane has gained an understanding of Countrywide's business processes and application software environment equipping it to respond to changing technology challenges and requirements.

Pictured (left to right): Richard K. Jones, Managing Director and Chief Information Officer, Countrywide with Veena Mahendru, Principal Account Executive, Keane.

Countrywide Home Loans



Healthcare Solutions

Keane helps healthcare organizations use information technology to overcome the challenge of providing higher quality patient care while enhancing administrative and operational effectiveness. We offer proprietary application systems, healthcare-related IT consulting, outsourcing, and IT integration services through our Healthcare Solutions Division (HSD). Part of our Build group of services, HSD serves integrated delivery networks, hospitals, long-term care facilities, and physician group practices. Our strengths include a customer base of more than 300 hospital-based clients and 4,300 long-term care facilities throughout the United States, highly rated applications, and a full range of open-architecture offerings.

These offerings include financial management, patient care, clinical operations, enterprise information, long-term care, and practice management systems. Our EZ-Access™ browser-based family of healthcare information systems includes Keane's highly acclaimed and widely installed Patcom Plus, a patient management system. Customers gave Patcom Plus the highest rating of any solution in its category in a recent independent evaluation performed by KLAS Enterprises. Other offerings include Keane InSight, a comprehensive healthcare information system, and VistaKEANE, a fully integrated financial and clinical solution for long-term and post-acute care providers.

In addition, Keane's broad range of services helps healthcare clients address the continuing impact of the Health Insurance Portability and Accountability Act (HIPAA) on their IT infrastructure and business operations. HIPAA is Federal legislation designed to improve efficiency in the national healthcare system and protect the privacy of health information. Keane's HIPAA services include Enterprise Assessment and Planning, Compliance Implementation, and Ongoing Compliance Management. ■

Healthcare Solutions

Client Benefits

- Proven software suite that assists healthcare organizations to provide higher quality patient care while improving efficiency
- Helps to address compliance with HIPAA and protects client investments in information technology

Keane Benefits

- Provides a large and attractive industry segment that is less affected by economic cycles
- Acts as a stabilizing influence on Build revenue during periods of slower economic growth

Keane's strong network of local branches makes it easy for clients to get the assistance and resources they need

We are flexible and responsive to customer needs. Our strategies are customer-driven, and we adjust to meet changing technologies, economic cycles, business requirements, and service purchasing patterns. A key differentiator for Keane is our willingness to be tied to the end result — creating measurable business benefit. We help maximize the business returns of our customers' IT investments by planning, building, and managing world-class applications, and by implementing processes and metrics essential for high-performance IT organizations.

We are committed to process and management disciplines. At Keane, we do not view ourselves as a technology company, but rather as a process and management company that knows how to get the most out of technology. We strongly believe that our combination of *leadership* and *performance* will generate *measurable business results*. We focus on identifying high value business opportunities that can be advanced through the effective application of technology. The hallmark of these opportunities is the integral connection between technology and business processes. Sustainable, long-term benefits come from first redesigning business processes to improve their effectiveness and then supporting the improvements through the judicious use of technology.

Providing the right technology by itself is not enough; we help our clients improve the performance of their IT organizations to gain full advantage of their technology investments. We accomplish this objective by establishing effective project and program management disciplines, implementing world-class processes, and leveraging global sourcing strategies to achieve predictable, high-quality, and cost-effective results.

We strive to exceed our customers' expectations. With a reputation for doing what we say we will do, Keane is proud of the quality of our delivery and we are committed to continually enhancing our performance at all levels and through all stages of each engagement. We work hard to win and keep our clients' business. We are creative and flexible in addressing client needs and objectives. Our combination of local presence and global delivery enables us to offer unprecedented levels of responsiveness, efficiency, productivity, and cost effectiveness. Keane's strong network of local branches makes it easy for clients to get the assistance and resources they need and provides management proximity to ensure that potential issues are identified and resolved quickly. Meeting our commitments to our clients in IT is not enough; we are equally dedicated to the satisfaction of their constituents throughout their businesses.

We bring concrete value to our customers.

Capabilities and commitments are meaningless unless they produce tangible results. We pride ourselves in delivering the following results for our clients.

- *Significant business benefit*

A company's business applications are intended to save costs, gain revenue, and create competitive advantages. Keane helps our customers gain greater value from application investments by targeting IT expenditures and development resources to areas of highest ROI, extending the useful life and improving the performance of production applications, and eliminating under-performing assets.

- *Improved process maturity*

Implementing Keane's world-class processes can improve the operational effectiveness of a customer's IT organization by increasing its flexibility, enabling predictable, repeatable performance, and creating consistent improvements in quality and productivity.

- *Greater efficiency*

Improvements in IT efficiency lead to long-term reductions in the unit cost of IT work products and enhance the quality of business support. Eliminating low-value break/fix activities through targeted improvements frees internal staff for more strategic, value-adding opportunities.

- *Ability to measure the business value of IT*

Our metrics and processes allow executives to assess the impact of their IT investments and evaluate performance trends. This information strengthens their control of IT activities and enables continuous improvement and better targeting of investments to opportunities that provide the highest returns.

- *Access to global opportunities for labor arbitrage*

Keane's three-tier delivery model enables clients to gain the cost advantages of offshore resources in an environment that reduces risk and maximizes flexibility. Our model maintains local accountability and single point-of-contact while supporting the allocation of work and resources to on-site, near-shore, and offshore locations to match changing corporate needs and strategies.

- *Coverage to support international needs*

In business since 1965, Keane has the presence, stability, financial strength, and relationships to support our customers' international requirements. We have over 7,300 employees in locations throughout North America, the United Kingdom, and India. Our recent alliance with The Unilog Group, a leading European provider of IT consulting services, further extends our capabilities throughout Continental Europe. ■

**Keane's three-tier
delivery model
enables clients to gain
the cost advantages of
offshore resources in
an environment that
reduces risk and
maximizes flexibility**

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Five-Year Financials

(in thousands except per share amounts)

December 31,	2002	2001	2000	1999	1998
Income Statement Data					
Total revenues	\$ 873,203	\$ 779,159	\$ 871,956	\$ 1,041,092	\$ 1,076,198
Operating income	10,357	19,753	27,921	116,466	170,187
Net income	8,181	17,387	20,354	73,074	96,349
Net income per share (basic)	.11	.25	.29	1.02	1.36
Net income per share (diluted)	.11	.25	.29	1.01	1.33
Common shares (basic)	74,018	68,474	69,646	71,571	71,053
Common shares (diluted)	74,406	69,396	69,993	72,395	72,284
Balance Sheet Data					
Total cash and marketable securities	\$ 68,255	\$ 129,243	\$ 115,212	\$ 142,763	\$ 129,229
Total assets	685,674	679,903	463,594	519,307	458,959
Total debt	45,647	15,357	8,616	11,403	3,930
Stockholders' equity	490,584	529,173	370,677	422,799	363,784
Book value per share	7.06	7.00	5.48	5.95	5.10
Number of shares outstanding	69,521	75,509	67,675	71,051	71,336
Financial Performance					
Total revenue growth (decline)	12.1%	(10.6)%	(16.2)%	(3.3)%	52.3%
Net margin	.9%	2.2%	2.3%	7.0%	9.0%

All amounts prior to 1999 have been restated to reflect the acquisitions of Bricker & Associates, Inc., Icom Systems Ltd, and Fourth Tier, Inc., which were accounted for as poolings-of-interests.

This Annual Report contains forward-looking statements. For this purpose, any statements contained herein that are not statements of historical fact may be deemed forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," and similar expressions are intended to identify forward-looking statements. There are a number of important factors that could cause the Company's actual results to differ materially from those indicated by such forward-looking statements. These factors include, without limitation, those set forth below under the caption "Certain Factors That May Affect Future Results."

Overview

Keane plans, builds, manages, and rationalizes application software through its Business Consulting, Application Development and Integration (AD&I), and Application Development and Management Outsourcing (Applications Outsourcing) services. Keane develops long-term relationships with customers by providing a broad range of service offerings delivered on a local basis through an integrated network of branch offices in North America and in the United Kingdom. Branch offices work in conjunction with the Company's business consulting arm, Keane Consulting Group (KCG), and are supported by centralized Strategic Practices. The practices focus on developing repeatable approaches to common customer needs and challenges and help to gather and institutionalize the Company's best practices. Branch offices are also supported by Advanced Development Centers (ADCs) in the United States, Canada, and India, which enable the Company to further improve the efficiency and economic advantage of the services it provides customers. Given the recent economic downturn, many customers have deferred their investments in new information systems. As a result, Keane has concentrated its short-term efforts on helping customers to more efficiently manage their existing applications. This mix of services includes Applications Outsourcing and Applications Rationalization, a service that helps customers to identify and eliminate higher cost, non-core, and end-of-life applications. Applications Outsourcing is the Company's flagship service offering, because it represents a large, growing market, and provides Keane with long-term contracts and a high percentage of recurring revenue. Keane has also increased its focus on providing services to vertical markets, such as healthcare and the public sector, that have been less impacted by reductions in technology spending. In addition, the Company seeks to provide cost-effective services and to enhance its operating margins through the use of its near-shore Advanced Development Center in Halifax, Nova Scotia, and its offshore

Advanced Development Centers in Hyderabad and Delhi, India. The Company acquired its offshore facilities as a result of its acquisition of SignalTree Solutions Holding, Inc. (SignalTree). The Company anticipates that use of its near-shore and offshore facilities will increase as a result of its focus on global delivery and the need of customers to continue to decrease costs associated with investments in technology. Finally, Keane has maintained tight control of its costs while executing a strategy that has created a business model with high operating leverage.

In order for Keane to remain successful in the near term, Keane must continue to maintain and grow its client base, provide high quality service and satisfaction to its existing clients, and continue to take advantage of cross-selling opportunities. In the current economic environment, Keane must also provide clients with service offerings that are appropriately priced, satisfy clients' IT needs, and provide clients with measurable business benefit.

Keane believes that maximizing the generation of cash from operations is fundamental to building long-term per share value. To accomplish this, Keane believes that its ability to sell and deliver Applications Outsourcing and to cross-sell other services is critical to its long-term success.

Attracting, retaining, and developing talented sales, management, and technical professionals is another essential component. In addition, the Company's ability to leverage Selling, General & Administrative (SG&A) expense over a broader base of revenue is crucial to increasing net income and cash provided from operations. Keane's management measures Keane's performance on a quarter-by-quarter and year-over-year basis by comparing plan, build, and manage revenues, Applications Outsourcing revenues, the number of billable personnel, gross margins, and SG&A as a percentage of revenues for such periods. Another key metric used by Keane's management is bookings, or new sales to customers.

Application of Critical Accounting Policies and Estimates

The discussion and analysis of Keane's financial condition and results of operations are based on consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires Keane to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of its financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially

different results under different assumptions and conditions. Application of these policies is particularly important to the portrayal of Keane's financial condition and results of operations. The Company believes that the accounting policies described below meet these characteristics. Keane's significant accounting policies are more fully described in the notes to the consolidated financial statements.

Revenue Recognition

Keane recognizes revenue as services are performed or products are delivered in accordance with contractual agreements and generally accepted accounting principles. For general consulting engagements, revenue is recognized on a time and materials basis as services are delivered. For the majority of our outsourcing engagements, the Company provides a specific level of service each month for which it bills a standard monthly fee. Revenue for these engagements is recognized in monthly installments over the billable portion of the contract. These installments may be adjusted to reflect changes in staffing requirements and service levels consistent with terms of the contract.

For fixed-price engagements, revenue is recognized on a percentage of completion basis over the life of the contract. The Company uses estimated labor-to-complete to measure the percentage of completion. Percentage of completion recognition relies on accurate estimates of the cost, scope, and duration of each engagement. If the Company does not accurately estimate the resources required or the scope of the work to be performed, then future revenues may be negatively affected or losses on existing contracts may need to be recognized. All future anticipated losses are recognized in the period they are identified.

Revenue associated with application software products is recognized as the software products are installed and as implementation services are delivered. Software maintenance fees on installed products are recognized on a pro-rated basis over the term of the agreement.

For the majority of outsourcing engagements, the Company provides a specific level of service each month for which it bills a standard monthly amount. Revenue for these engagements can be recognized in monthly installments over the billable portion of the contract or on a time and materials basis. Installment amounts may be adjusted to reflect changes in staffing requirements or service level agreements. Costs of transitioning the employees and ensuring the Company meets required service level agreements may be capitalized over defined periods of time.

In all consulting engagements, outsourcing engagements, and software application sales, the risk of issues associated with satisfactory service delivery exists. Although management believes these risks are adequately

addressed by the Company's adherence to proven project management methodologies, proprietary frameworks, and internal project audits, the potential exists for future revenue charges relating to service delivery issues.

Allowance for Bad Debts

Each accounting period, Keane evaluates accounts receivable for risk associated with a client's inability to make contractual payments or unresolved issues with the adequacy of Keane's services. Billed and unbilled receivables that are specifically identified as being at risk are provided for with a charge to revenue in the period the risk is identified. Considerable judgment is used in assessing the ultimate realization of these receivables including reviewing the financial stability of the client, evaluating the successful mitigation of service delivery disputes, and gauging current market conditions. If the Company's evaluation of service delivery issues or a client's ability to pay is incorrect, the Company may incur future adjustments to revenue.

Property and Equipment

The Company periodically reviews its property and equipment for impairment in accordance with Statement of Financial Accounting Standards No. 144 (FAS 144), "Accounting for the Impairment or Disposal of Long-Lived Assets." In determining whether an asset is impaired, the Company must make assumptions regarding recoverability of costs, estimated future cash flows from the asset, intended use of the asset, and other related factors. If these estimates or their related assumptions change, the Company may be required to record impairment charges for these assets.

Goodwill and Intangible Assets

In assessing the recoverability of the Company's goodwill and other intangible assets, the Company must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. This process is subjective and requires judgment at many points throughout the analysis. If these estimates or their related assumptions change in the future, the Company may be required to record impairment charges for these assets not previously recorded.

On January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142 (FAS 142), "Goodwill and Other Intangible Assets," and was, therefore, required to perform an impairment test on its goodwill and other intangibles with indefinite lives during the first six months of 2002, and then on a periodic basis thereafter. The Company's initial goodwill impairment analysis was completed during the second quarter of 2002, and was based on January 1, 2002 balances. Through this analysis it was determined that there was no impairment as of that

date. Subsequently, during the fourth quarter of 2002, the Company completed its annual impairment review based on September 30, 2002 balances and determined that there was no impairment as of that date. Future changes in estimates may result in a non-cash goodwill impairment that could have a material adverse impact on our financial condition and results of operations.

The Company periodically reviews its identifiable intangible assets for impairment in accordance with Statement of Financial Accounting Standards No. 144 (FAS 144), "Accounting for the Impairment of Disposal of Long-Lived Assets." In determining whether an intangible asset is impaired, the Company must make assumptions regarding estimated future cash flows from the asset, intended use of the asset and other related factors. If the estimates or the related assumptions used to determine the value of the intangible assets change, the Company may be required to record impairment charges for these assets.

Income Taxes

Keane accounts for income taxes in accordance with FAS No. 109, "Accounting for Income Taxes," which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax basis of recorded assets and liabilities. FAS 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized. Based on prior taxable income and estimates of future taxable income, the Company has determined that it is more likely than not that its net deferred tax assets will be fully realized in the future. If actual taxable income varies from these estimates, the Company may be required to record a valuation allowance against its deferred tax assets resulting in additional income tax expense which will be recorded in the Company's consolidated statement of operations.

Stock-based Compensation

The Company grants stock options for a fixed number of shares to employees with an exercise price equal to the closing price of the shares at the date of grant. The Company adopted the disclosure provisions of FAS 123, (FAS 123) "Accounting for Stock-Based Compensation," and applies APB Opinion 25, "Accounting for Stock Issued to Employees," to its grants of stock options and accordingly, recognizes no compensation expense for stock-based employee compensation provided options are issued at the current market value. The Company also grants restricted stock for a fixed number of shares to employees for nominal consideration. Compensation expense related to restricted stock awards is recorded ratably over the restriction period.

Restructuring

Keane has recorded restructuring charges and reserves associated with restructuring plans approved by management over the last four years. These reserves include estimates pertaining to employee separation costs and real estate lease obligations. The reserve associated with lease obligations could be materially affected by factors such as the ability to obtain subleases, the creditworthiness of sub-lessees, market value of properties, and the ability to negotiate early termination agreements with lessors. While the Company believes that its current estimates regarding lease obligations are adequate, future events could necessitate significant adjustments to these estimates. Future changes in estimates may result in adjustments to the Company's consolidated financial statements.

Results of Operations, 2002 vs. 2001

The Company's total revenue for 2002 was \$873.2 million, a 12% increase from revenue of \$779.2 million for 2001. This increase in total revenue was primarily the result of new clients and new client billings due to the acquisition of Metro Information Services, Inc. (Metro), which was completed on November 30, 2001, and the acquisition of SignalTree Solutions Holding, Inc., which was completed on March 15, 2002.

Revenue from the Company's Plan services was \$66.9 million in 2002, a decrease of 11% from \$75.3 million in 2001. Plan revenue is comprised primarily of business consulting services delivered by KCG, the Company's business consulting arm, and IT consulting services, which are sold and implemented out of Keane's network of branch offices. Plan services include Keane's Applications Rationalization service. The decrease in Plan revenue was primarily the result of the deferral of consulting projects and a decrease in billing rates caused by general economic conditions. Revenue from the Company's Build services was \$216.2 million in 2002, a decrease of 19% from \$265.9 million in 2001. Keane's Build revenue, which consists primarily of Application Development and Integration (AD&I) business, was also adversely affected during 2002 by the deferral of software development projects in both North America and the United Kingdom, as well as by reduced billing rates due to the current reduction in capital spending related to technology. However, the decline in the Company's Build services revenue was offset in part by revenue generated from the less cyclical public sector and healthcare-related vertical markets, which contributed growing and more stable revenue streams within the Build services sector.

Revenue from the Company's Manage services, which consist primarily of Keane's Applications Outsourcing service, as well as Staff

Augmentation services and other Maintenance and Migration services, were \$590.1 million during 2002, an increase of 35% from \$437.9 million in 2001. This improvement was the result of increasing revenue from Keane's Applications Outsourcing service, and the acquisitions of Metro Information Services, Inc. and SignalTree Solutions Holding, Inc. Although not immune from economic fluctuations, Applications Outsourcing revenues are more stable than those associated with Plan or Build due to the long-term and recurring nature of outsourcing contracts and the cost-saving benefits related to outsourcing. Generally, under an Applications Outsourcing agreement, the Company receives a fixed monthly fee in return for meeting or exceeding a contractually agreed upon service level. Applications Outsourcing agreements generally do not require any capital outlay from the Company, which recognizes outsourcing revenue and expense on a monthly basis consistent with the service provided to its customers. The Company does not employ percentage-of-completion accounting on its outsourcing agreements.

Applications Outsourcing revenue was \$408.5 million during 2002, and represented 47% of total revenue, up 4% from \$393.9 million in 2001. The increase in Applications Outsourcing was a result of clients' ongoing needs to efficiently manage existing software portfolios.

The Company observed no clear trend of an increase in discretionary IT spending during 2002 or the first two months of 2003. As a result, the Company anticipates continuing softness in its AD&I business, which represents a majority of its Build sector, and its Plan sector, until economic conditions improve and customers once again begin funding technology projects. However, the Company continues to see ongoing opportunities in its Applications Outsourcing business, which represents a majority of its Manage sector as well as opportunities within the healthcare sector. The Company believes that outsourcing provides greater stability of revenue due to long-term contracts and recurring revenue.

Total billable employees for all operations were 6,175 billable employees as of December 31, 2002, down from 6,566 total billable as of December 31, 2001. This year-over-year decrease resulted from a need to bring personnel resources, which account for the vast majority of Keane's direct costs, in alignment with anticipated revenue. The Company's base of billable employees within its India operation was 413 billable employees as of December 31, 2002. The Company did not have billable employees in India during 2001. On March 15, 2002, Keane acquired SignalTree Solutions Holding, Inc., a privately-held, United States-based corporation with two software development facilities in India and additional operations in the United States, by the merger of a wholly-owned subsidiary of Keane into SignalTree Solutions.

Under the terms of the merger agreement, Keane paid \$68.2 million in cash for SignalTree Solutions. Keane expects the addition of SignalTree Solutions to enhance its value proposition to customers by providing access to world-class software development processes as well as the economic advantage of a large pool of cost-effective technical professionals.

As of December 31, 2002, in connection with a third quarter acquisition, the Company had a recorded contingent liability of \$895,000 related to certain earn-out considerations. The \$895,000 is expected to be paid out during the first quarter of 2003. Future earn-outs are based on specific net revenue targets. Payments for achieving these goals will range from \$1.0 to \$2.0 million in future periods. The Company also recorded \$3.0 million as deferred revenue related to contingent service credits and issued a \$3.0 million non-interest bearing note payable as partial consideration. The note has a one-year term with a possible one-year extension based on additional acquisition service credits.

Salaries, wages, and other direct costs for 2002 were \$630.0 million, or 72.2% of total revenue, compared to \$547.9 million, or 70.3% of total revenue, for 2001. The increase in direct costs was primarily attributable to the Metro and SignalTree Solutions acquisitions. The Company's gross margins for 2002 were 27.8%, as compared to 29.7% for 2001. The decrease in gross margins reflects continuing softness in the demand for IT services resulting in lower billing rates and utilization of billable personnel.

Selling, General & Administrative ("SG&A") expense for 2002 was \$198.8 million, or 22.8% of total revenue, as compared to \$186.7 million, or 24.0% of total revenue, for 2001. The decrease in SG&A as a percentage of revenue was the result of cost synergies obtained from the acquisition of Metro Information Services, Inc. as well as the Company's continuing focus on tightly controlling discretionary expenses. The increase in SG&A expense was attributable to personnel costs incurred in connection with the Metro and SignalTree Solutions acquisitions, as more fully described below.

During the first quarter of 2002, the Company completed the integration of Metro's corporate functions with its own, and during the second quarter of 2002, the Company completed the consolidation and relocation of overlapping branch offices. During the second quarter of 2002, the Company also integrated United States-based operations acquired from SignalTree Solutions with its own. During the third quarter of 2002, the Company integrated all corporate functions of SignalTree Solutions into its corporate headquarters in Boston, Massachusetts.

During the fourth quarter of 2002, due to changes in assumptions and pursuant to plans and acquisitions, Keane recorded a restructuring charge

of \$17.6 million, including \$12.8 million associated with real estate, \$1.9 million associated with fixed assets, and \$2.9 million associated with workforce reductions. The real estate charges represent consolidation of both corporate and field properties, as well as changes in estimates for previously recorded restructuring charges. During the fourth quarter of 2001, Keane recorded a restructuring charge of \$10.4 million relating to the costs of workforce reductions, consolidation of branch offices, impaired assets, and certain other expenditures.

Amortization of intangible assets for 2002 was \$16.4 million, or 1.9% of total revenue, compared to \$14.5 million, or 1.9% of total revenue, for 2001. The increase in amortization of intangible assets was primarily attributable to additional intangible assets resulting from the Company's acquisitions of Metro Information Services, Inc, and SignalTree Solutions offset by the impact of the adoption of FAS 142, under which goodwill is no longer amortized.

Interest and dividend income totaled \$2.5 million for 2002, compared to \$7.0 million for 2001. The decrease in interest and dividend income was attributable to fewer cash reserves earning interest and dividends due to the use of cash to retire debt associated with the acquisition of Metro Information Services, Inc., the acquisition of SignalTree Solutions, and the repurchase of shares of the Company's common stock, as well as interest rate declines. Other income was \$1.0 million for 2002, as compared to other income of \$2.7 million in 2001. Other income during 2001 related to (i) a gain of \$4.0 million from the sale of the Company's Help Desk business partially offset by the Company's decision to write-off certain equity investments totaling \$2.0 million, and (ii) gains from the sale of investments. The Company's effective tax rate was 40.0% for 2002, down from 40.5% in 2001. This decrease was a direct result of the adoption of FAS 142, offset by an adjustment of prior year's estimated tax liability.

Net cash provided from operations was \$56.7 million during 2002, as compared to \$83.2 million during 2001. Cash provided from operations in 2002 includes the effects of payments related to restructuring in the amount of \$16.5 million. The decrease in net cash from operations was primarily attributable to a decrease in net income. The Company continues to focus on using cash flow to fund potential acquisitions, stock repurchases, and to build long-term per share value.

Results of Operations, 2001 vs. 2000

The Company's revenue for 2001 was \$779.2 million compared to \$876.9 million in 2000. Revenue from Keane's divested Help Desk business totaled \$5.2 million and \$43.3 million for 2001 and 2000, respectively. Keane's revenue during 2001 was negatively impacted by the economic

slowdown and the related reduction in technology spending. However, this was partially offset by a \$16.8 million increase in revenue from the Company's public sector business and a \$31.0 million increase in revenue from its Applications Outsourcing service. Applications Outsourcing revenue represented 51% of total revenue during 2001 or \$393.9 million, an increase of 8.5% from \$363.0 million during 2000.

Revenue from the Company's Plan services was \$75.3 million, a decrease of 30% from \$107.1 million in 2000. Plan revenue for 2001 was negatively impacted by a general deferral of capital expenditures and consulting projects.

Revenue from the Company's Build services was \$265.9 million in 2001, a decrease of 17% from \$322.2 million in 2000. During the fourth quarter of 2000, Keane incurred a charge of \$13.5 million, of which \$8.6 million was related to the consolidation and/or closing of certain non-profitable branch offices, employee severance costs, facility leases, and for other miscellaneous purposes with the balance related to increased reserves against accounts receivable. During the fourth quarter of 2001, Keane booked \$10.4 million in restructuring charges relating to the costs of workforce reductions, consolidation of branch offices, impaired assets, and certain other expenditures.

As anticipated, Keane's Build revenue was also adversely affected in 2001 by the challenging economic environment and the related deferral of new software development projects in both North America and the United Kingdom. This decline was offset in part by ongoing Build project revenue from existing Global 2000 customers and revenue of \$128.4 million attributable to public sector business from federal and state governments. Engagements within the public sector represented approximately 16.5% of Keane's total revenue in 2001.

Revenue from the Company's Manage services was \$437.9 million in 2001 and \$437.6 million in 2000. Keane's 2001 revenue from Manage services included approximately \$16.0 million as a result of its acquisition of Metro Information Services, on November 30, 2001. Revenue from the Company's divested Help Desk business was approximately \$5.2 million during 2001 and \$43.3 million during 2000. On February 12, 2001, the Company sold its Help Desk operation to Convergys Corporation in return for \$15.7 million in cash.

The increase in Keane's Manage revenue during 2001 was driven by continuing sales growth in the Company's Applications Outsourcing business, as Global 2000 customers sought to improve productivity and efficiencies associated with the management and enhancement of their application portfolios. This business has not been as negatively impacted by the economy as Keane's Build business.

In response to this challenging business climate, the Company expanded its customer base and critical mass with its acquisition of Metro Information Services. Metro provided Keane with hundreds of new customers to whom the Company can cross-sell its services. Of Metro's 300 largest customers that accounted for 90% of its revenue for the twelve months ended June 30, 2001, 236 were new customers for Keane. In addition, the Company improved operational leverage by combining corporate functions and consolidating overlapping branch offices. Of Metro's 33 branch offices, 26 were within geographic markets currently served by Keane.

Salaries, wages, and other direct costs for 2001 were \$547.9 million, or 70.3% of total revenue, compared to \$621.2 million, or 71.2% of total revenue, for 2000. The decline in costs resulted from the sale of the Company's lower margin Help Desk operations and its ongoing efforts to bring costs in alignment with revenue. As a result, Keane's gross margins for 2001 increased to 29.7%, up from 28.8% during 2000.

Selling, General & Administrative ("SG&A") expense for 2001 was \$186.7 million, or 24.0% of total revenue, compared to \$201.9 million, or 23.1% of total revenue, for 2000. The decline in SG&A expenditures during 2001 was a result of the sale of the Company's Help Desk operations and aggressive control of discretionary spending to bring cost in alignment with revenue. The Company intends to continue to control aggressively its discretionary expenditures until economic conditions improve and spending on IT projects increases.

Amortization of goodwill and other intangible assets for 2001 was \$14.5 million, or 1.9% of total revenue, compared to \$12.4 million, or 1.4% of total revenue, in 2000. The increase in amortization for 2001 was attributable to additional intangible assets as a result of the Company's acquisition of Metro Information Services in November of 2001 and the acquisitions of Denver Management Group and Care Computer Systems in July and September of 2000.

Interest and dividend income totaled \$7.0 million for 2001, compared to \$7.7 million for 2000. The slight decrease in interest and dividend income was attributable to having less cash-earning interest and dividend income as a result of using cash for acquisitions and the repurchase of Keane stock, and as a result of interest rate declines. Other income was \$2.7 million for 2001 as compared to other expense of \$0.9 million in 2000. This increase in other income was related to a gain of \$4.0 million from the sale of Keane's Help Desk operation, partially offset by the Company's decision to write-off certain equity investments totaling \$2.0 million during the first quarter of 2001, and gains from the sale of investments.

The Company's effective tax rate was 40.5% in 2001 and 2000.

Net cash provided from operations was \$83.2 million during 2001, before proceeds from the sale of the Help Desk business of \$15.7 million and the investment of \$4.0 million for the repurchase of Keane shares, and \$96.1 million during 2000. The Company is focused on continuing to optimize cash flow in order to fund potential mergers and acquisitions, stock repurchases, and to build long-term shareholder value.

Recent Accounting Pronouncements

In April 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 145 (FAS 145), "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." Under FAS 145, gains and losses on extinguishments of debt are to be classified as income or loss from continuing operations rather than extraordinary items. The Company is required to adopt FAS 145 in the first quarter of 2003 and does not expect the adoption of this statement to have a material impact on its financial condition or results of operations.

In July 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146 (FAS 146), "Accounting for Costs Associated with Exit or Disposal Activities." The statement requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to exit or disposal plan. Costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, branch closing, or other exit disposal activity. This statement is effective for exit or disposal activities initiated after December 31, 2002. FAS 146 may affect the timing of the Company's recognition of future exit or disposal costs, if any.

In November 2002, the Financial Accounting Standards Board issued Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." The statement requires a guarantor to record certain guarantees at fair value and to make significant new disclosures, even when the likelihood of making any payments under the guarantee is remote. The interpretation and its disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The interpretation's initial recognition and initial measurement provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The guarantor's previous accounting for guarantees issued prior to December 31, 2002 should not be revised or restated as a result of this interpretation.

On December 31, 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 148 (FAS 148),

“Accounting for Stock-Based Compensation - Transition and Disclosure,” an amendment to FAS 123, “Accounting for Stock-Based Compensation.” The statement provides three transition methods for entities electing to adopt the fair value recognition provisions of Statement 123 for stock-based employee compensation. FAS 148 also amends the disclosure provisions of FAS 123 to require prominent disclosure about the effects of an entity’s accounting policy decisions with respect to stock-based compensation on reported net income and earnings per share in annual and interim financial statements. The statement is effective for fiscal years ending after December 15, 2002. Currently, the Company does not elect to transition from the intrinsic value method of accounting for stock-based compensation to the fair value method. Adoption of disclosure provisions of this statement will not impact the Company’s financial condition or results of operations.

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46 (FIN 46), “Consolidation of Variable Interest Entities,” which requires the consolidation of a variable interest entity, as defined by its primary beneficiary. Primary beneficiaries are those companies that are subject to a majority of the risk of loss or entitled to receive a majority of the entity’s residual returns, or both. In determining whether it is the primary beneficiary of a variable interest entity, an entity with a variable interest shall treat variable interests in that same entity held by its related parties as its own interests.

The Company is presently evaluating whether or not City Square and Gateway LLC are variable interest entities and, if so, whether or not the Company is the primary beneficiary of these entities.

If the Company determines that City Square or Gateway LLC, or both, are variable interest entities of which they are the primary beneficiary, the Company will be required to consolidate the financial position and results of operation of the entities for which it determines it is the primary beneficiary. Such consolidation will be required beginning July 1, 2003.

If the Company concludes it is not required to consolidate either of these entities, the Company will continue to account for its lease with City Square consistent with its past practice. As for its lease with Gateway LLC, if the Company concludes it is not required to consolidate this entity, the Company will amortize the asset and liability recorded during the construction of the facility, and believes the net effect of such amortization included in its operating results will approximate the rent expense resulting from payments it is required to make under the lease.

Liquidity and Capital Resources

The Company’s cash and investments at December 31, 2002 decreased to \$68.3 million from \$129.2 million at December 31, 2001. This decrease was primarily attributable to the cost of the SignalTree Solutions acquisition of \$68.2 million, which occurred in March of 2002, along with the cost associated with the Company’s stock repurchase program, which totaled \$54.1 million for the year. The Company experienced strong operating cash flow of \$56.7 million, of which, \$50.0 million was related to its continuing effort to decrease its Days Sales Outstanding (DSO), which helped fund its stock repurchase programs. The decrease in accounts receivable was offset additionally by purchases of property and equipment of \$7.8 million.

On September 21, 2001, the Company announced that its Board of Directors had authorized the Company to repurchase up to 1,542,800 shares of its common stock over the next 12 months. A total of 175,000 shares of common stock were repurchased under this authorization during the second quarter of 2002, at an average price of \$12.88 for a cost of \$2.2 million. The remaining authorized amount of 1,367,800 shares, which would have expired on September 18, 2002, was added to the July 25, 2002 share authorization amount of 3,632,200 shares, for a total of 5 million shares authorized. The Company completed the purchase of the total authorized amount during the fourth quarter of 2002. The Company’s total investment in this authorized share repurchase was \$39.1 million at an average price per share of \$7.83.

On October 25, 2002, the Board of Directors authorized the Company to repurchase an additional 5 million shares of its common stock over the next 12 months. The repurchases may be made on the open market or in negotiated transactions, and the timing and amount of shares repurchased will be determined by the Company’s management based on its evaluation of market and economic conditions and other factors. During the fourth quarter of 2002 the Company purchased 1,323,600 shares of its common stock under this authorization for a total investment of \$12.7 million at an average price per share of \$9.59. The remaining authorized amount is 3,676,400 shares.

Between May 1999 and December 31, 2002, the Company has invested \$163.0 million to repurchase 11,955,800 shares of its common stock under seven separate authorizations.

During 2002, the Company paid \$16.5 million associated with restructuring charges from previous years. Refer to Note N to the audited condensed consolidated financial statements for a summary of the restructuring activity.

On September 25, 2002, the Company completed an acquisition of a business complementary to the Company's business strategy. The Company purchased all of the stock of the acquired business at a total cost of \$6.2 million, consisting of \$2.9 million in cash along with a note payable for \$3.0 million and the remaining balance related to transaction costs. The note payable has an initial term of one year and may be settled, at the option of the holder, through cash payments or through services rendered by the Company to the holder. Based upon certain earn-out targets and other criteria, future consideration related to the acquisition could amount to \$6.9 million.

On February 10, 2003, the Company received a \$7.3 million award in connection with an arbitration proceeding initiated by the Company in 2000 against Signal Corporation for a breach of an agreement between Signal Corporation and the Company's Federal Systems subsidiary.

On February 28, 2003, the Company entered into a new \$50.0 million revolving credit agreement with two banks. The credit facility replaces the previous \$10 million demand line of credit, which expired in July 2002. The terms of the credit facility require the Company to maintain a maximum total funded debt and other financial ratios. Based on the Company's current operating plan, the Company believes that its cash, cash equivalents and marketable securities, cash flows from operations, and its new line of credit will be sufficient to meet its current capital requirements for at least the next twelve months.

In 2002, the Company financed its operations exclusively through its ability to generate cash from operations. If the Company were to experience a decrease in revenue as a result of a decrease in demand for its services or a decrease in its ability to collect receivables, the Company would be required to curtail discretionary spending related to SG&A expense and adjust its workforce in an effort to maintain profitability. The Company has no significant debt but does have commitments for cash as follows:

Contractual Obligations (years)	Payments due by period (in millions)				
	<1	1-3	4-5	After 5	Total
Capital lease obligations	\$.9	.9			\$ 1.8
Operating leases	25.7	35.6	15.2	28.4	104.9
Total contractual cash obligations	\$ 26.6	36.5	15.2	28.4	\$ 106.7

The Company's material commitments are primarily related to office rentals and capital expenditures. Contractual obligations related to operating leases reflect existing rental leases and the proposed new corporate facility as noted in Footnote J "Related Parties, Commitments and Contingencies."

Off-Balance Sheet Arrangements

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities," which requires the consolidation of a variable interest entity, as defined, by its primary beneficiary. Currently the Company does not consider any off-balance sheet arrangements with respect to any variable interest entities. However, the Company is presently evaluating whether or not City Square or Gateway LLC, or both, are variable interest entities and, if so, whether or not the Company is the primary beneficiary of these entities.

If the Company determines that City Square or Gateway LLC, or both, are variable interest entities, the Company will be required to consolidate the financial position and results of operations of the entities. Such consolidation will be required beginning July 1, 2003.

In November 2002, the Financial Accounting Standards Board issued Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." The statement requires a guarantor to record certain guarantees at fair value and to make significant new disclosures, even when the likelihood of making any payments under the guarantee is remote. The interpretation and its disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The interpretation's initial recognition and initial measurement provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. Under FIN 45, the guarantor's previous accounting for guarantees issued prior to December 31, 2002 will not be revised or restated.

The Company is a guarantor with respect to a line of credit for Innovate EC, an entity in which the Company acquired a minor equity position as a result of a previous acquisition. The total line of credit is for \$600,000. The Company guarantees \$300,000 of this obligation. The line is subject to review by the lending institution. The Company would be required to meet its guarantor obligation in the event the lending institution refuses to extend the credit facility and Innovate EC is unable to satisfy its obligation.

Impact of Inflation and Changing Prices

Inflationary increases in costs have not been material in recent years and, to the extent permitted by competitive pressures, are passed on to clients through increased billing rates. Rates charged by the Company are based on the cost of labor and market conditions within the industry.

Certain Factors that May Affect Future Results

The following important factors, among others, could cause actual results to differ materially from those indicated by forward-looking statements made in this Annual Report on Form 10-K and presented elsewhere by management from time to time.

Keane's quarterly operating results have varied, and are likely to continue to vary significantly. This may result in volatility in the market price of Keane's shares.

Keane has experienced and expects to continue to experience fluctuations in its quarterly results. Keane's gross margins vary based on a variety of factors including employee utilization rates and the number and type of services performed by Keane during a particular period. A variety of factors influence Keane's revenue in a particular quarter, including:

- general economic conditions which may influence investment decisions or cause downsizing;
- the number and requirements of client engagements;
- employee utilization rates;
- changes in the rates Keane can charge clients for services;
- acquisitions; and
- other factors, many of which are beyond Keane's control.

A significant portion of Keane's expenses do not vary relative to revenue. As a result, if revenue in a particular quarter does not meet expectations, Keane's operating results could be materially adversely affected, which in turn may have a material adverse impact on the market price of Keane common stock. In addition, many of Keane's engagements are terminable without client penalty. An unanticipated termination of a major project could result in an increase in underutilized employees and a decrease in revenue and profits.

Keane has pursued, and intends to continue to pursue, strategic acquisitions. Failure to successfully integrate acquired businesses or assets may adversely affect Keane's financial performance. In the past five years, Keane has grown significantly through acquisitions. From January 1, 1999 through December 31, 2002, Keane has completed eleven acquisitions. The aggregate merger and consideration costs of these acquisitions totaled approximately \$359.8 million. Keane's future

growth may be based in part on selected acquisitions. At any given time, Keane may be in various stages of considering acquisition opportunities. Keane can provide no assurances that it will be able to find and identify desirable acquisition targets or that it will be successful in entering into a definitive agreement with any one target. In addition, even if Keane reaches a definitive agreement with a target, there is no assurance that Keane will complete any future acquisition.

Keane typically anticipates that each acquisition will bring benefits, such as an increase in revenue. Prior to completing an acquisition, however, it is difficult to determine if Keane can realize these benefits. Accordingly, there is a risk that an acquired company may not achieve an increase in revenue or other benefits for Keane. In addition, an acquisition may result in unexpected costs, expenses, and liabilities. Any of these events could have a material adverse effect on Keane's business, financial condition, and results of operations.

The process of integrating acquired companies into Keane's existing business may also result in unforeseen difficulties. Unforeseen operating difficulties may absorb significant management attention, which Keane might otherwise devote to its existing business. In addition, the process may require significant financial resources that Keane might otherwise allocate to other activities, including the ongoing development or expansion of Keane's existing operations.

Finally, future acquisitions could result in Keane having to incur additional debt and/or contingent liabilities. Any of these possibilities could have a material adverse effect on Keane's business, financial condition, and result of operations.

Keane may not realize the expected benefits or synergies of its acquisitions of Metro and SignalTree Solutions. Although the integration of the operations and personnel of Metro, which Keane acquired in November 2001, and SignalTree Solutions, Inc., which Keane acquired in March 2002, are complete, Keane may not achieve the anticipated benefits or synergies of each acquisition. Achieving the benefits of these acquisitions will depend in part on Keane's ability to retain clients acquired through the mergers and cross-sell services to these new clients and the ability of Keane's sales organization to satisfactorily meet the needs of these new clients. If Keane is unable to retain Metro and SignalTree Solutions clients or effectively cross-sell to such clients, the combined company could suffer a loss of momentum in the activities of its business, which could have a material adverse effect on Keane's business, financial condition, and results of operations.

Keane faces significant competition for its services, and its failure to remain competitive could limit its ability to maintain existing clients or

attract new clients. The market for Keane's services is highly competitive. The technology for custom software services can change rapidly. The market is fragmented, and no company holds a dominant position. Consequently, Keane's competition for client assignments and experienced personnel varies significantly from city to city and by the type of service provided. Some of Keane's competitors are larger and have greater technical, financial, and marketing resources and greater name recognition in the markets they serve than does Keane. In addition, clients may elect to increase their internal information systems resources to satisfy their custom software development and integration needs.

In the healthcare software systems market, Keane competes with some companies that are larger in the healthcare market and have greater financial resources than Keane. Keane believes that significant competitive factors in the healthcare software systems market include size and demonstrated ability to provide service to targeted healthcare markets.

Keane may not be able to compete successfully against current or future competitors. In addition, competitive pressures faced by Keane may materially adversely affect its business, financial condition, and results of operations.

Keane conducts business in the United Kingdom, Canada, and India, which exposes it to a number of difficulties inherent in international activities. As a result of its acquisition of SignalTree Solutions in March 2002, Keane has two software development facilities in India and has added approximately 400 technical professionals to its professional services organization. India is currently experiencing conflicts with Pakistan over the disputed territory of Kashmir, as well as clashes between different religious groups within the country. These conflicts, in addition to other unpredictable developments in the political, economic, and social conditions in India, could eliminate or reduce the availability of these development and professional services. If access to these services were to be unexpectedly eliminated or significantly reduced, Keane's ability to meet development objectives important to its new strategy would be hindered, and its business could be harmed.

If Keane fails to manage its geographically dispersed organization, it may fail to meet or exceed its financial objectives and its revenues may decline. Keane performs development activities in the United States, Canada, and in India, and has offices throughout the United States, the United Kingdom, Canada, and India. This geographic dispersion requires substantial management resources that locally-based competitors do not need to devote to their operations.

Keane's operations in the United Kingdom, Canada, and India are subject to currency exchange rate fluctuations, foreign exchange

restrictions, changes in taxation, and other difficulties in managing operations overseas. Keane may not be successful in its international operations.

Keane may be unable to redeploy its professionals effectively if engagements are terminated unexpectedly, which would adversely affect its results of operations. Keane's clients can cancel or reduce the scope of their engagements with Keane on short notice. If they do so, Keane may be unable to reassign its professionals to new engagements without delay. The cancellation or reduction in scope of an engagement could, therefore, reduce the utilization rate of Keane's professionals, which would have a negative impact on Keane's business, financial condition, and results of operations.

As a result of these and other factors, the Company's past financial performance should not be relied on as an indication of future performance. Keane believes that period-to-period comparisons of its financial results are not necessarily meaningful and it expects that results of operations may fluctuate from period to period in the future.

Keane's growth could be limited if it is unable to attract personnel in the Information Technology and business consulting industries. Keane believes that its future success will depend in large part on its ability to continue to attract and retain highly skilled technical and management personnel. The competition for such personnel is intense. Keane may not succeed in attracting and retaining the personnel necessary to develop its business. If Keane does not, its business, financial condition, and result of operations could be materially adversely affected.

Quantitative and Qualitative Disclosures About Market Risk

The Company does not engage in trading market-risk, sensitive instruments or purchasing hedging instruments or "other than trading" instruments that are likely to expose the Company to market risk, whether interest rate, foreign currency exchange, and commodity price or equity price risk. The Company has not purchased options or entered into swaps or forward or futures contracts. The Company's primary market risk exposure is that of interest rate risk on its investments, which would affect the carrying value of those investments. Since January 1, 2001, the United States Federal Reserve Board has significantly decreased certain benchmark interest rates, which has led to a general decline in market interest rates. The decline in market interest rates has resulted in a significant decline in the Company's interest income. Additionally, the Company transacts business in the United Kingdom, Canada, and India, and as such has exposure associated with movement in foreign currency exchange rates.

Keane, Inc. Consolidated Balance Sheets

(In thousands except share amounts)

December 31,	2002	2001
Assets		
Current		
Cash and cash equivalents	\$ 46,383	\$ 65,556
Marketable securities	21,872	63,687
Accounts receivable, net:		
Trade	129,432	160,172
Other	1,004	3,109
Prepaid expenses and deferred taxes	37,430	20,026
Total current assets	236,121	312,550
Property and equipment, net	24,729	20,701
Construction in progress	40,888	13,000
Goodwill, net	277,435	224,891
Customer lists, net	69,193	53,659
Other intangible assets, net	17,613	26,292
Deferred taxes and other assets, net	19,695	28,810
	<u>\$ 685,674</u>	<u>\$ 679,903</u>
Liabilities		
Current		
Accounts payable	11,986	13,723
Accrued expenses and other liabilities	61,152	51,980
Accrued compensation	36,346	34,161
Notes payable	3,100	—
Accrued income taxes	81	4,675
Unearned income	11,535	5,178
Current capital lease obligations	887	1,154
Total current liabilities	125,087	110,871
Accrued long-term construction-in-progress costs	40,888	13,000
Deferred income taxes	28,343	25,656
Long-term portion of capital lease obligations	772	1,203
Stockholders' Equity		
Preferred stock, par value \$.01, authorized 2,000,000 shares, issued none	—	—
Common stock, par value \$.10, authorized 200,000,000 shares, issued and outstanding 75,545,386 at December 31, 2002 and 75,223,971 at December 31, 2001	7,555	7,522
Class B common stock, par value \$.10, authorized 503,797 shares, issued and outstanding 284,604 at December 31, 2002 and 284,891 at December 31, 2001	28	28
Additional paid-in capital	166,598	162,269
Accumulated other comprehensive income	(1,411)	(2,007)
Retained earnings	369,542	361,361
Less treasury stock at cost, 6,309,416 shares at December 31, 2002	(51,728)	—
Total stockholders' equity	490,584	529,173
	<u>\$ 685,674</u>	<u>\$ 679,903</u>

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

Keane, Inc. Consolidated Statements of Income

(In thousands except per share amounts)

December 31,	2002	2001	2000
Total revenues	\$ 873,203	\$ 779,159	\$ 871,956
Salaries, wages, and other direct costs	630,047	547,883	621,208
Selling, general, and administrative expenses	198,813	186,708	201,852
Amortization of goodwill and other intangible assets	16,382	14,457	12,351
Restructuring charges	17,604	10,358	8,624
Operating income	10,357	19,753	27,921
Interest and dividend income	2,526	7,043	7,725
Interest expense	255	295	588
Other (income) expenses, net	(1,008)	(2,720)	872
Income before income taxes	13,636	29,221	34,186
Provision for income taxes	5,455	11,834	13,832
Net income	\$ 8,181	\$ 17,387	\$ 20,354
Net income per share (basic)	\$.11	\$.25	\$.29
Net income per share (diluted)	\$.11	\$.25	\$.29
Weighted average common shares outstanding (basic)	74,018	68,474	69,646
Weighted average common shares and common share equivalents outstanding (diluted)	74,406	69,396	69,993

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

Keane, Inc. Consolidated Statements of Stockholders' Equity

December 31, 2002, 2001, and 2000

(In thousands except share amounts)

	Common Stock		Class B Common Stock		Additional Paid-in Capital	Other Compre- hensive Income (Loss)	Retained Earnings	Treasury Stock at Cost		Total Stock- holder's Equity
	Shares	Amount	Shares	Amount				Shares	Amount	
Balance January 1, 2000	72,085,356	\$ 7,208	285,112	\$ 29	\$ 120,810	\$ (2,027)	\$ 323,620	(1,319,396)	\$ (26,841)	\$ 422,799
Common stock issued under stock option and employee purchase plans	360,524	36			320			394,794	10,389	10,745
Conversions of Class B common stock into common stock	221	1	(221)	(1)						—
Income tax benefit from stock option plans					314					314
Repurchase of common stock								(4,131,000)	(80,925)	(80,925)
Investments valuation adjustment						538				538
Foreign currency translation adjustment						(3,148)				(3,148)
Net income							20,354			20,354
Comprehensive income										17,744
Balance December 31, 2000	72,446,101	7,245	284,891	28	121,444	(4,637)	343,974	(5,055,602)	(97,377)	370,677
Common stock issued under stock option and employee purchase plans	18,000	1			(8,894)			737,348	15,186	6,293
Common stock issued in connection with acquisition of Metro Information Services, Inc.	2,759,870	276			49,460			4,644,454	86,236	135,972
Income tax benefit from stock option plans					259					259
Repurchase of common stock								(326,200)	(4,045)	(4,045)
Investments valuation adjustment						1,181				1,181
Foreign currency translation adjustment						1,449				1,449
Net income							17,387			17,387
Comprehensive income										20,017
Balance December 31, 2001	72,223,971	7,522	284,891	28	162,269	(2,007)	361,361	—	—	529,173
Common stock issued under stock option and employee purchase plans	321,128	33			4,045			189,184	2,364	6,442
Conversions of Class B common stock into common stock	287	—	(287)	—						—
Income tax benefit from stock option plans					284					284
Repurchase of common stock								(6,498,600)	(54,092)	(54,092)
Minimum pension liability						(1,159)				(1,159)
Investments valuation adjustment						(273)				(273)
Foreign currency translation adjustment						2,028				2,028
Net income							8,181			8,181
Comprehensive income										8,777
Balance December 31, 2002	75,545,386	\$ 7,555	284,604	\$ 28	\$ 166,598	\$ (1,411)	\$ 369,542	(6,309,416)	\$ (51,728)	\$490,584

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

Keane, Inc. Consolidated Statements of Cash Flows

(In thousands)

December 31,	2002	2001	2000
Cash flows from operating activities			
Net income	\$ 8,181	\$ 17,387	\$ 20,354
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	27,452	26,113	28,991
Deferred income taxes	(3,796)	1,808	(5,444)
Provision for doubtful accounts	(5,514)	2,024	3,086
Loss on sale of property and equipment	(46)	(167)	—
Gain on sale of investments	(387)	(1,233)	—
Non-cash restructuring charge	1,847	825	3,403
Impairment of long-term investments	—	2,000	—
Gain on sale of business unit	—	(4,302)	—
Income tax benefit from stock options	284	259	314
Changes in operating assets and liabilities, net of acquisitions:			
Decrease in accounts receivable	49,888	41,691	48,432
(Decrease) increase in prepaid expenses and other assets	(10,754)	(1,065)	6,748
(Decrease) increase in accounts payable, accrued expenses, unearned income, and other liabilities	(5,789)	758	(18,415)
(Decrease) increase in income taxes payable	(4,695)	(2,916)	8,609
Net cash provided by operating activities	56,671	83,182	96,078
Cash flows from investing activities			
Purchase of investments	(27,859)	(104,591)	(30,875)
Sale and maturities of investments	69,788	102,340	60,191
Purchase of property and equipment	(7,802)	(7,609)	(11,386)
Proceeds from the sale of property and equipment	410	419	182
Proceeds from the sale of business unit	—	16,087	—
Payments for current year acquisitions	(63,236)	(7,148)	(32,516)
Payments for prior years acquisitions	(184)	(1,266)	(3,756)
Net cash used for investing activities	(28,883)	(1,768)	(18,160)
Cash flows from financing activities			
Payments on acquired debt	—	(65,938)	—
Payments under long-term debt, net	—	(5,006)	(3,523)
Principal payments under capital lease obligations	(1,227)	(1,303)	(1,376)
Proceeds from issuance of common stock	6,330	6,293	10,745
Repurchase of common stock	(54,092)	(4,045)	(80,925)
Net cash used for financing activities	(48,989)	(69,999)	(75,079)
Effect of exchange rate changes on cash	2,028	358	(2,074)
Net (decrease) increase in cash and cash equivalents	(19,173)	11,773	765
Cash and cash equivalents at beginning of year	65,556	53,783	53,018
Cash and cash equivalents at end of year	\$ 46,383	\$ 65,556	\$ 53,783
Supplemental information			
Income taxes paid	\$ 16,511	\$ 14,922	\$ 10,469

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

Years ended December 31, 2002, 2001, and 2000

(All amounts in thousands unless stated otherwise and except for share and per share amounts)

A. Summary of Significant Accounting Policies

The consolidated financial statements include the accounts of Keane, Inc. (the "Company") and all of its wholly-owned subsidiaries. Upon consolidation, all significant intercompany accounts and transactions are eliminated. The Company's fiscal year ends on December 31.

Nature of Operations – Keane provides Information Technology (IT) and business consulting services. The Company divides its business into three main lines: Business Consulting, Application Development and Integration (AD&I), and Application Development and Management Outsourcing (Applications Outsourcing).

Keane's clients consist primarily of Global 2000 organizations, government agencies, and healthcare organizations. The Company services clients through branch office operations in major markets of North America and the United Kingdom. These offices are supported by Keane Consulting Group (KCG), a centralized Strategic Practices Group representing Keane's core services and key competencies, and seven Advanced Development Centers ("ADC") in the United States, Canada, and India. This delivery structure allows the Company to provide clients with world-class capabilities representing the organizational experience and best practices of the entire Company on a responsive and cost-effective local level.

Revenue Recognition – The Company provides three synergistic service offerings: Business Consulting, AD&I, and Applications Outsourcing. The Company recognizes revenue primarily through either time and materials or fixed-price basis for each type of offering.

Revenue on time and materials contracts is recorded at contractually agreed upon rates. For these types of contracts, revenue is recognized as the services are performed. In some cases, the Company invoices customers prior to performing the service, resulting in deferred revenues, which is reported as a current liability in the consolidated financial statements. For fixed-price contracts, revenue is recognized using the percentage of completion method. The Company uses estimated labor-to-complete to measure percentage complete. Percentage of completion recognition relies on accurate estimates of cost, scope, and duration of each engagement. If the Company does not accurately estimate the cost or scope or does not manage its projects properly within the expected period of the project, future revenues may be negatively impacted. Adjustments to revenue are recorded in the period in which the over/under estimate is detected. Management regularly reviews profitability and underlying estimates for fixed price contracts. Losses, if any, on fixed price contracts are recorded in the period in which the loss is identified.

Revenue associated with application software products is recognized as the software products are installed and as implementation services are delivered. Software maintenance fees on installed products are recognized on a pro-rated basis over the term of the agreement.

For the majority of outsourcing engagements, the Company provides a specific level of service each month for which it bills a standard monthly amount. Revenue for these engagements can be recognized in monthly installments over the billable portion of the contract or on a time and materials basis. Installment amounts may be adjusted to reflect changes in staffing requirements or service level agreements. Costs of transitioning the employees and ensuring the Company meets required service level agreements may be capitalized over defined periods of time.

Allowance for Bad Debts – Each accounting period, Keane evaluates accounts receivable for risk associated with a client's inability to make contractual payments or unresolved issues with the adequacy of Keane's services. Billed and unbilled receivables that are specifically identified as being at risk are provided for with a charge to revenue in the period the risk is identified. Considerable judgment is used in assessing the ultimate realization of these receivables including reviewing

the financial stability of the client, evaluating the successful mitigation of service delivery disputes, and gauging current market conditions. If the Company's evaluation of service delivery issues or a client's ability to pay is incorrect, the Company may incur future charges to revenue.

Foreign Currency Translation – For the Company's subsidiaries in Canada, the United Kingdom, and India, the Canadian dollar, British pound, and Indian rupee, respectively, are the functional currencies. All assets and liabilities of the Company's Canadian, English, and Indian subsidiaries are translated at exchange rates in effect at the end of the period. Income and expenses are translated at rates that approximate those in effect on transaction dates. The translation differences are charged or credited directly to the translation adjustment account included as part of stockholders' equity. Realized foreign exchange gains and losses are included in other income (expense).

Cash and Cash Equivalents – Cash and cash equivalents consist of highly liquid investments with a maturity of three months or less at the time of purchase. Cash equivalents are currently designated as available-for-sale. Cash equivalents at December 31, 2002 included investments in commercial paper (\$24.5 million) and money market funds (\$12.8 million). Cash equivalents at December 31, 2001 included investments in commercial paper (\$15.0 million) and money market funds (\$33.8 million).

Financial Instruments – The amounts reflected in the consolidated balance sheets for cash and cash equivalents, accounts receivable, and accounts payable approximate their fair value due to their short maturities. Based on the borrowing rates currently available to the Company for bank loans with similar terms and maturities, the fair value of the Company's debt obligations approximates their carrying value. Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of investments and trade receivables. The Company's cash, cash equivalents, and investments are held with a local financial institution. The Company's customer base consists of geographically dispersed customers in many different industries. Therefore, concentration of credit risk with respect to trade receivables is not considered significant.

Marketable Securities – Marketable securities are stated at fair value as reported by the investment custodian. The Company determines the appropriate classification of debt and equity securities at the time of purchase and re-evaluates such designations as of each balance sheet date. Marketable securities are currently designated as available-for-sale, and as such, unrealized gains and losses are reported in Other Comprehensive Income. The Company invests primarily in tax-exempt municipal bonds with at least a single A rating by Moody's grading service. In addition, the Company invests in United States government obligations and corporate bonds. All investments must have a maturity date of not more than five years. In the case of a puttable security, the put date will be within five years. The Company views its marketable securities portfolio as available for use in its current operations, and accordingly, these marketable securities are classified as current assets in the accompanying balance sheet. As of December 31, 2002, the Company's marketable securities reflect an increase in market value of \$.3 million, which has been reflected in the statement of stockholders' equity. At December 31, 2001, the Company's marketable securities reflected an increase in market value of \$.8 million. Realized gains and losses, as well as interest, dividends, and capital gain/loss distributions on all securities, are included in income.

Property and Equipment – Property and equipment is carried at cost, less accumulated depreciation and amortization. Property and equipment are reviewed periodically for indicators of impairment and assets are written down as appropriate. Depreciation is computed on a straight-line basis over estimated useful lives of 25 to 40 years for buildings and improvements, and two to seven years for office equipment, computer equipment, and software. Leasehold improvements are amortized over the shorter of the estimated useful life of the improvement or the term of the lease not to exceed seven years. Repair and maintenance costs are charged to expense. Upon disposition, the cost and related accumulated depreciation are removed from the accounts, and any gain or loss is included in income.

Goodwill and Intangible Assets – Statement of Financial Accounting Standards No. 142 (FAS 142), "Goodwill and Other Intangible Assets," clarified criteria to recognize intangible assets from goodwill and established requirements to cease

amortizing goodwill and indefinite lived intangibles and to begin an annual review for impairment. On January 1, 2002, the Company adopted FAS 142 and was, therefore, required to perform an impairment test on its goodwill and other intangibles with indefinite lives during the first six months of 2002, and then on a periodic basis thereafter. The Company's initial goodwill impairment analysis was completed during the second quarter of 2002, and was based on January 1, 2002 balances. Through this analysis it was determined that there was no impairment as of that date. Subsequently, during the fourth quarter of 2002, the Company completed its annual impairment review based on September 30, 2002 balances and determined that there was no impairment as of that date. Future changes in estimates may result in a non-cash goodwill impairment that could have a material adverse impact on the Company's financial condition and results of operations. As of December 31, 2002 and 2001, respectively, the Company reported total intangibles of customer lists and other intangibles of \$86.8 million and \$79.9 million. Intangibles are amortized on a straight-line basis over three to 15 years.

The Company periodically reviews its identifiable intangible assets for impairment in accordance with Statement FAS 144. In determining whether an intangible asset is impaired, the Company must make assumptions regarding estimated future cash flows from the asset, intended use of the asset, and other related factors. If the estimates or the related assumptions used to determine the value of the intangible assets change, the Company may be required to record impairment charges for these assets.

Income Taxes – Keane accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109 (FAS 109), "Accounting for Income Taxes," which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax basis of recorded assets and liabilities. FAS 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized. The Company accounts for income taxes under the asset and liability method, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

Comprehensive Income – Statement of Financial Accounting Standards No. 130 (FAS 130), "Reporting Comprehensive Income," establishes rules for the reporting and display of comprehensive income and its components. Components of comprehensive income include net income and certain transactions that have generally been reported in the consolidated statement of stockholders' equity. Other comprehensive income is comprised of currency translation adjustments, available-for-sale securities valuation adjustments, and adjustments related to a foreign defined benefit plan. At December 31, 2002, accumulated other comprehensive income was comprised of foreign currency translation adjustment of \$4 million, securities valuation adjustment of \$(.2) million, net of tax, and defined benefit plan adjustment of \$1.2 million, net of tax. At December 31, 2001, accumulated other comprehensive income was comprised of foreign currency translation adjustment of \$2.5 million and securities valuation adjustment of \$(.5) million, net of tax.

Stock-Based Compensation – The Company grants stock options for a fixed number of shares to employees with an exercise price equal to the closing price of the shares at the date of grant. The Company adopted the disclosure provisions of Statement of Financial Accounting Standards 123 (FAS 123), "Accounting for Stock-Based Compensation," and applies APB Opinion 25, "Accounting for Stock Issued to Employees," to its grants of stock options. Accordingly, the Company recognizes no compensation expense for stock-based employee compensation, provided options are issued at the current market value. Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant dates as calculated in accordance with FAS 123, the Company's net income and earnings per share for the years ended December 31, 2002, 2001 and 2000 would have been reduced to the pro forma amounts indicated below:

December 31,	2002	2001	2000
Gross income - as reported	\$ 8,181	\$ 17,387	\$20,354
Less: Total stock-based employee compensation expense determined under the fair value method for all awards, net of tax effects	9,882	9,342	17,758
Net (loss) income - pro forma	<u>(1,701)</u>	<u>8,045</u>	<u>2,596</u>
Net income per share - as reported (diluted)	.11	.25	.29
Net (loss) income per share - pro forma (diluted)	(.02)	.12	.04

The Company also grants restricted stock for a fixed number of shares to employees for nominal consideration. Compensation expense related to restricted stock awards is recorded ratably over the restriction period.

Legal Costs – The Company accrues costs of settlement, damages, and under certain conditions, costs of defense when such costs are probable and estimable. Otherwise, such costs are expensed as incurred.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Industry Segment Information – Based on qualitative and quantitative criteria established by Statement of Financial Accounting Standards No. 131 (FAS 131), “Disclosures about Segments of an Enterprise and Related Information,” the Company operates within one reportable segment: Professional Services. In this segment, the Company offers an integrated mix of end-to-end business solutions, such as Business Consulting (Plan), Application Development and Integration (Build), and Application Development and Management Outsourcing (Manage).

Recent Accounting Pronouncements – In April 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 145 (FAS 145), “Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections.” Under FAS 145, gains and losses on extinguishments of debt are to be classified as income or loss from continuing operations rather than extraordinary items. The Company is required to adopt FAS 145 in the first quarter of 2003 and does not expect the adoption of this statement to have a material impact on its financial condition or results of operations.

In July 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146 (FAS 146), “Accounting for Costs Associated with Exit or Disposal Activities.” The statement requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to exit or disposal plan. Costs covered by FAS 146 include lease termination costs and certain employee severance costs that are associated with a restructuring, branch closing, or other exit disposal activity. This statement is effective for exit or disposal activities initiated after December 31, 2002. FAS 146 may affect the timing of the Company’s recognition of future exit or disposal costs, if any.

In November 2002, the Financial Accounting Standards Board issued Interpretation No. 45 (FIN 45), “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.” FIN 45 requires a guarantor to record certain guarantees at fair value and to make significant new disclosures, even when the likelihood of making any payments under the guarantee is remote. The interpretation and its disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The interpretation’s initial recognition and initial measurement provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The guarantor’s previous accounting for guarantees issued prior to December 31, 2002 should not be revised or restated due to the adoption of this interpretation.

On December 31, 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 148 (FAS 148), "Accounting for Stock-Based Compensation - Transition and Disclosure," an amendment to FAS 123, "Accounting for Stock-Based Compensation." The statement provides three transition methods for entities electing to adopt the fair value recognition provisions of Statement 123 for stock-based employee compensation. FAS 148 also amends the disclosure provisions of FAS 123 to require prominent disclosure about the effects of an entity's accounting policy decisions with respect to stock-based compensation on reported net income and earnings per share in annual and interim financial statements. The statement is effective for fiscal years ending after December 15, 2002. Currently, the Company does not elect to transition from the intrinsic value method of accounting for stock-based compensation to the fair value method. Adoption of disclosure provisions of this statement will not impact the Company's financial condition or results of operations.

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities," which requires the consolidation of a variable interest entity, as defined, by its primary beneficiary. Primary beneficiaries are those companies that are subject to a majority of the risk of loss or entitled to receive a majority of the entity's residual returns, or both. In determining whether it is the primary beneficiary of a variable interest entity, an entity with a variable interest shall treat variable interests in that same entity held by its related parties as its own interests. The Company is currently evaluating the existence of variable interest entities, if any, and the impact of adopting the Interpretation on the consolidated financial statements. Refer to Note J to the audited condensed consolidated financial statements for additional disclosures regarding related parties, commitments, and contingencies.

B. Marketable Securities

The following is a summary of available-for-sale securities:

	Cost	Gross Unrealized		Estimated Fair Value
		Gains	Losses	
December 31, 2002				
U.S. government obligations	\$ 2,827	\$ 103	\$ 1	\$ 2,929
Corporate bonds	2,251	39	17	2,273
Municipal bonds	16,489	181	–	16,670
Total	21,567	323	18	21,872
Due in one year or less	3,960			3,946
Due after one year through three years	6,054			6,170
Due after three years	11,553			11,756
	21,567			21,872
December 31, 2001				
U.S. government obligations	\$ 30,017	\$ 338	\$ 11	\$ 30,344
Corporate bonds	27,906	651	285	28,272
Corporate passthroughs	4,997	75	1	5,071
Total	62,920	1,064	297	63,687
Due in one year or less	8,517			8,705
Due after one year through three years	22,927			23,133
Due after three years	31,476			31,849
	\$ 62,920			\$ 63,687

Proceeds from the sale and maturity of available for sale securities were approximately \$69.7 million, with \$.4 million realized as net gains, \$102.3 million with \$1.2 million realized as net gains, and \$60.2 million with no realized gains or losses based on a specific identification method for the years ended 2002, 2001, and 2000, respectively.

C. Trade Accounts Receivable

Trade accounts receivable consist of the following:

December 31,	2002	2001
Billed	\$ 103,820	\$ 144,896
Unbilled	33,491	28,290
Allowance for doubtful accounts	(7,879)	(13,014)
Total	<u>\$ 129,432</u>	<u>\$ 160,172</u>

Trade accounts receivable is presented net of doubtful accounts. The activity in the allowance account is as follows:

December 31,	2002	2001	2000
Beginning of year balance	\$ 13,014	\$ 10,990	\$ 7,904
Provision charged, net	1,893	10,258	6,778
Write-offs	(7,028)	(8,234)	(3,692)
End-of-year balance	<u>\$ 7,879</u>	<u>\$ 13,014</u>	<u>\$ 10,990</u>

D. Property and Equipment

Property and equipment consist of the following:

December 31,	2002	2001
Buildings and improvements	\$ 6,768	\$ 2,599
Office equipment	63,955	52,537
Computer equipment and software	14,064	12,019
Leasehold improvements	10,504	10,752
Construction in progress	40,888	13,000
	136,179	90,907
Less accumulated depreciation and amortization	70,562	57,206
Total	<u>\$ 65,617</u>	<u>\$ 33,701</u>

Depreciation expense totaled \$11.0 million, \$11.7 million, and \$16.2 million in 2002, 2001, and 2000, respectively. Computer equipment and software includes assets arising from capital lease obligations at a cost of \$3.1 million, \$5.2 million, and \$6.6 million with accumulated amortization totaling \$1.8 million, \$3.1 million, and \$3.3 million in 2002, 2001, and 2000, respectively. Please see Note J "Related Parties, Commitments, and Contingencies" for additional information.

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 144 (FAS 144), "Accounting for the Impairment or Disposal of Long-Lived Assets." FAS No. 144 supersedes Statement of Financial Accounting Standards No. 121 (FAS 121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of," and provides a single accounting model for long-lived assets to be disposed of. Adoption of this statement did not have a material effect on the Company's results of operations for the year ended December 31, 2002.

E. Goodwill and Other Intangible Assets - Adoption of FAS 142

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142 (FAS 142), "Goodwill and Other Intangible Assets." Under FAS 142, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives. The amortization provisions of FAS 142 apply to goodwill and intangible assets acquired on or after June 30, 2001. With respect to goodwill and intangible assets acquired prior to June 30, 2001, companies are required to adopt FAS 142 in their first fiscal year beginning after December 15, 2001. Because of the different transition dates for goodwill and intangible assets acquired on or before June 30, 2001 and those acquired after that date, pre-existing goodwill and intangibles will be amortized during this transition period until adoption, whereas new goodwill and indefinite lived intangible assets acquired after June 30, 2001 will not. The following table discloses the reconciliation of reported net income to the adjusted net income.

Goodwill and Other Intangible Assets – Adoption of FAS 142

December 31,	2002	2001	2000
Reported net income	\$ 8,181	\$ 17,387	\$ 20,354
Goodwill amortization	–	3,177	3,133
Closing costs amortization	–	43	32
Employee value amortization	–	1,165	944
Adjusted net income	<u>8,181</u>	<u>21,772</u>	<u>24,463</u>
Basic earnings per share			
Reported net income	.11	.25	.29
Goodwill amortization	–	.05	.05
Closing costs amortization	–	–	–
Employee value amortization	–	.02	.01
Adjusted net income per share	<u>.11</u>	<u>.32</u>	<u>.35</u>
Diluted earnings per share			
Reported net income	.11	.25	.29
Goodwill amortization	–	.05	.05
Closing costs amortization	–	–	–
Employee value amortization	–	.02	.01
Adjusted net income per share	<u>\$.11</u>	<u>\$.32</u>	<u>\$.35</u>

Amortized intangible assets	Gross Carrying Amount	Accumulated Amortization	Net
December 31, 2002			
Customer lists	\$ 81,532	\$ (12,339)	\$ 69,193
Contracts	29,250	(19,158)	10,092
Non-compete agreements	7,524	(4,601)	2,923
Technology	7,775	(3,177)	4,598
Total	<u>\$ 126,081</u>	<u>\$ (39,275)</u>	<u>\$ 86,806</u>
December 31, 2001			
Customer lists	\$ 56,132	\$ (2,473)	\$ 53,659
Contracts	29,250	(16,261)	12,989
Non-compete agreements	4,824	(2,320)	2,504
Technology	7,775	(2,066)	5,709
Total	<u>\$ 97,981</u>	<u>\$ (23,120)</u>	<u>\$ 74,861</u>

December 31,	2002	2001
Aggregate amortization expense	\$ 16,382	\$ 14,457
Estimated amortization expense		
For the year ended December 31, 2003	\$ 14,831	
For the year ended December 31, 2004	14,470	
For the year ended December 31, 2005	13,518	
For the year ended December 31, 2006	13,286	
For the year ended December 31, 2007	11,528	

Changes in Carrying Amounts of Goodwill

December 31,	2002
Balance as of January 1, 2002	\$ 224,891
Goodwill acquired during the year	47,454
Unamortized intangible assets reclassified as goodwill	5,090
Balance as of December 31, 2002	<u>\$ 227,435</u>

F. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consist of the following:

December 31,	2002	2001
Accrued employee benefits	\$ 12,830	\$ 8,322
Accrued restructuring	26,235	21,723
Other	22,087	21,935
	<u>\$ 61,152</u>	<u>\$ 51,980</u>

Please refer to Footnote O for additional information on restructuring.

G. Notes Payable

In connection with the purchase of a business complimentary to the Company's own operations during the third quarter of 2002, the Company issued a \$3.0 million non-interest bearing note payable as partial consideration. The note has a one-year term with a possible one-year extension based on additional acquisition service credits. Additionally, the Company acquired an existing \$100,000 non-interest bearing note payable in connection with employment credits. During 2001, the Company paid the remaining balance of a \$4.0 million note related to a previous acquisition.

H. Capital Stock

The Company has three classes of stock: preferred stock, common stock, and class B common stock. Holders of common stock are entitled to one vote for each share held. Holders of class B common stock generally vote together with holders of common stock as a single class but are entitled to 10 votes for each share held. The Board of Directors is authorized to determine the rights, preferences, privileges, and restrictions of any series of Preferred Stock, and to fix the number of shares of any such series. The common stock and class B common stock have equal liquidation and dividend rights except that any regular quarterly dividend declared shall be \$.05 per share less for holders of class B common stock. Class B common stock is nontransferable, except under certain conditions, but may be converted into common stock on a share-for-share basis at any time. Conversions to common stock totaled 287 and 221 shares in 2002 and 2000, respectively. There were no conversions during 2001. Shares of common stock reserved for conversions totaled 284,604 at December 31, 2002.

On September 21, 2001, the Company announced that its Board of Directors had authorized the Company to repurchase up to 1,542,800 shares of its common stock over the next 12 months. A total of 175,000 shares of common stock was repurchased under this authorization during the second quarter of 2002, at an average price of \$12.88 for a cost to \$2.2 million. The remaining authorized amount of 1,367,800 shares, which would have expired on September 18, 2002, was added to the July 25, 2002 share authorization amount of 3,632,200 shares, for a total of 5,000,000 shares authorized. The Company completed the purchase of the total authorized amount during the fourth quarter of 2002. The Company's total investment in this authorized share repurchase was \$39.1 million at an average price per share of \$7.83.

On October 25, 2002, the Board of Directors authorized the Company to repurchase an additional 5,000,000 shares of its common stock over the next 12 months. The repurchases may be made on the open market or in negotiated transactions, and the timing and amount of shares repurchased will be determined by the Company's management based on its evaluation of market and economic conditions and other factors. During the fourth quarter, the Company purchased 1,323,600 shares of its common stock under this authorization for a total investment of \$12.7 million at an average price

per share of \$9.59. The remaining authorized amount at December 31, 2002 was 3,676,400 shares. Between May 1999 and December 31, 2002, the Company has invested \$163.0 million to repurchase 11,955,800 shares of its common stock under seven separate authorizations.

I. Benefit Plans

Stock Option Plans – On December 31, 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 148 (FAS 148), “Accounting for Stock-Based Compensation - Transition and Disclosure,” an amendment to Statement of Financial Accounting Standards No. 123 (FAS 123), “Accounting for Stock-Based Compensation.” FAS 148 provides three transition methods for entities electing to adopt the fair value recognition provisions of Statement 123 for stock-based employee compensation. FAS 148 also amends the disclosure provisions of FAS 123 to require prominent disclosure about the effects of an entity’s accounting policy decisions with respect to stock-based compensation on reported net income and earnings per share in annual and interim financial statements. The statement is effective for fiscal years ending after December 15, 2002. Currently, the Company does not elect to transition from the intrinsic value method of accounting for stock-based compensation proscribed by Accounting Principles Board No. 25 (APB 25), “Accounting for Stock Issued to Employees,” and related interpretations to this fair value method proscribed by FAS 148. In addition, the Company will continue to apply the disclosure provisions of FAS 123. Accordingly, the Company’s adoption of disclosure provisions of FAS 148 will not impact the Company’s financial condition or results of operations.

The fair market value of each stock option is estimated using the Black Scholes option pricing method, assuming no expected dividends with the following weighted-average assumptions:

December 31,	2002	2001	2000
Expected life (years)	4.9	4.8	4.4
Expected stock price volatility	65%	65%	93%
Risk-free interest rate	4.24%	5.00%	5.00%

The Company has four stock-based compensation plans, which are described below.

The 1992 Stock Option Plan provides for grants of stock options for up to 3,600,000 shares of the Company’s common stock to employees, officers and directors of, and consultants and advisors to, the Company. Generally, options expire five years from the date of grant, require a purchase price of not less than 100% of the fair market value of the stock as of the date of grant, and are exercisable at such time or times as the Board of Directors in each case determines. The Company may grant options that are intended to qualify as incentive stock options under Section 422 of the Internal Revenue Code (“incentive stock options”) or nonstatutory options not intended to qualify as incentive stock options.

The 1998 Stock Incentive Plan, amended in December 1999, provides for grants of stock options for up to 7,000,000 shares of the Company’s common stock to employees, officers and directors of, and consultants and advisors to, the Company. Generally, options expire five years from the date of grant, require a purchase price of not less than 100% of the fair market value of the stock as of the date of grant, and are exercisable at such time or times as the Board of Directors in each case determines. The Company may grant options that are intended to qualify as incentive stock options or nonstatutory options, restricted stock awards, and other stock-based awards.

In December 2000, the Company initiated a new “Time Accelerated Restricted Stock Award Plan” (TARSAP) under its 1998 Stock Incentive Plan, whereby the vesting of certain stock options is directly impacted by the performance of the

Company. The vesting of stock options granted under the TARSAP accelerates upon the meeting of certain profitability criteria. If these criteria are not met, such options will vest five years after the date of grant and expire at the end of 10 years.

The Company believes that tying the vesting of larger blocks of certain stock options directly to financial performance more effectively utilizes options that would have been granted in future years, while making employees true stakeholders. The Company also anticipates that more closely aligning the interest of management and key employees with shareholders will focus employees on the goals and objectives most important to shareholders, and that the granting of such options was an important factor in securing employee confidence, commitment, and trust at a critical junction in the implementation of its strategic plans. Finally, the Company believes that the cost to shareholders of these additional options can be kept reasonable as a result of its stock repurchase program. Since May of 1999, the Company has invested \$163.0 million to repurchase 11,955,800 million shares of its common stock under seven separate authorizations.

The 2001 Stock Incentive Plan provides for grants of stock options for up to 7,000,000 shares of the Company's common stock to employees, officers and directors of, and consultants and advisors to, the Company. Generally, options expire five years from the date of grant, require a purchase price of not less than 100% of the fair market value of the stock as of the date of grant, and are exercisable at such time or times as the Board of Directors in each case determines. The Company may grant options that are intended to qualify as incentive stock options or nonstatutory options, restricted stock awards and other stock-based awards.

The weighted-average fair value of options granted under the option plans during the years ended December 31, 2002, 2001, and 2000 was \$13.43, \$11.96, and \$11.53, respectively.

In November 2001, the Company completed its merger with Metro Information Services, Inc. In connection with the merger, the Company assumed all options, whether vested or unvested, to purchase Metro's common stock, issued under Metro's stock option plans. Each option to purchase shares of Metro's common stock outstanding as of November 30, 2001 became an option to acquire a number of shares of Keane common stock equal to the number of shares of Metro's common stock subject to such option, multiplied by a conversion ratio of .48. The option price has been proportionally adjusted. The number of adjusted shares under the Metro plan is 571,058, of which, 13,394 were exercised during 2002.

In September of 2002, the Company completed the purchase of a business complementary to the Company's business strategy. In connection with this acquisition, the Company assumed all options, whether vested or unvested, to purchase the stock of the acquired company, under the respective stock option plans. Each option to purchase shares of the acquired company as of September 25, 2002 became an option to acquire a number of shares of Keane common stock equal to the number of shares of the acquired company subject to such option, multiplied by conversion ratio of .1766. The option price has been proportionally adjusted. The number of adjusted shares under the acquired company's plan is 87,502. During the fourth quarter of 2002, there were 14,184 shares exercised from this plan.

On September 26, 2002, the Company filed a Tender Offer Statement in connection with its offer to exchange currently held stock options with new options. The downturn in the stock market and the corresponding impact on the Company's stock price created a potential motivation and retention issue with key employees and executives of the Company.

Consistent with the Company's philosophy of using stock options to motivate and retain management and employees, on August 20, 2002, the Company's Board of Directors approved the opportunity for employees to request that the Company exchange outstanding options to purchase shares of the Company's common stock, which were granted on or after January 1, 2000 and have an exercise price of \$12.00 or greater per share, for new options to purchase shares of common stock on substantially the following terms ("the Offer"). Pursuant to the terms of the Offer:

- i. all eligible and outstanding options issued under all of the Company's stock option plans could be exchanged for new options at an exchange rate of four for every five surrendered;

ii. the grant date of the new options would be the first business day that is at least six months and one day after the date of the expiration of the Offer; and

iii. the exercise price of each new option would be the closing price of the Company's common stock on the new grant date.

The Offer expired on October 7, 2002 ("expiration date"). Options for 1,888,394 shares of the Company's common stock with a weighted average exercise price of \$20.45 were eligible for the Offer. Of this amount, 1,458,298 options were surrendered for exchange, with 324,902 options being retained, with the balance of the 105,194 being cancelled because of terminations. As a result, the Company anticipates that on April 8, 2003, the first business day that is at least six months and one day from the expiration date, the Company will grant new options for 1,166,638 shares of the Company's common stock.

Information with respect to activity under the Company's stock option plans is set forth below:

	Common Stock	Weighted Average Exercise Price
Outstanding at December 31, 1999	2,893,859	\$ 21.76
Granted	3,580,618	16.58
Exercised	(382,078)	8.75
Canceled/expired	(870,830)	25.36
Outstanding at December 31, 2000	5,221,569	18.55
Granted	1,723,024	20.14
Exercised	(192,095)	8.98
Canceled/expired	(475,328)	20.13
Outstanding at December 31, 2001	6,277,170	19.20
Granted	689,342	13.43
Exercised	(145,734)	13.08
Canceled/expired	(2,466,150)	21.16
Outstanding at December 31, 2002	<u>4,354,628</u>	\$ 17.25

Shares available for future issuance under the Company's stock option plans at December 31, 2002 are 11,178,189.

The following table summarizes information about stock options that were outstanding at December 31, 2002:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price of Options Outstanding	Number Exercisable	Weighted Average Exercisable Price of Exercisable Options
\$.04 — \$4.99	22,744	4.4	\$ 2.89	22,744	\$ 2.89
5.00 — 9.99	1,881,331	7.4	9.56	846,351	9.66
10.00 — 14.99	171,363	8.0	11.95	64,264	11.92
15.00 — 19.99	1,224,152	4.6	17.64	617,404	17.89
20.00 — 24.99	266,625	1.9	22.47	156,500	22.53
25.00 — 29.99	175,255	1.3	27.59	135,005	27.69
30.00 — 39.99	517,028	4.2	34.37	493,579	34.44
40.00 — 49.99	54,100	1.3	44.25	52,372	44.16
50.00 — 59.99	41,070	4.2	57.14	37,231	57.13
60.00 — 74.99	960	—	74.48	960	74.48
\$.04 — \$74.99	4,354,628			2,426,410	

Stock Purchase Plans –The Company's 1992 Employee Stock Purchase Plan provides for the purchase of 4,550,000 shares of common stock by qualifying employees at a purchase price of 85% of the market value of the stock on the purchase date. During 2002, 2001, and 2000, participants in this plan purchased 378,333, 575,841, and 384,209 shares, respectively. Shares available for future purchases totaled 1,585,598 at December 31, 2002.

Incentive Compensation Plans –The Company has established incentive compensation plans for certain officers and selected employees. Payments under the plans are based on actual performance compared to stated plan objectives. Compensation expense under the plans in 2002, 2001, and 2000 approximated \$16.8 million, \$18.3 million, and \$11.2 million, respectively. In addition, management may award discretionary bonuses based upon an individual's performance and/or contribution to the Company.

Deferred Savings and Profit Sharing Plan –During 1984, the Company established a deferred savings and profit sharing plan under Section 401(k) of the Internal Revenue Code. The plan enables eligible employees to reduce their taxable income by contributing up to 15% of their salary to the plan. The Company makes discretionary contributions to the plan based on a percentage of contributions made by the eligible employees and profits of the Company. The Company's contributions vest after the employee has completed 42 months of service and for 2002, 2001, and 2000 amounted to approximately \$8.4 million, \$4.5 million, and \$5.0 million, respectively.

Defined Benefit Plan –The Company has a defined benefit pension plan that provides pension benefits to employees of the Company's subsidiary located in the United Kingdom. Such benefits are available to employees who were active on August 4, 1998 and not to employees who joined the Company after that date, and are based on the employees' compensation and service. The Company's policy is to fund amounts required by applicable government regulations.

Total pension expense for 2002, 2001, and 2000 was approximately \$1.3 million, \$1.2 million and \$1.4 million, respectively. The following table sets forth the benefit obligation, fair value of plan assets, and the funded status of the Company's Plan; amounts recognized in the Company's financial statements; and the principal weighted average assumptions used:

December 31,	2002	2001
Change in projected benefit obligation		
Benefit obligation at January 1,	\$ 16,780	\$ 15,140
Service cost	1,518	1,604
Interest cost	1,159	956
Employee contributions	301	348
Actuarial loss (gain)	1,942	(984)
Benefits paid	(423)	(284)
Benefit obligation at December 31,	<u>21,277</u>	<u>16,780</u>
Change in plan assets		
Fair value of plan assets at January 1,	15,546	16,949
Actual return on plan assets	(4,221)	(2,606)
Employer contributions	979	1,139
Employee contributions	301	348
Benefits paid	(423)	(284)
Fair value of plan assets at end of year	<u>12,182</u>	<u>15,546</u>
Funded status	(9,095)	(1,234)
Unrecognized net loss (gain)	8,725	1,234
Accrued pension cost	<u>(370)</u>	<u>-</u>
Amounts recognized in the statement of financial position consist of		
Deferred tax asset, long-term	773	-
Accrued benefit liability	(2,302)	-
Other comprehensive income	1,159	-
Net amount recognized	<u>\$ (370)</u>	<u>\$ -</u>

December 31,	2002	2001
Weighted average assumptions		
Discount rate at end of the year	5.75%	6.00%
Expected return on plan assets for the year	8.00%	8.25%
Rate of compensation increase at end of the year	3.75%	4.00%
Discretionary pension increased LPI pension increases	0.00%	2.00%
LPI pension increases	2.25%	2.25%
Statutory revaluation of benefits GMP (guaranteed minimum pension)	3.50%	3.50%

December 31,	2002	2001
Components of net periodic benefit cost		
Service cost-benefits earned during the period	\$ 1,518	\$ 1,604
Interest cost on projected benefit obligations	1,159	957
Expected return on plan assets	(1,420)	(1,397)
Net amortization and deferral-amortization of unrecognized net loss (gain)	92	(6)
Total net periodic benefit cost	<u>\$ 1,349</u>	<u>\$ 1,158</u>

J. Related Parties, Commitments, and Contingencies

The principal executive office of the Company as of December 31, 2002, was located at Ten City Square in Boston, Massachusetts and leased from the City Square Limited Partnership as described below. The Company leases additional office space and apartments in more than seventy locations in North America, the United Kingdom, and India under operating leases and capital leases, some of which may be renewed for periods up to five years, subject to increased rental fees. Rental expense for all of the Company's facilities amounted to approximately \$30.8 million in 2002, \$19.4 million in 2001, and \$22.4 million in 2000. The Company is committed to minimum annual rental payments under all leases of approximately \$26.7 million in 2003, \$20.8 million in 2004, \$15.6 million in 2005, \$9.6 million in 2006, \$5.6 million in 2007, and an aggregate of \$28.4 million for 2008 and thereafter.

In February 1985, the Company entered into a lease, which subsequently was extended to a term of 20 years, with City Square Limited Partnership ("City Square"), pursuant to which the Company leased approximately 34,000 square feet of office and development space in a building located at Ten City Square, in Boston, Massachusetts. The Company now leases approximately 88% of this building and the remaining 12% is leased by other tenants. At December 31, 2002, the leased space was used as the Company's corporate offices. John F. Keane, Chairman of the Board of the Company, and Philip J. Harkins, a director of the Company, are limited partners of City Square. Based upon its knowledge of rental payments for comparable facilities in the Boston area, the Company believes that the rental payments under this lease, which will be approximately \$.8 million per year (\$25.00 per square foot) for the remainder of the lease term (until February 2006), plus specified percentages of any annual increases in real estate taxes and operating expenses, were, at the time the Company entered into the lease, as favorable to the Company as those which could have been obtained from an independent third party. As a result of its occupancy of the New Facility (as described below), the Company is in the process of finding a third party to sublease the space it occupies at Ten City Square.

As a result of the planned vacancy at Ten City Square, the Company has reserved the remaining lease payments due to City Square during the remainder of the lease term, resulting in a charge of approximately \$3.9 million in the accompanying 2002 financial statements.

In October 2001, the Company entered into a lease with Gateway Developers LLC ("Gateway LLC") for a term of twelve years, pursuant to which the Company agreed to lease approximately 95,000 square feet of office and development space in a building located at 100 City Square in Boston, Massachusetts (the "New Facility"). The Company leases approximately 57% of the New Facility and the remaining 43% is, or will be, occupied by other tenants. John Keane Family LLC is a member of Gateway LLC. The members of John Keane Family LLC are trusts for the benefit of John F. Keane, Chairman of the Board of the Company, and his immediate family members.

On October 31, 2001, Gateway LLC entered into a \$39.4 million construction loan with Citizens Bank of Massachusetts (the "Gateway Loan") in connection with the New Facility and an adjacent building to be located at 20 City Square, Boston, Massachusetts. John Keane Family LLC and John F. Keane are each liable for certain obligations under the Gateway Loan if and to the extent Gateway LLC requires funds to comply with its obligations under the Gateway Loan. Stephen D. Steinour, a director of the Company, is Chief Executive Officer of Citizens Bank of Pennsylvania. Citizens Bank of Massachusetts and Citizens Bank of Pennsylvania are subsidiaries of Citizens Financial Group, Inc. Mr. Steinour was not involved in the process of approving the loan.

The Company began occupying the New Facility and making lease payments in March 2003. Based upon its knowledge of lease payments for comparable facilities in the Boston area, the Company believes that the lease payments under the lease for the New Facility, which will be approximately \$3.2 million per year (\$33.00 per square foot for the first 75,000 square feet and \$35.00 per square foot for the remainder of the premises) for the first six years of the lease term and approximately \$3.5 million per year (\$36.00 per square foot for the first 75,000 square feet and \$40.00 per square foot for the remainder of the premises) for the remainder of the lease term, plus specified percentages of any annual increases in real estate taxes and operating expenses, were, at the time the Company entered into the lease, as favorable to the Company as those which could have been obtained from an independent third party.

In view of the related party ownership of the New Facility, the Company concluded that during the construction phase of the New Facility, the estimated construction in progress costs for the project would be capitalized in accordance with EITF No. 97-10, "The Effect of Lessee Involvement in Asset Construction." A credit for the same amount is reflected in the accrued long-term construction-in-progress costs in the accompanying balance sheet. For purposes of the consolidated statement of cash flows, the Company characterizes this treatment as a non-cash financing activity.

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities," which requires the consolidation of a variable interest entity, as defined, by its primary beneficiary. Primary beneficiaries are those companies that are subject to a majority of the risk of loss or entitled to receive a majority of the entity's residual returns, or both. In determining whether it is the primary beneficiary of a variable interest entity, an entity with a variable interest shall treat variable interests in that same entity held by its related parties as its own interests.

The Company is currently evaluating whether or not City Square and Gateway LLC are variable interest entities and, if so, whether or not the Company is the primary beneficiary of these entities.

If the Company determines that City Square or Gateway LLC, or both, are variable interest entities as defined by FIN 46, the Company will be required to consolidate the financial position and results of operation of the entities beginning July 1, 2003.

If the Company concludes it is not required to consolidate either of these entities, the Company will continue to account for its leases with City Square and Gateway LLC, in accordance with generally accepted accounting principles. With respect to the Gateway LLC lease, if the Company concludes it is not required to consolidate this entity, the Company will amortize the asset and liability recorded during the construction of the facility, and estimates that the net effect of such amortization included in its operating results will approximate the rent expense resulting from the contractual payments it is required to make under the lease.

In December 2002, the Company's Audit Committee and Board of Directors each approved two related party transactions involving directors of the Company. The Company has subcontracted with Guardent, Inc. ("Guardent") for a customer project involving the State of California. Ms. Cirino, a director of the Company, is an executive officer and shareholder of Guardent. The payments from the Company to Guardent are not expected to exceed approximately \$160,000. The Company repurchased 400,000 shares of common stock from Mr. Fain, a director of the Company. These shares were repurchased on December 6, 2002 in a negotiated transaction at a price of \$9.50 per share for an aggregate purchase price of \$3.8 million. The closing price for the Company's common stock on the American Stock Exchange on December 6, 2002 was \$9.65.

As of December 31, 2002, in connection with a third quarter acquisition, the Company had a recorded contingent liability of \$895,000 related to certain earn-out considerations. The \$895,000 is expected to be paid out during the first quarter of 2003. Future earn-outs are based on specific net revenue targets. Payments for achieving these goals will range from \$1.0 to \$2.0 million in future periods. The Company also recorded \$3.0 million as deferred revenue related to contingent service credits and issued a \$3.0 million non-interest bearing note payable as partial consideration. The note has a one-year term with a possible one-year extension based on additional acquisition service credits.

The Company is a guarantor with respect to a line of credit for Innovate EC, an entity in which the Company acquired a minor equity position as a result of a previous acquisition. The total line of credit is for \$600,000. The Company guarantees \$300,000 of this obligation. The line is subject to review by the lending institution. The Company would be required to meet its guarantor obligation in the event the lending institution refuses to extend the credit facility and Innovate EC is unable to satisfy its obligation.

In April 1998, United Services Planning Association, Inc. and Independent Research Agency for Life Insurance, Inc. filed a complaint in the District Court for Tarrant County, Texas (Civil Action No. 96-173235-98) against the Company and two of its employees alleging that the Company misrepresented its ability to complete a project contracted for by the plaintiffs and concealed from the plaintiffs material facts related to the status of the project. The parties are currently engaged in discovery. It is not likely that the case will go to trial before the fall of 2003. The plaintiffs seek monetary relief. The Company believes that it has meritorious defenses to the plaintiff's complaint and intends to contest the claims vigorously. However, the Company is presently unable to assess the likely outcome of the matter.

The Company is involved in litigation and various legal matters, which have arisen in the ordinary course of business. The Company does not believe that the ultimate resolution of these matters will have a material adverse effect on its financial condition, results of operations, or cash flows. The Company believes these litigation matters are without merit and intends to defend these matters vigorously. Refer to Note P to the audited condensed consolidated financial statements for additional disclosures with respect to legal matters.

K. Income Taxes

For financial reporting purposes, income before income taxes includes the following components:

December 31,	2002
Income before income taxes	
Domestic	\$ 13,085
Foreign	551
Total income before provision for income taxes	<u>\$ 13,636</u>

The provision for income taxes consists of the following:

December 31,	2002	2001	2000
Current			
Federal	\$ 5,996	\$ 8,993	\$ 16,748
State	2,573	147	1,958
Foreign	682	886	570
Total Current	9,251	10,026	19,276
Deferred			
Federal	(2,960)	1,605	(4,283)
State	(836)	412	(898)
Foreign	–	(209)	(263)
Total Deferred	(3,796)	1,808	(5,444)
Total income tax provision	\$ 5,455	\$ 11,834	\$ 13,832

A reconciliation of the statutory income tax provision with the effective income tax provision is as follows:

December 31,	2002	2001	2000
Federal income taxes at 35%	\$ 4,772	\$ 10,228	\$ 11,965
State income taxes, net	1,129	363	1,060
Disallowed meals expense	508	506	806
Foreign tax	489	(81)	(594)
Adjustment of prior year's estimated tax liability	(1,532)	–	–
Merger related costs	–	1,048	856
Other, net	89	(230)	(261)
Total	\$ 5,455	\$ 11,834	\$ 13,832

The components of the net deferred tax assets and liabilities are as follows:

December 31,	2002	2001
Deferred tax assets		
Allowance for doubtful accounts and other reserves	\$ 2,022	\$ 2,208
Accrued expenses	17,490	9,167
Amortization of intangible assets	975	12,453
Depreciation and other	9,108	11,496
Acquired United States net operating loss carry-forwards	3,214	2,298
Total deferred tax assets	<u>32,809</u>	<u>37,622</u>
Deferred tax liabilities		
Intangibles	<u>(28,343)</u>	<u>(28,150)</u>
Total deferred tax liabilities	<u>(28,343)</u>	<u>(28,150)</u>
Total net deferred tax asset	<u>\$ 4,466</u>	<u>\$ 9,472</u>

At December 31, 2002, the Company had domestic net operating loss (NOL) carry-forwards for tax purposes of \$7.9 million expiring in 2017 through 2021. These NOL carry-forward amounts relate to prior acquisitions and are subject to limitation pursuant to IRC Section 382.

Cumulative undistributed earnings of the Company's foreign subsidiaries amounted to approximately \$16 million at December 31, 2002. No provision for United States income tax has been made for the repatriation of these earnings because the Company considers the earnings to be indefinitely reinvested. If such earnings were distributed, tax expense would increase by approximately \$500,000. Additionally, the Company's India subsidiary, part of the SignalTree Solutions acquisition, has tax holidays in India, which reduce or eliminate the income tax in that country. The holidays expire between 2006 and 2009. Based on the currently enacted regular corporate income tax rate in India, the benefit to the Company of the tax holidays was approximately \$325,000, of which the per diluted share amount is immaterial, for the year ended December 31, 2002.

L. Business Acquisitions

On March 15, 2002, Keane acquired SignalTree Solutions Holding, Inc. (SignalTree Solutions), a privately held, United States-based corporation with two software development facilities in India and additional operations in the United States. Under the terms of the merger agreement, Keane paid \$68.2 million in cash for SignalTree Solutions.

The Company accounted for the acquisition as a purchase, pursuant to which the assets and liabilities of SignalTree Solutions, including intangible assets, were recorded at their respective fair values. All identifiable intangible assets are being amortized over their estimated useful life with the exception of goodwill. The financial position, results of operations and cash flows of SignalTree Solutions were included in the Company's financial statements effective as of the purchase date.

The total cost of the merger was \$78.9 million. Portions of the purchase price, including intangible assets, were identified by independent appraisers utilizing proven valuation procedures and techniques. Goodwill was recorded at \$41.3 million and other identified intangible assets were valued at \$21.5 million. At the date of acquisition, the Company entered a plan

to exit certain activities and consolidate facilities. As a result, the Company recorded a restructuring liability of \$1.6 million related to the lease obligation and certain other costs for those facilities. In accordance with EITF 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)," these costs have been reflected in the purchase price.

The components of the purchase price allocation is as follows:

Consideration and merger costs	
Consideration paid	\$ 66,927
Transaction costs	1,303
Restructuring	1,553
Deferred tax liability	9,120
Total	<u>\$ 78,903</u>

Allocation of purchase price	
Net asset value acquired	\$ 16,133
Customer lists (seven-year life)	18,800
Non-compete agreements (three-year life)	2,700
Goodwill	41,270
Total	<u>\$ 78,903</u>

The following table presents the condensed balance sheet disclosing the amounts assigned to each of the major assets acquired and liabilities assumed of SignalTree Solutions at the acquisition date:

Condensed balance sheet	
Cash	\$ 2,650
Accounts receivable	7,304
Other current assets	3,562
Property, plant, equipment, net	8,011
Total assets	21,527
Accounts payable	569
Accrued compensation	1,569
Other liabilities	3,256
Net assets	<u>\$ 16,133</u>

On November 30, 2001, the Company completed the merger of Metro Information Services, Inc. (Metro), a provider of information technology, or IT, consulting and custom software development services and solutions. The merger was completed by exchanging all of the common stock of Metro for 7.4 million shares of the Company's common stock. Each share of Metro was exchanged for .48 of one share of Keane common stock. In addition, outstanding Metro stock options were converted at the same ratio into options to purchase 571,058 shares of Keane common stock.

The Company accounted for the acquisition as a purchase, pursuant to which the assets and liabilities of Metro, including identifiable intangible assets, were recorded at their respective fair values. All identifiable intangible assets will be amortized over their estimated useful life with the exception of goodwill. The financial position, results of operations and cash flows of Metro were included in the Company's financial statements effective as of the merger date.

The total cost of the merger was \$164.5 million. Portions of the purchase price, including intangible assets, were identified by independent appraisers utilizing proven valuation procedures and techniques. Initial goodwill was recorded at \$154.3 million and other identified intangible assets were valued at \$46.1 million. At the date of acquisition, the Company entered a plan to exit certain activities and consolidate facilities. As a result, the Company recorded a restructuring liability of \$11.0 million in 2001 related to the lease obligation and certain other costs for those facilities. In accordance with EITF 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)," these costs, which are not associated with the generation of future revenues and have no future economic benefit, be reflected as assumed liabilities in the allocation of the purchase price to the net assets acquired. During 2002, the Company adjusted the purchase price allocation principally as a result of an adjustment in the valuation of the liability assumed for the restructured facilities and for other matters unresolved at the time of acquisition. As a result of these non-cash adjustments, the goodwill balance was increased by \$3.1 million.

The components of the purchase price allocation as of date of merger with 2002 adjustments is as follows:

Consideration and merger costs	November 30, 2001	2002 Adjustments	Total
Value of stock issued	\$ 130,796	\$ -	\$ 130,796
Fair value of options exchanged	4,754	-	4,754
Transaction costs	7,786	258	8,044
Restructuring	10,972	3,052	14,024
Deferred tax liability	8,141	-	8,141
Deferred tax asset	-	(1,249)	(1,249)
Total	<u>\$ 162,449</u>	<u>\$ 2,061</u>	<u>\$ 164,510</u>

Allocation of purchase price	November 30, 2001	2002 Adjustments	Total
Net liabilities assumed	\$ (37,984)	\$ (1,034)	\$ (39,018)
Customer lists (seven-year life)	45,200	-	45,200
Non-compete agreements (three-year life)	900	-	900
Goodwill	154,333	3,095	157,428
Total	<u>\$ 162,449</u>	<u>\$ 2,061</u>	<u>\$ 164,510</u>

The following table presents the condensed balance sheet disclosing the amounts assigned to each of the major assets acquired and liabilities assumed of Metro as of the date of the acquisition and adjustments:

Condensed balance sheet	November 30, 2001	2002 Adjustments	Total
Cash	\$ 622	\$ -	\$ 622
Accounts receivable	40,820	141	40,961
Other current assets	1,004	-	1,004
Property, plant, equipment, net	2,780	(401)	2,379
Total assets	45,226	(260)	44,966
Accounts payable	3,583	13	3,596
Accrued compensation	9,800	65	9,865
Other liabilities	3,889	696	4,585
Note payable	65,938	-	65,938
Net liabilities	<u>\$ (37,984)</u>	<u>\$ (1,034)</u>	<u>\$ (39,018)</u>

The unaudited pro forma combined condensed statements of income below present the historical statements of the Company and its acquisitions of Metro on November 30, 2001 and SignalTree Solutions on March 15, 2002 as if the purchases had occurred at January 1, 2001. Unaudited pro forma combined condensed financial information is presented for comparative purposes only and is not necessarily indicative of the results of operations that would have actually been reported had the purchase occurred at the beginning of the periods presented, nor is it necessarily indicative of future financial position or results of operations.

December 31,	2002	2001
Total revenues	\$ 883,412	\$ 1,070,451
Net income	8,910	16,013
Net income per share (basic)	\$.12	\$.23
Net income per share (diluted)	\$.12	\$.23

In addition to the SignalTree Solutions and Metro acquisitions, the Company completed several acquisitions of businesses complementary to the Company's business strategy during the third quarter of 2002 and during 2000. The Company did not complete any acquisitions other than Metro during 2001. The merger and consideration costs of these acquisitions, which were accounted for using the purchase method of accounting, totaled \$13.4 million in 2002 and \$35.3 million in 2000. In certain cases, the purchase price included contingent consideration based upon operating performance of the acquired business. During 2001, the Company paid an additional \$1.2 million related to earn-outs and has recorded these amounts as additional purchase price. As of December 31, 2002, in connection with a third quarter acquisition, the Company had a recorded contingent liability of \$895,000 related to certain earn-out considerations. The \$895,000 is expected to be paid out during the first quarter of 2003. Future earn-outs are based on specific net revenue targets.

Payments for achieving these goals will range from \$1.0 to \$2.0 million in future periods. The Company also recorded \$3.0 million as deferred revenue related to contingent service credits and issued a \$3.0 million non-interest bearing note payable as partial consideration. The note has a one-year term with a possible one-year extension based on additional acquisition service credits.

The results of operations of these acquired companies have been included in the Company's consolidated statement of income from the date of acquisition. The excess of the purchase price over the fair value of the net assets has been allocated to identifiable intangible assets and goodwill and the intangibles are being amortized on a straight-line basis over periods ranging from three to 15 years. Pro forma results of operations for these acquisitions have not been provided, as they were not material to the Company on either an individual, or an aggregate basis.

M. Earnings Per Share

A summary of the Company's calculation of earnings per share is as follows:

December 31,	2002	2001	2000
Net income	\$ 8,181	\$ 17,387	\$ 20,354
Weighted average number of common shares outstanding used in calculation of basic earnings per share	74,018	68,474	69,646
Incremental shares from the assumed exercise of dilutive stock options	388	922	347
Weighted average number of common shares outstanding used in calculation of diluted earnings per share	74,406	69,396	69,993
Earnings per share			
Basic	\$.11	\$.25	\$.29
Diluted	\$.11	\$.25	\$.29

For the period ending December 31, 2002, 2001, and 2000, there were 2,373,570, 2,348,368, and 3,063,740 options for common stock, respectively, which were excluded because they were anti-dilutive.

N. Restructuring Charges

In the fourth quarter of 2002, 2001, and 2000, the Company recorded restructuring charges of \$17.6 million, \$10.4 million, and \$8.6 million, respectively. Of these charges, \$3.2 million, \$4.4 million, and \$1.7 million related to a workforce reduction of approximately 229, 900, and 200 employees for the years 2002, 2001, and 2000, respectively. In 2002, the Company also released excess accruals of \$251,000 in connection with workforce reduction, which resulted in a net workforce restructuring charge of \$2.9 million. Cash expenditures in 2002 of \$10.2 million related to prior-year income statement charges and acquisition expenditures were \$3.9 million and \$6.3 million, respectively.

The Company also performed a review of its business strategy and concluded that consolidating some of its branch offices was key to its success. As a result of this review, the Company charges included \$12.1 million in 2002, \$4.0 million in 2001, and \$3.5 million in 2000 for branch office closings and certain other expenditures. In conjunction with the review during the fourth quarter, the Company also performed a review of accrual balances for properties restructured in prior years. As a result, the Company determined that the cost to consolidate and/or close certain non-profitable offices would

be higher than the original estimate. The change in estimates resulted in a net charge to the Company's restructuring liability of \$756,000 and \$1.2 million in 2002 and 2001, respectively. The resulting net charge in 2002 and 2001 was \$12.9 million and \$5.1 million, respectively. Cash expenditures in 2002 of \$6.3 million related to prior-years income statement charges and acquisition expenditures were \$3.8 million and \$2.5 million, respectively.

The Company also wrote off \$1.9 million, \$.8 million, and \$3.4 million in 2002, 2001, and 2000, respectively, of assets, which became impaired as a result of these restructuring actions.

A summary of restructuring activity during the years 2002, 2001, and 2000, which is reported in the consolidated accrued expenses in the accompanying balance sheet, is as follows:

	Workforce Reduction	Branch Office Closures & Other Expenditures	Impaired Assets	Total
Beginning balance in fiscal 2000	\$ 2,800	\$ 4,281	\$ -	\$ 7,081
Charges in fiscal 2000	1,743	3,478	3,403	8,624
Cash expenditures in fiscal 2000	(3,138)	(2,832)	-	(5,970)
Fixed asset impairment charges in fiscal 2000	-	-	(3,403)	(3,403)
Beginning balance in fiscal 2001	1,405	4,927	-	6,332
Charges in fiscal 2001	4,417	3,957	825	9,199
Change in prior year's estimate	-	1,159	-	1,159
Cash expenditures in fiscal 2001	(2,620)	(2,494)	-	(5,114)
Acquisition related charge in fiscal 2001	7,226	3,746	-	10,972
Fixed asset impairment charges in fiscal 2001	-	-	(825)	(825)
Beginning balance in fiscal 2002	10,428	11,295	-	21,723
Charges in fiscal 2002	3,192	12,060	1,847	17,099
Change in prior year's estimate	(251)	756	-	505
Cash expenditures in fiscal 2002	(10,177)	(6,318)	-	(16,495)
Acquisition related charge in fiscal 2002	93	1,760	187	2,040
Acquisition related charges to increase prior year estimate	-	3,397	-	3,397
Fixed asset impairment charges in fiscal 2002	-	-	(2,034)	(2,034)
Balance as of December 31, 2002	<u>\$ 3,285</u>	<u>\$ 22,950</u>	<u>\$ -</u>	<u>\$ 26,235</u>

As of December 31, 2002, the balance in the branch office closures reserve consisted of amounts for properties identified in 2002, 2001, 2000, and 1999 in the amounts of \$15.4, \$6.1, \$.8, and \$.6 million, respectively.

O. Segment Reporting

Based on qualitative and quantitative criteria established by Statement of Financial Accounting Standards No. 131 (FAS 131), "Disclosures about Segments of an Enterprise and Related Information," the Company operates within one reportable segment: Professional Services.

In accordance with the enterprise-wide disclosure requirements of FAS 131, the Company's geographic information is as follows:

Geographic location					
	Domestic	Domestic Deferred Tax Assets	International	International Deferred Tax Assets	Balance Per Consolidated Financial Statements
2002					
Revenues	\$ 843,918		\$ 29,285		\$ 873,203
Long-lived assets	409,513	\$ 11,609	26,601	\$ 1,830	449,553
2001					
Revenues	730,714		48,445		779,159
Long-lived assets	322,307	22,684	21,304	1,058	367,353
2000					
Revenues	808,783		63,173		871,956
Long-lived assets	126,295	18,761	22,996	913	168,965

The Company has no single customer that provides revenues that equal or exceed 10 percent of its consolidated revenues.

P. Subsequent Events

On February 10, 2003, the Company received a \$7.3 million award in connection with an arbitration proceeding initiated by the Company in 2000 against Signal Corporation for a breach of an agreement between Signal Corporation and the Company's Federal Systems subsidiary. The Company will account for this award in the first quarter of 2003.

On February 13, 2003, the Company's Board of Directors approved a new United Kingdom Employee Stock Purchase Plan. The Company has allocated 500,000 shares of the total number of shares reserved under the Company's 1992 Employee Stock Purchase Plan for issuance under the United Kingdom Employee Stock Purchase Plan.

On February 28, 2003, the Company entered into a new three-year, \$50 million credit facility with two banks. This new credit facility replaces the Company's previous \$10 million demand line credit, which expired in July 2002. The terms of the credit facility require the Company to maintain certain financial ratios and earnings before interest, taxes, depreciation, and amortization (EBITDA). Borrowings will bear interest at one of the bank's base rate or the Euro currency reserve rate.

Price Range of Common Stock and Dividend Policy – The Company’s common stock is traded on the American Stock Exchange under the symbol “KEA.” The following table sets forth, for the periods indicated, the high and low sales price per share as reported by the American Stock Exchange.

Stock Price	High	Low
2002		
First Quarter	\$19.18	\$ 14.30
Second Quarter	16.82	12.30
Third Quarter	12.70	5.99
Fourth Quarter	10.10	5.29
2001		
First Quarter	\$18.75	\$ 9.28
Second Quarter	22.00	11.40
Third Quarter	21.01	12.45
Fourth Quarter	20.05	13.25

The Company has not paid any cash dividend since June 1986. The Company currently intends to retain all of its earnings to finance future growth and therefore does not anticipate paying any cash dividend in the foreseeable future. The Company’s new \$50.0 million credit facility with two banks contains restrictions that may limit its ability to pay cash dividends in the future.

The Company’s Articles of Organization restrict the ability of the Board of Directors to declare regular quarterly dividends on the class B common stock.

As of March 7, 2003, there were 68,331,059 shares of common stock outstanding and held of record by approximately 2,843 registered stockholders; 284,599 shares of class B common stock outstanding and held of record by approximately 108 registered stockholders; and no shares of preferred stock were outstanding.

Selected Quarterly Financial Data (Unaudited)

(in thousands except per share amounts)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
December 31, 2002				
Total revenues	\$221,259	\$226,062	\$213,383	\$212,499
Gross profit	63,426	64,157	58,669	56,904
Income (loss) before income taxes	9,254	9,200	6,517	(11,335)
Net income (loss)	5,553	5,521	3,910	(6,803)
Net income (loss) per share (basic)	.07	.07	.05	(.10)
Net income (loss) per share (diluted)	.07	.07	.05	(.10)
December 31, 2001				
Total revenues	\$208,346	\$196,995	\$186,637	\$187,181
Gross profit	63,197	59,208	57,223	51,648
Income (loss) before income taxes	14,211	11,256	8,908	(5,154)
Net income (loss)	8,454	6,698	5,302	(3,067)
Net income (loss) per share (basic)	.12	.10	.08	(.04)
Net income (loss) per share (diluted)	.12	.10	.08	(.04)

Report of Independent Auditors

To The Board of Directors and Stockholders of Keane, Inc.:

We have audited the accompanying consolidated balance sheets of Keane, Inc. as of December 31, 2002 and 2001, and the related consolidated statements of income, stockholders' 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. 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, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Keane, Inc. at December 31, 2002 and 2001, and the consolidated results of its operations and its 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.

As discussed in Note E to the consolidated financial statements, in 2002 the Company changed its method of accounting for goodwill and other intangible assets in accordance with the adoption of Statement of Financial Accounting Standards No. 142.

Boston, Massachusetts

February 10, 2003, except for Note P,
as to which the date is February 28, 2003

A handwritten signature in black ink, appearing to read "Ernst & Young LLP", is written in a cursive style.

Ernst and Young LLP

Directors and Officers

Keane considers diversity a valuable asset to our Company and embraces both the letter and the spirit of all equal employment opportunity statutes.

We welcome people for employment without discrimination because of their race, color, religion, gender, national origin, marital status, veteran's status, age, disability, or sexual orientation. We select, develop, promote, compensate, and recognize employees based on individual ability and job performance. We strive to maintain a working environment free of any form of harassment or intimidation.

Independent Auditors: Ernst & Young, Boston, MA

Transfer Agent: EquiServe, Boston, MA

Legal Counsel: Hale and Dorr LLP, Boston, MA

Annual Meeting: Wednesday, May 28, 2003, 4:30 p.m., Keane, Inc. Headquarters, 100 City Square, Boston, MA

Investor Relations: For additional information, shareholders, security analysts, and institutional investors should contact Larry M. Vale, Vice President of External Communications, Keane, Inc., 100 City Square, Boston, MA 02129, IR@keane.com.

Annual Report on the Internet: The online version of this annual report, Keane's Annual Report on Form 10-K for the year ended December 31, 2002 as filed with the Securities Exchange Commission in March 2003, and other financial documents can be accessed at www.keane.com/investors.

Quarterly earnings: Listen to Keane's 2003 quarterly earnings release conference calls via live webcasts at www.keane.com/investors.

John F. Keane, Director ▲

Chairman of the Board

Maria A. Cirino, Director ◆ ■

President and Chief Executive Officer, Guardent

John H. Fain, Director ▲

President, Fain Enterprises, LLC

Philip J. Harkins, Director ■ ▲ ▼

Chief Executive Officer, Linkage Incorporated

Winston R. Hindle, Jr., Director ◆ ▲ ▼

Senior Vice President (Retired), Digital Equipment Corporation

Brian T. Keane, Director ●

President and Chief Executive Officer

John F. Keane, Jr., Director ▲

Chief Executive Officer, ArcStream Solutions

John F. Rockart, Director ◆ ■ ▼

Senior Lecturer Emeritus, Sloan School of Management, MIT

Stephen D. Steinour, Director ◆ ■

Chairman and Chief Executive Officer, Citizens Bank of Pennsylvania

Hal J. Leibowitz, Clerk

Senior Partner, Hale and Dorr LLP

Francis M. Cleary, Assistant Clerk

Treasurer

Robert B. Atwell ●

Senior Vice President, North American Branch Operations

Russell A. Cappellino ●

Senior Vice President, Global Services

Donald E. Hillier ●

Senior Vice President, Human Resources

John J. Leahy ●

Senior Vice President, Finance and Administration
Chief Financial Officer

Raymond W. Paris ●

Senior Vice President, Healthcare Solutions

Laurence D. Shaw ●

Vice President, Keane, Inc.
Managing Director, Keane Ltd

Linda B. Toops ●

Senior Vice President, Keane, Inc.
President, Keane Consulting Group

- Member of the Leadership Team
- ◆ Audit Committee
- Compensation Committee
- ▲ Governance Committee
- ▼ Nominating Committee

Keane's Guiding Principles

Critical Mass – In the IT services industry, achieving critical mass is a key driver of profitability because it allows us to reduce SG&A expense as a percentage of revenue. Keane seeks critical mass at the company, business unit, practice, account, and project levels.

Recurring Revenue – Keane seeks to maximize its recurring revenue by developing long-term business relationships with clients and by leveraging its full suite of Application Lifecycle Optimization services.

Geographic Focus – Keane focuses its business on relatively few geographic markets globally and strives to be a significant competitor within each market it serves.

Business Focus – Keane believes in the merits of focusing on only a few, synergistic business areas where it has or can achieve industry leadership.

Teamwork/Boundaryless Organization – Keane is committed to a spirit of teamwork and empowers employees to assemble the best capabilities of Keane to meet both client and Company objectives.

Operational Excellence – Keane uses organizational discipline in developing, improving, and applying processes, methodologies, and project management competencies to ensure that it has among the best sales and delivery capabilities in the industry.

Commitment to Growth – Keane strives to continuously achieve top line growth that exceeds the industry average in both strong and weak markets. The primary engine for this is often organic growth, supplemented by acquisitions to gain critical mass and added service capabilities.

Proactive Communications – Keane's management promotes frequent, straightforward communications with customers, employees, and shareholders on all matters of importance.

Commitment to Core Values – Keane seeks to conduct business and manage its organization in a manner consistent with its fundamental core values. These core values are: Respect for the Individual, Commitment to Client Success, Achievement through Teamwork, Integrity, Driven to Continuously Improve, and Maximize Value for Shareholders.

Invest in People and Culture – Keane is committed to building and propagating its client-focused culture through the training and development of its technical, sales, and managerial employees.

About the Cover

Staying the Course reflects Keane's focus on the execution of its strategy. The compass is an architectural element featured at Keane's Corporate Headquarters. It is a timeless symbol of both leadership and direction.

we get **IT** done.

**Keane Corporate
Headquarters**

100 City Square
Boston, MA 02129
617-241-9200
keane.com

Headquarters of Operations

*Keane markets its services through
an integrated network of over 40
business units in North America,
the United Kingdom, and India.*

**North American
Branch Operations**

100 City Square
Boston, MA 02129

Keane Consulting Group

625 N. Michigan Avenue
Suite 1100
Chicago, IL 60611

Keane Federal Systems

1410 Spring Hill Road
Suite 500
McLean, VA 22102

Keane Healthcare Solutions

290 Broadhollow Road
Melville, NY 11747

Keane India Ltd

E9-E12, SDF, NEPZ
Noida (U.P.) 201 305
New Delhi, India

Keane Ltd

Bentima House
168-172 Old Street
London, EC1V 9BP

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