MANAGEMENT NETWORK GROUP INC
Form 10-Q
May 15, 2001

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(x) Quarterly report pursuant to
Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the quarterly period ended March 31, 2001

or

[ ] Transition report pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Commission file number:

THE MANAGEMENT NETWORK GROUP, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	48-1129619
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

7300 COLLEGE BLVD., SUITE 302, OVERLAND PARK, KS 66210
(Address of principal executive offices) (Zip Code)

913-345-9315
Registrant's telephone number, including area code

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

Yes [X] No [ ]

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

As of May 8, 2001 TMNG had outstanding 29,565,073 shares of common stock.

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PART I. FINANCIAL INFORMATION

ITEM 1. Consolidated Condensed Financial Statements

THE MANAGEMENT NETWORK GROUP, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(In thousands, except share data)

		(unaudited)
	December 30,	March 31,

	2000	2001
CURRENT ASSETS:		
Cash and cash equivalents	$ 70,583	$ 75,562
Receivables:		
Accounts receivable	17,985	15,348
Accounts receivable - unbilled	8,023	7,443
	26,008	22,791
Less: Allowance for doubtful accounts	(766)	(640)
	25,242	22,151
Other assets	1,280	1,560
Total current assets	97,105	99,273
Property and Equipment, net	1,298	1,491
Goodwill, net	18,016	17,550
Deferred Tax Asset	3,010	3,025
Total Assets	$ 119,429	$ 121,339
CURRENT LIABILITIES:		
Trade accounts payable	$ 1,282	$ 901
Accrued payroll, bonuses and related expenses	4,722	3,511
Other accrued liabilities	1,953	2,435
Total current liabilities	7,957	6,847
STOCKHOLDERS' EQUITY		
Common Stock:	29	29
Voting - $.001 par value, 100,000,000 shares authorized; 29,465,808 and 29,514,620 issued and outstanding on December 30, 2000 and March 31, 2001, respectively		
Additional paid-in capital	136,917	136,696
Accumulated deficit	(22,071)	(19,734)
Accumulated other comprehensive income -		
Foreign currency translation adjustment	35	(11)
Unearned compensation	(3,438)	(2,488)
Total stockholders' equity	111,472	114,492
Total Liabilities and Stockholders' Equity	$ 119,429	$ 121,339

See notes to consolidated condensed financial statements.

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THE MANAGEMENT NETWORK GROUP, INC.
CONSOLIDATED CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(In thousands, except share and per share data)
(unaudited)

For the Thirteen Weeks Ended

	April 1, 2000	March 31, 2001
Revenues	$ 16,402	$ 18,334
Cost of Services:		
Direct cost of services	8,529	9,544
Equity related charges	1,916	413
Total cost of services	10,445	9,957
Gross Profit	5,957	8,377
Operating Expenses:		
Selling, general and administrative	3,471	5,310
Equity related charges	418	198
Total operating expenses	3,889	5,508
Income From Operations	2,068	2,869
Other Income (Expense)		
Interest income	849	721
Other, net	(135)	(15)
Total other income (expense)	714	706
Income Before Provision for Income Taxes	2,782	3,575
Provision for Income Taxes	1,104	1,238
Net Income	1,678	2,337
Other Comprehensive Income - Foreign currency translation adjustment	(16)	(45)
Comprehensive Income	$ 1,662	$ 2,292
Net Income Per Common Share		
Basic	$ 0.06	$ 0.08
Diluted	$ 0.06	$ 0.08
Shares Used in Calculation of Net Income Per Common Share		
Basic	27,425	29,490
Diluted	28,651	30,276

See notes to consolidated condensed financial statements.

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THE MANAGEMENT NETWORK GROUP, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(In thousands)
(unaudited)

	For the Thirteen Weeks Ended	
	April 1, 2000	March 31, 2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,678	$ 2,337
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	53	582
Stock option compensation	2,334	611
Income tax benefit realized upon exercise of stock options	94	39
Provision for deferred income taxes	(973)	13
Other changes in operating assets and liabilities:		
Accounts receivable	(561)	2,511
Accounts receivable - unbilled	(2,022)	580
Other assets	134	(308)
Trade accounts payable	698	(381)
Accrued liabilities	677	(729)
Net cash provided by operating activities	2,112	5,255
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(56)	(309)
Net cash used in investing activities	(56)	(309)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Expense incurred in connection with issuance of common stock	(119)	
Exercise of options	14	78
Net cash (used in) provided by financing activities	(105)	78
Effect of exchange rate on cash and cash equivalents	(16)	(45)
Net increase in cash and cash equivalents	1,935	4,979
Cash and cash equivalents, beginning of period	51,523	70,583
Cash and cash equivalents, end of period	$ 53,458	$ 75,562
Supplemental disclosure of cash flow information:		
Cash paid during period for taxes	$ 291	$ 43

See notes to consolidated condensed financial statements.

THE MANAGEMENT NETWORK GROUP, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

1. Basis of Reporting

The accompanying consolidated condensed financial statements of The Management Network Group, Inc. (the "Company") as of March 31, 2001, and for the three months (thirteen weeks) ended March 31, 2001 and April 1, 2000, are unaudited and reflect all normal recurring adjustments which are, in the opinion of management, necessary for the fair presentation of the Company's consolidated condensed financial position, results of operations, and cash flows as of these dates and for the periods presented. The consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Consequently, these statements do not include all the disclosures normally required by accounting principles generally accepted in the United States of America for annual financial statements nor those normally made in the Company's Annual Report on Form 10-K. Accordingly, reference should be made to the Company's Annual Report on Form 10-K for additional disclosures, including a summary of the Company's accounting policies, which have not changed.

2. Earnings Per Share

The Company calculates and presents earnings per share using a dual presentation of basic and diluted earnings per share. Basic earnings per share is computed using the weighted average number of common shares outstanding. Diluted earnings per share is computed using the weighted average number of common shares outstanding and the assumed exercise of stock options and warrants (using the treasury stock method).

The following table sets forth the computation of basic and diluted net income per share for the periods indicated (in thousands, except per share amounts):

	THIRTEEN WEEKS ENDED	
	APRIL 1, 2000 (UNAUDITED)	MARCH 31, 2001 (UNAUDITED)
Numerator		
Net income	$ 1,678	$ 2,337
Denominator		
Weighted average common shares	27,425	29,490
Weighted average unvested common shares ...	2,782	3,214
Weighted average unvested common shares subject to repurchase	(1,556)	(2,428)
Denominator for basic calculation	27,425	29,490
Denominator for diluted calculation	28,651	30,276
Basic & diluted net income per share	$ 0.06	$ 0.08

3. Equity Related Charges

During the three months ended March 31, 2001, the Company granted approximately 317,000 stock options to employees at a weighted average exercise price of $8.34. During the same period, the Company recorded net compensation expense related to all stock options of $180,000.

Equity related charges to cost of services associated with warrants during the first quarter of fiscal year 2001 totaled $431,000.

4. Reclassification

The presentation of certain condensed financial information for the thirteen weeks ended April 1, 2000 has been reclassified to conform to the current quarter's presentation. This reclassification has no effect on Net Income or Stockholders' Equity as previously reported.

5. Contingencies

During 1997, one of the Company's customers entered Chapter 11 of the bankruptcy code. According to the bankruptcy code, certain payments made within a specified period of time prior to the date of the bankruptcy filing and payments made subsequent to the date of the bankruptcy filing which are not previously authorized, could be declared "preference payments". Under certain conditions, preference payments could be required to be remitted to the bankruptcy trustee for satisfaction of general creditor claims. During fiscal year 1998, the bankruptcy trustee filed suit against the Company for preferential payments received prior to and subsequent to the bankruptcy filing, and related damages of approximately $1.9 million. The total amount of payments received from this customer during the specified preference period and which may be declared preference payments aggregated approximately $320,000. In the opinion of management, resolution of this legal action will not have a material adverse effect on the Company's consolidated results of operations, cash flows or financial position.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In addition to historical information, this quarterly report contains forward-looking statements. Certain risks and uncertainties could cause actual results to differ materially from those reflected in such forward-looking statements. Factors that might cause a difference include, but are not limited to, those discussed in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations - Risk Factors." Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's opinions only as of the date of this report. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements. Readers should carefully review the risk factors described in this quarterly report and in other documents that we file from time to time with the Securities and Exchange Commission.

The following should be read in connection with the Management's Discussion and Analysis of Financial Condition and Results of Operations as presented in our Annual Report on Form 10-K.

RESULTS OF OPERATIONS

THIRTEEN WEEKS ENDED MARCH 31, 2001 COMPARED TO THIRTEEN WEEKS ENDED APRIL 1, 2000

Revenues

Revenues increased 11.6% to $18.3 million for the first quarter of fiscal year 2001 from $16.4 million for the first quarter of fiscal 2000. The increase in revenues was due primarily to an increase in consulting services performed for our new and existing clients during the period, and, to a lesser extent, increased billing rates of our consultants. Our international revenue base decreased to 17% of our revenues, from 32% in the first quarter of 2000, due primarily to the domestic revenue generated by our recently acquired subsidiary, TWG Marketing, Inc.

Costs of Services

Direct costs of services increased to $9.5 million for the first quarter of fiscal year 2001 from $8.5 million in the first quarter of fiscal 2000. As a percentage of revenues, our gross margin on services as a percentage of revenue was comparable with the first quarter of 2000 at 48%.

Non-cash stock based compensation charges were $881,000 and $1.9 million for the first quarter of fiscal year 2001 and 2000, respectively. Of the $881,000 compensation charges related to fiscal year 2001, $431,000 was recorded in connection with warrants issued during the fourth quarter of 1999 and $450,000 was recorded in connection with stock options previously granted to employees and non-employee consultants. Non-cash stock based compensation charges were offset by a $468,000 credit in the first quarter of fiscal year 2001, representing a reversal of previously recorded expense attributable to the forfeiture and cancellation of unvested stock options in the first quarter of fiscal year 2001. These charges increased costs of services as a percentage of revenue by 2.3% and 11.6% for the first quarter of fiscal year 2001 and 2000, respectively.

Operating Expenses

Selling, general and administrative expenses net of goodwill amortization increased to $4.8 million in the first quarter of fiscal year 2001, or 37.1%, from $3.5 million in the first quarter of fiscal 2000. As a percentage of revenues, selling, general and administrative expenses net of goodwill amortization increased to 26.2% compared to 21.2% for the first quarter of fiscal year 2001 and 2000, respectively. We incurred an increase in selling, general and administrative expenses primarily due to the personnel and technology costs associated with the increased administrative staffing assembled to support the projected growth of the organization. As a result of a macroeconomic slow down within the telecommunications industry, actual revenue growth fell short of projections. Management is evaluating cost reduction opportunities to better match revenues in the revised macroeconomic environment.

Non-cash stock based compensation charges of $198,000 and $418,000 for the

first quarter of fiscal year 2001 and first quarter of fiscal year 2000, respectively, were recorded in connection with stock options granted to our partners, principals and certain senior executives and non-employee directors. These charges increased operating expenses as a percentage of revenue by 1.1% and 2.5% for the first quarter of fiscal year 2001 and the first quarter of fiscal 2000, respectively.

Other Income and Expenses

Interest income was $721,000 and $849,000 for the first quarter of fiscal year 2001 and first quarter of fiscal year 2000, respectively, and represented interest earned on invested balances. Interest income decreased in the first quarter of fiscal 2001 due primarily to the Company's shift to tax-exempt investments beginning in the third quarter of fiscal 2000 and the lower interest rates associated with these investments as compared to the rates on taxable investments. We invest in short-term, high grade investment instruments, and maintain a mix of taxable and tax-exempt instruments as part of our overall investment policy.

Other, net represents a loss of $15,000 and $135,000 for the first quarter of fiscal year 2001 and the first quarter of fiscal 2000. The loss in the first quarter of fiscal year 2000 was due primarily to foreign currency exchange losses recorded on a project located in Switzerland that was billed in Swiss francs. The project concluded during fiscal year 2000 and did not affect the first quarter of fiscal year 2001.

Income Taxes

Provision for income taxes for the first quarter of fiscal year 2001 as a percentage of pretax income was 34.6% compared to 39.7% for the first quarter of fiscal year 2000. The decrease in income taxes as a percentage of revenues was due primarily to the partial shift of investments by TMNG from taxable to tax-exempt securities that are not taxed at the federal income tax level.

Liquidity and Capital Resources

At March 31, 2001, we had approximately $75.6 million in cash and cash equivalents. We believe the cash on hand, in addition to cash generated from operations, will be sufficient to meet anticipated cash requirements, including anticipated capital expenditures and consideration for possible acquisitions, for at least the next 12 months. Should our business expand more rapidly than expected, we believe that bank credit would be available to fund such operating and capital requirements.

Net cash provided by operating activities was $5.3 million and $2.1 million for the first quarter of fiscal year 2001 and fiscal year 2000, respectively. Net cash provided by operating activities increased primarily due to the reduction in accounts receivable balances and the increase in cash generated through business operations.

Net cash used in investing activities was $309,000 and $56,000 for the first quarter of fiscal year 2001 and fiscal year 2000, respectively. Both these amounts relate to capital expenditures for leasehold improvements, computer equipment and software by the Company.

Net cash provided by financing activities was $78,000 for the first quarter of fiscal year 2001, and related to the exercise of non-qualified stock options. Net cash used in financing activities was $105,000 for the first quarter of fiscal year 2000 and related primarily to stock issuance costs associated with the Company's initial public stock offering on November 22, 1999.

Risk Factors

Statements in this section and elsewhere in this quarterly report that are not purely historical, such as statements regarding our expectations, beliefs,

intentions, plans, and strategies regarding the future, are forward-looking statements. These statements are only predictions, and they involve risks, uncertainties, and assumptions that could cause our actual results to differ materially from the results we express in the forward-looking statements. This section includes important factors that could cause or contribute to these differences. We cannot guarantee the results expressed in any forward-looking statement. We have based all forward-looking statements on information available to us on the date of this quarterly report, and we have no obligation to update any forward-looking statement.

WE FOCUS EXCLUSIVELY ON SERVING THE TELECOMMUNICATIONS INDUSTRY AND THEREFORE CHANGES IN THIS INDUSTRY COULD REDUCE OUR CUSTOMER BASE OR CAUSE CUSTOMERS TO USE INTERNAL RESOURCES

We derive a significant amount of our revenues from consulting engagements within the telecommunications industry. Much of our recent growth has arisen from business opportunities presented by industry trends that include deregulation, increased competition, technological advances, the growth of e-business and the convergence of service offerings.

If these trends change, the demand for telecommunications consulting work will likely decrease. Currently, many companies in the telecommunications sector are experiencing declining results of operations and, as a result, these companies may reduce spending on consultants and new projects. In addition, the telecommunications industry is in a period of consolidation, which could reduce the client base, eliminate future opportunities or create conflicts of interest among clients. Additionally, current and future economic pressures in the industry may cause telecommunications companies to use internal resources in lieu of outside consultants or to reduce spending on or defer new projects. As a result, our customer base and revenues may decline.

WE ARE DEPENDENT ON A LIMITED NUMBER OF LARGE CUSTOMERS FOR A MAJOR PORTION OF OUR REVENUES, AND THE LOSS OF A MAJOR CUSTOMER COULD REDUCE REVENUES AND HARM OUR BUSINESS

A significant portion of our revenues are derived from a relatively limited number of clients. For example, during the first quarter of fiscal year 2001, our ten most significant clients accounted for approximately 67% of revenues. The services required by any one client may be affected by industry consolidation, technological developments, economic slowdown or internal budget constraints. As a result, the volume of work performed for specific clients varies from period to period, and a major client in one period may not use our services in a subsequent period.

Our services are often sold under short-term engagements and most clients can reduce or cancel their contracts with little or no penalty or notice. Our operating results may suffer if we are unable to rapidly deploy consultants if a client defers, modifies or cancels a project. Consequently, you should not predict or anticipate our future revenue based on the number of clients we have or the number and scope of our existing engagements.

OUR REVENUES AND OPERATING RESULTS MAY FLUCTUATE SIGNIFICANTLY FROM QUARTER TO QUARTER, AND FLUCTUATIONS IN OPERATING RESULTS COULD CAUSE OUR STOCK PRICE TO DECLINE

Our revenue and operating results may vary significantly from quarter-to-quarter due to a number of factors. In future quarters, our operating results may be below the expectations of public market analysts or investors, and the price of our common stock may decline. Factors that could cause quarterly fluctuations include:

- the beginning and ending of significant contracts during a quarter;

- the size and scope of the assignments;

- consultant turnover, utilization rates and billing rates;

- the loss of key consultants, which could cause clients to end their relationship with us;

- the ability of clients to terminate engagements without penalty;

- fluctuations in demand for our services resulting from budget cuts, project delays, cyclical downturns or similar events;

- clients' decisions to divert resources to other projects, which may limit clients' resources that would otherwise be allocated to projects we could provide;

- reductions in the prices of services offered by our competitors;

- fluctuations in the telecommunications market and economic conditions;

- seasonality during the summer, vacation and holiday periods; and

- fluctuations in the value of foreign currencies versus the U.S. dollar

Because a significant portion of our expenses are relatively fixed, a variation in the number of client assignments or the timing of the initiation or the completion of client assignments may cause significant variations in our operating results from quarter-to-quarter and could result in losses. To the extent the addition of consultant employees is not followed by corresponding increases in revenues, additional expenses would be incurred that would not be matched by corresponding revenues. Therefore, profitability would decline and we could potentially experience losses. In addition, our stock price would likely decline.

THE TELECOMMUNICATIONS INDUSTRY HAS RECENTLY EXPERIENCED DECLINING RESULTS OF OPERATIONS AND A REDUCTION IN THE AVAILABILITY OF INVESTMENT CAPITAL, AND INDUSTRY CONDITIONS COULD HARM OUR BUSINESS.

Our future operating results could be affected by declining results of operations among telecommunications companies as well as client financial difficulties. Beginning in late 2000 and continuing into 2001, many telecommunications companies, including carriers, equipment manufacturers and other industry participants have begun reporting declining results of operations and there have been several bankruptcy filings.

Future client financial difficulties that result in write-offs that are in excess of our bad debt reserves could harm our results of operations in future fiscal periods. In addition, the worsening conditions in the telecommunications sector could cause companies to delay new product and new business initiatives and to seek to control expenses by reducing use of outside consultants. As a result, current industry conditions could harm our business, financial condition and results of operations.

WE MUST CONTINUE TO ATTRACT AND RETAIN QUALITY CONSULTANTS, AND OUR INABILITY TO DO SO WOULD IMPAIR OUR ABILITY TO SERVICE EXISTING ENGAGEMENTS OR UNDERTAKE NEW ENGAGEMENTS, RESULTING IN A DECLINE IN OUR REVENUES AND INCOME.

We must attract a significant number of new consultants to implement growth plans. The number of potential consultants that meet our hiring criteria is relatively small, and there is significant competition for these consultants from direct competitors and others in the telecommunications industry. Competition for these consultants may result in significant increases in costs to retain the consultants, which could reduce our margins and profitability. In addition, we will need to attract consultants in international locations, principally Europe, to support our international growth plans. We have limited experience in recruiting internationally, and we may not be able to do so. Our inability to recruit new consultants and retain existing consultants could impair our ability to service existing engagements or undertake new engagements. If we are unable to attract and retain consultants, revenues and profitability

would decline.

THE MARKET IN WHICH WE COMPETE IS INTENSELY COMPETITIVE AND ACTIONS BY OUR COMPETITORS COULD RENDER OUR SERVICES LESS COMPETITIVE CAUSING REVENUES AND INCOME TO DECLINE

The market for consulting services to telecommunications companies is intensely competitive, highly fragmented and subject to rapid change. Competitors include general management consulting firms, the consulting practices of "Big Five" accounting firms, most of which have practice groups focused on the telecommunications industry and local or regional firms specializing in telecommunications services. Some of these competitors have also formed strategic alliances with telecommunications and technology companies serving the industry. We also compete with internal resources of our clients. Our competitors include:

- American Management Systems;

- Accenture;

- Booz-Allen & Hamilton;

- The Boston Consulting Group;

- Cap Gemini Ernst & Young;

- KPMG; and

- PricewaterhouseCoopers.

Many information technology consulting firms also maintain significant practice groups devoted to the telecommunications industry. Many of these companies have a national and international presence and may have greater personnel, financial, technical and marketing resources. We may not be able to compete successfully with our existing competitors or with any new competitors.

We also believe our ability to compete depends on a number of factors outside of our control, including:

- the prices at which others offer competitive services, including aggressive price competition and discounting on individual engagements which may become increasingly prevalent due to worsening economic conditions;

- the ability and willingness of our competitors to finance customers' projects on favorable terms;

- the ability of our competitors to undertake more extensive marketing campaigns than we can;

- the extent, if any, to which our competitors develop proprietary tools that improve their ability to compete with us;

- the ability of our customers to perform the services themselves; and

- the extent of our competitors' responsiveness to customer needs.

We may not be able to compete effectively on these or other factors. If we are unable to compete effectively, our market position, and therefore our revenues and profitability, would decline.

WE HAVE EXPERIENCED RAPID GROWTH IN THE BUSINESS IN RECENT FISCAL YEARS. IF WE CONTINUE TO EXPERIENCE SUCH GROWTH, OUR OPERATIONAL INFRASTRUCTURE MAY NOT BE ABLE TO SUPPORT GROWTH

We are currently experiencing a period of rapid growth that may strain managerial and operational resources. To support growth, our organizational

infrastructure must grow accordingly.

To manage the growth of our operations and personnel, we must:

- improve existing and implement new operational, financial and management controls, reporting systems and procedures; and

- maintain and expand our financial management information systems.

If we fail to address these issues, our operational infrastructure may be insufficient to support such levels of business activity. In this event, we could experience disruptions in our business and declining revenues or profitability.

IF WE DO NOT EFFECTIVELY MANAGE THE CONVERSION OF OUR INDEPENDENT SUBJECT MATTER EXPERTS TO EMPLOYEES, WE COULD INCUR UNANTICIPATED COSTS WHICH WOULD HARM OUR FINANCIAL PERFORMANCE

We offer contingent employee or full-time employee status to certain of our independent subject matter experts. As independent subject matter experts are converted to consultant employees, we will incur additional fixed costs for each such employee that we do not incur when retained as an independent subject matter expert. To effectively manage these additional fixed costs, we will need to continuously improve utilization management and minimize unbilled employee time. In addition, this change may cause other disruptions to our business. If we fail to effectively manage this transition, we could incur additional costs due to underutilization of full-time employees as well as other unanticipated costs.

WE MUST CONTINUALLY ENHANCE OUR SERVICES TO MEET THE CHANGING NEEDS OF OUR CUSTOMERS OR WE MAY LOSE FUTURE BUSINESS TO OUR COMPETITORS

Our future success will depend upon our ability to enhance existing services and to introduce new services to meet the requirements of our customers in a rapidly developing and evolving market. Present or future services may not satisfy the needs of the telecommunications market. If we are unable to anticipate or respond adequately to our customers' needs, lost business may result and our financial performance will suffer.

PLANS FOR INTERNATIONAL EXPANSION MAY NOT SUCCEED, WHICH WOULD HARM OUR REVENUES AND PROFITABILITY

Future revenues depend to a large extent on expansion into international markets. International operations might not succeed for a number of reasons, including:

- difficulties in staffing and managing foreign operations;
- seasonal reductions in business activity;
- fluctuations in currency exchange rates or imposition of currency exchange controls;
- competition from local and foreign-based consulting companies;
- issues relating to uncertainties of laws and enforcement relating to the protection of intellectual property;
- unexpected changes in trading policies and regulatory requirements;
- legal uncertainties inherent in transnational operations such as export and import regulations, tariffs and other trade barriers;
- taxation issues;
- operational issues such as longer customer payment cycles and greater difficulties in collecting accounts receivable;

- language and cultural differences;
- general political and economic trends; and
- expropriations of assets, including bank accounts, intellectual property and physical assets by foreign governments.

Accordingly, we may not be able to successfully execute the business plan in foreign markets. If we are unable to achieve anticipated levels of revenues from international operations, our revenues and profitability would decline.

IF INTERNATIONAL BUSINESS VOLUMES INCREASE, WE WILL BE EXPOSED TO GREATER FOREIGN CURRENCY EXCHANGE RISKS, WHICH COULD RESULT IN INCREASED EXPENSES AND DECLINING PROFITABILITY

Revenues derived from our international engagements continue to represent a significant number of our engagements. Some international engagements are denominated in the local currency of the clients. Expenses incurred in delivering these services, consisting primarily of consultant compensation, are typically denominated in U.S. dollars. To the extent that the value of a currency in which billings are denominated decreases in relation to the U.S. dollar or another currency in which expenses are denominated, our operating results and financial condition could be harmed. We may hedge our foreign currency exposure from time to time, but hedging may not be effective.

OUR TMNG.COM BUSINESS IS DEPENDENT ON CONTINUED GROWTH, USE AND ACCEPTANCE OF THE INTERNET AND E-BUSINESS

Our success in providing e-business related consulting services depends in part on widespread acceptance and use of the Internet as a way to conduct business. The Internet and e-business may not become a viable long-term commercial marketplace due to potentially inadequate development of the necessary network infrastructure or delayed development of enabling technologies and performance improvements. Our business would be harmed if:

- use of the Internet and other online services does not increase or increases at a slower pace than expected or on-line services do not become viable marketplaces;

- the infrastructure for the Internet and other online services does not effectively support future expansion of e-business; or

- concerns over security and privacy inhibit the growth of the internet.

The failure of the Internet to continue to grow would inhibit the demand for our TMNG.com consulting services and our revenues and financial performance.

WE ARE DEPENDENT ON A LIMITED NUMBER OF KEY PERSONNEL, AND THE LOSS OF THESE INDIVIDUALS COULD HARM OUR COMPETITIVE POSITION AND FINANCIAL PERFORMANCE

Our business consists primarily of the delivery of professional services and, accordingly, our success depends upon the efforts, abilities, business generation capabilities and project execution of our executive officers and key consultants. Our success is also dependent upon the managerial, operational and administrative skills of our executive officers, particularly Richard Nespola, our President and Chief Executive Officer. The loss of any executive officer or key consultant or group of consultants, or the failure of these individuals to generate business or otherwise perform at or above historical levels could result in a loss of customers or revenues, and could therefore harm our financial performance.

IF WE FAIL TO PERFORM EFFECTIVELY ON PROJECT ENGAGEMENTS, OUR REPUTATION, AND THEREFORE OUR COMPETITIVE POSITION AND FINANCIAL PERFORMANCE COULD BE HARMED

Many of our engagements come from existing clients or from referrals by existing clients. Therefore, our growth is dependent on our reputation and on

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client satisfaction. The failure to perform services that meet a client's expectations may damage our reputation and harm our ability to attract new business. Damage to our reputation arising from client dissatisfaction could therefore harm our financial performance.

IF WE FAIL TO DEVELOP LONG-TERM RELATIONSHIPS WITH OUR CUSTOMERS, OUR SUCCESS WOULD BE JEOPARDIZED

A substantial majority of our business is derived from repeat customers. Future success depends to a significant extent on our ability to develop long-term relationships with successful telecommunications providers who will give new and repeat business. Inability to build long-term customer relations would result in declines in our revenues and profitability.

A LARGE NUMBER OF PERSONNEL ARE CLASSIFIED AS INDEPENDENT CONTRACTORS FOR TAX AND EMPLOYMENT LAW PURPOSES, AND IF THESE PERSONNEL WERE TO BE RECLASSIFIED AS EMPLOYEES, WE COULD BE SUBJECT TO BACK TAXES, INTEREST, PENALTIES AND OTHER LEGAL CLAIMS

We provide approximately half of our consulting services through independent contractors and, therefore, do not pay federal or state employment taxes or withhold income taxes for such persons. Further, we generally do not include these independent subject matter experts in our benefit plans. In the future, the IRS and state authorities may challenge the status of consultants as independent contractors. Independent subject matter experts may also initiate proceedings to seek reclassification as employees under state law. In either case, if persons engaged by us as independent subject matter experts are determined to be employees by the IRS or any state taxation department, we would be required to pay applicable federal and state employment taxes and withhold income taxes with respect to such persons and could become liable for amounts required to be paid or withheld in prior periods along with penalties. In addition, we could be required to include such persons in our benefit plans retroactively and going forward. Any challenge by the IRS or state authorities or individuals resulting in a determination that a substantial number of persons we have classified as independent subject matter experts are actually employees could subject us to liability for back taxes, interest and penalties, which would harm our profitability.

WE COULD BE SUBJECT TO CLAIMS FOR PROFESSIONAL LIABILITY, WHICH COULD HARM OUR FINANCIAL PERFORMANCE

As a provider of professional services, we face the risk of liability claims. A liability claim brought against us could harm our business. We may also be subject to claims by clients for the actions of our consultants and employees arising from damages to clients' business or otherwise.

In particular, we are currently a defendant in litigation brought by the bankruptcy trustee of a former client. This litigation seeks to recover $320,000 in consulting fees paid by the former client and also seeks to recover at least $1.85 million for breach of contract, breach of fiduciary duties and negligence.

THE MARKET PRICE OF OUR COMMON STOCK MAY BE VOLATILE, AND INVESTORS MAY EXPERIENCE INVESTMENT LOSSES

The market price of our common stock is volatile. Our stock price could decline or fluctuate in response to a variety of factors, including:

- variations in quarterly operating results;

- announcements of technological innovations that render talent outdated;

- trends in the telecommunications industry;

- acquisitions or strategic alliances by the Company or others in the industry;

- failure to achieve financial analysts' or other estimates of results of

operations for any fiscal period;

- changes in estimates of performance or recommendations by financial analysts; and

- market conditions in the telecommunications industry and the economy as a whole.

In addition, the stock market experiences significant price and volume fluctuations. These fluctuations particularly affect the market prices of the securities of many high technology companies. These broad market fluctuations could harm the market price of our common stock.

WE MAY MAKE ACQUISITIONS, WHICH ENTAIL RISKS THAT COULD HARM OUR FINANCIAL PERFORMANCE OR STOCK PRICE

As part of our business strategy, we have made and will likely continue to make acquisitions. Any future acquisition would be accompanied by the risks commonly encountered in acquisitions. These risks include:

- the difficulty associated with assimilating the personnel and operations of acquired companies;

- the potential disruption of existing business; and

- adverse effects on the financial statements, including one-time write-offs, ongoing charges for amortization of goodwill and assumption of liabilities of acquired businesses.

If we make acquisitions and any of these problems materialize, these acquisitions could negatively affect our operations, profitability and financial operations.

OUR INABILITY TO PROTECT INTELLECTUAL PROPERTY COULD HARM OUR COMPETITIVE POSITION AND FINANCIAL PERFORMANCE

Despite our efforts to protect proprietary rights from unauthorized use or disclosure, parties, including former employees or consultants, may attempt to disclose, obtain or use our solutions or technologies. The steps we have taken may not prevent misappropriation of solutions or technologies, particularly in foreign countries where laws or law enforcement practices may not protect proprietary rights as fully as in the United States. Unauthorized disclosure of proprietary information could make our solutions and methodologies available to others and harm our competitive position.

PRINCIPAL STOCKHOLDERS, EXECUTIVE OFFICERS AND DIRECTORS WILL RETAIN SUBSTANTIAL CONTROL OVER US AND MAY MAKE DECISIONS THAT ARE NOT IN THE BEST INTEREST OF OUR OTHER STOCKHOLDERS

Executive officers, directors and stockholders owning more than five percent of outstanding common stock (and their affiliates) own over a majority of our outstanding common stock. As a result, such persons, acting together, have the ability to substantially influence all matters submitted to the stockholders for approval (including the election and removal of directors and any merger, consolidation or sale of all or substantially all assets) and to control management and affairs. Accordingly, concentration of ownership of our common stock may have the effect of delaying, deferring or preventing a change in control, impeding a merger, consolidation, takeover or other business combination involving us or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, even if such a transaction would be beneficial to other stockholders.

WE USED TO BE TAXED UNDER SUBCHAPTER "S" OF THE INTERNAL REVENUE CODE AND CLAIMS OF TAXING AUTHORITIES RELATED TO PRIOR SUBCHAPTER "S" CORPORATION STATUS COULD HARM US

From 1993 through 1998, we were taxed as a "pass-through" entity under

subchapter "S" of the Internal Revenue Code. Since February 1998, we have been taxed under subchapter "C" of the Internal Revenue Code, which is applicable to most corporations and treats the corporation as an entity that is separate and distinct from its stockholders. If our tax returns for the years in which we were a subchapter "S" corporation were to be audited by the Internal Revenue Service or another taxing authority and an adverse determination was made during the audit, we could be obligated to pay back taxes, interest and penalties. The stockholders of our predecessor entity agreed, at the time we acquired our predecessor, to indemnify us against negative tax consequences arising from our prior "S" corporation status. However, this indemnity may not be sufficient to cover claims made by the IRS or other taxing authorities, and any such claims could result in additional costs and harm our financial performance.

WE MAY SEEK TO RAISE ADDITIONAL FUNDS, AND ADDITIONAL FUNDING MAY BE DILUTIVE TO OUR STOCKHOLDERS OR IMPOSE OPERATIONAL RESTRICTIONS

Any additional equity financing may be dilutive to our stockholders and debt financing, if available, may involve restrictive covenants, which may limit our operating flexibility with respect to certain business matters. If additional funds are raised through the issuance of equity securities, the percentage ownership of stockholders will be reduced. These stockholders may experience additional dilution in net book value per share and any additional equity securities may have rights, preferences and privileges senior to those of the holders of our common stock.

ANTI-TAKEOVER PROVISIONS AND OUR RIGHT TO ISSUE PREFERRED STOCK COULD MAKE A THIRD PARTY ACQUISITION DIFFICULT

Our certificate of incorporation and bylaws and anti-takeover provisions of Delaware law could make it more difficult for a third party to acquire control, even if a change in control would be beneficial to stockholders. In addition, the bylaws provide for a classified board, with board members serving staggered three-year terms. The Delaware anti-takeover provisions and the existence of a classified board could make it more difficult for a third party to acquire the Company.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We anticipate that revenues from international engagements will continue to represent a significant percentage of our revenues. We may enter into consulting engagements that are denominated in foreign currencies. To the extent that the value of a currency in which our billings are denominated decreases in relation to the U.S. dollar or another currency in which our expenses are denominated, our expenses would increase and the profitability of the engagement would decline. We may hedge our foreign currency exposure from time to time but our hedging activities may not be effective.

We invest idle cash balances in highly liquid taxable and non-taxable short-term investments, the earnings of which are subject to interest rate fluctuations. The average invested balance during the thirteen weeks ended March 31, 2001 was approximately $73.1 million. We make no attempt to hedge this risk.

Part II. Other Information

Item 1. Legal Proceedings

TMNG has not been subject to any material new litigation or claims against the Company since the time of TMNG's 10-K filing, dated March 29, 2001. For a summary of litigation TMNG is currently involved, refer to TMNG's 10-K, as filed with the Securities and Exchange Commission on March 29, 2001.

Item 2. Changes in Securities and Use of Proceeds

On November 22, 1999, the Securities and Exchange Commission declared TMNG's Registration Statement on Form S-1 (File No. 333-87383) for its initial public offering effective. On November 23, 1999, TMNG closed its offering of an aggregate of 4,615,000 shares of TMNG Common Stock at an aggregate offering

price of $78.5 million. The managing underwriters for the offering were JP Morgan H & Q (formerly known as Hambrecht & Quist), Robertson Stephens, Salomon Smith Barney and Jefferies & Company, Inc. Net proceeds to TMNG, after deducting underwriting discounts and commissions of $5.5 million and offering expenses of $1.6 million, were $71.4 million. On November 29, 1999 TMNG used $22.3 million of the proceeds from its initial public offering to repay all indebtedness. The remainder of the proceeds will be used for working capital, general corporate purposes and as possible consideration for acquisitions.

On August 2, 2000, the Securities and Exchange Commission declared TMNG's Registration Statement on Form S-1 (File No. 333-40864) effective. On August 2, 2000, TMNG closed its offering of an aggregate of 3,000,000 shares of TMNG Common Stock at an aggregate offering price of $68.6 million. Net proceeds to TMNG, after deducting underwriting discounts and commissions of $1.1 million and offering expenses of $728,000 were $21.0 million. Proceeds will be used for working capital, general corporate purposes and as possible consideration for acquisitions.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None.

(b) Reports on Form 8-K

TMNG did not file any Reports on Form 8-K during the quarter ended March 31, 2001.

SIGNATURES

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

SIGNATURE	TITLE	DATE
/s/ RICHARD P. NESPOLA Richard P. Nespola	President, Chief Executive Officer (Principal executive officer)	May 15, 2001
/s/ DONALD E. KLUMB Donald E. Klumb	Chief Financial Officer and Treasurer (Principal financial officer and principal accounting officer)	May 15, 2001