MANAGEMENT NETWORK GROUP INC
Form 10-Q
November 13, 2001

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 September 29, 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 November 5, 2001 TMNG had outstanding 30,161,287 shares of common stock.

THE MANAGEMENT NETWORK GROUP, INC.
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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)

	December 30, 2000	(unaudited) September 29, 2001

CURRENT ASSETS:		
Cash and cash equivalents	$ 70,583	$ 81,352
Receivables:		
Accounts receivable	17,985	11,875
Accounts receivable -- unbilled	8,023	4,962
	26,008	16,837
Less: Allowance for doubtful accounts	(766)	(888)
	25,242	15,949
Other assets	1,280	1,850
Total current assets	97,105	99,151
PROPERTY AND EQUIPMENT, NET	1,298	1,624
GOODWILL AND INTANGIBLES, NET	18,016	23,815
DEFERRED TAXES AND OTHER ASSETS	3,010	4,513
Total assets	$ 119,429	$ 129,103
CURRENT LIABILITIES:		
Trade accounts payable	$ 1,282	$ 1,428
Accrued payroll, bonuses and related expenses	4,722	2,172
Other accrued liabilities	1,953	1,572
Income tax payable		1,375
Total current liabilities	7,957	6,547
CAPITAL LEASE OBLIGATIONS AND OTHER		218
STOCKHOLDERS' EQUITY		
Common Stock:		
Voting -- $.001 par value, 100,000,000 shares authorized; 29,465,808 and 30,114,354 issued and outstanding on December 30, 2000 and September 29, 2001, respectively	29	29
Preferred stock - $.001 par value, 10,000,000 shares authorized; no shares issued or outstanding		
Additional paid-in capital	136,917	140,867
Accumulated deficit	(22,071)	(17,176)
Accumulated other comprehensive income - Foreign currency translation adjustment	35	5
Unearned compensation	(3,438)	(1,387)
Total stockholders' equity	111,472	122,338
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 119,429	$ 129,103

See notes to consolidated condensed financial statements.

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

	For the thirteen weeks ended		For the thirt weeks end
	September 30, 2000	September 29, 2001	September 30, 2000
REVENUES	$ 20,003	$ 12,231	$ 55,870
COST OF SERVICES:			
Direct cost of services	10,300	5,774	28,939
Equity related charges	1,241	631	5,158
Total cost of services	11,541	6,405	34,097
GROSS PROFIT	8,462	5,826	21,773
OPERATING EXPENSES:			
Selling, general and administrative	4,194	4,023	11,642
Equity related charges	392	211	1,202
Goodwill and intangibles amortization	150	574	150
Total operating expenses	4,736	4,808	12,994
INCOME FROM OPERATIONS	3,726	1,018	8,779
OTHER INCOME (EXPENSE)			
Interest income	1,279	611	2,902
Other, net	95	(6)	(29)
Total other income	1,374	605	2,873
INCOME BEFORE PROVISION FOR INCOME TAXES	5,100	1,623	11,652
PROVISION FOR INCOME TAXES	(2,040)	(492)	(4,661)
NET INCOME	3,060	1,131	6,991
OTHER COMPREHENSIVE INCOME - Foreign currency translation adjustment	13	18	(32)
COMPREHENSIVE INCOME	$ 3,073	$ 1,149	$ 6,959
NET INCOME PER COMMON SHARE			
Basic	$ 0.11	$ 0.04	$ 0.25
Diluted	$ 0.10	$ 0.04	$ 0.24
SHARES USED IN CALCULATION OF NET INCOME PER COMMON SHARE			

Basic	28,304,775	29,736,625	27,728,082
Diluted	29,572,076	30,756,534	28,965,065

See notes to consolidated condensed financial statements.

THE MANAGEMENT NETWORK GROUP, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)

	For the thirty-nine weeks ended	
	September 30, 2000	September 29, 2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 6,991	$ 4,895
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	341	1,894
Equity related charges	6,360	2,422
Income tax benefit realized upon exercise of stock options	1,336	33
Provision for deferred income taxes	(2,786)	(244)
Changes in operating assets and liabilities, net of business acquisitions:		
Accounts receivable	(9,587)	6,560
Accounts receivable -- unbilled	(3,213)	3,100
Other assets	(709)	(222)
Trade accounts payable	16	(975)
Accrued liabilities	4,553	(3,336)
Income tax payable		1,121
Net cash provided by operating activities	3,302	15,248
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of business, net of cash acquired	(11,601)	(4,046)
Acquisition of property and equipment	(485)	(520)
Loans to officers		(200)
Net cash used in investing activities	(12,086)	(4,766)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Exercise of stock options	324	325
Payments made on capital lease obligations		(8)

Proceeds from issuance of common stock, net of expenses	20,940	
Net cash provided by financing activities	21,264	317
EFFECT OF EXCHANGE RATE ON CASH AND CASH EQUIVALENTS	(32)	(30)
Net increase in cash and cash equivalents	12,448	10,769
Cash and cash equivalents, beginning of period	51,523	70,583
Cash and cash equivalents, end of period	$ 63,971	$ 81,352
Supplemental disclosure of cash flow information:		
Cash paid during period for taxes	$ 5,320	$ 1,866
Supplemental disclosure of non-cash investing and financing activities:		
Acquisition of business:		
Fair value of assets acquired	$ 3,667	$ 2,355
Fair value of liabilities incurred or assumed	$ (2,275)	$ (4,452)
Common stock issued	$ 8,000	$ 3,000

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 September 29, 2001, and for the thirteen and thirty-nine weeks ended September 29, 2001 and September 30, 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 following table sets forth the computation of basic and diluted net income per share for the periods indicated (in thousands, except per share amounts):

	FOR THE THIRTEEN WEEKS ENDED		FOR THE T WEEKS
	SEPTEMBER 30, 2000	SEPTEMBER 29, 2001	SEPTEMBER 30, 2000
Numerator			
Net income	$ 3,060	$ 1,131	$ 6,991
Denominator			
Weighted average common shares	28,305	29,737	27,728
Weighted average unvested common shares	3,006	5,188	2,951
Weighted average unvested common shares subject to repurchase	(1,739)	(4,168)	(1,714)
Denominator for basic calculation	28,305	29,737	27,728
Denominator for diluted calculation	29,572	30,757	28,965
Basic net income per share	$ 0.11	$ 0.04	$ 0.25
Diluted net income per share	$ 0.10	$ 0.04	$ 0.24

3. Acquisition

On September 5, 2001, the Company completed its acquisition of Tri-Com Computer Services, Inc. ("Tri-Com"), a Maryland corporation. Tri-Com provides a full range of technology and systems solutions to the telecommunications industry. Consulting services offered include providing end-to-end OSS, data center, systems solutions, data sourcing, legacy integration and middleware implementation. In addition, Tri-Com periodically receives commissions on hardware purchases, whereby customers utilize Tri-Com as an agent in procuring computer hardware and equipment. The primary reason for the acquisition was for TMNG to further expand its offering, enabling the Company's specialists to take an engagement from strategy, to marketing and operational definition, and to OSS enablement.

The acquisition, recorded under the business combination method of accounting, included the purchase of all outstanding shares of Tri-Com, which resulted in a total purchase price of approximately $4.8 million for the equity and assumption of liabilities exceeding Tri-Com's net assets. Consideration consisted of

$1.8 million cash and 490,417 shares of TMNG common stock valued at $3.0 million. Share consideration was valued in accordance with the stock purchase agreement and represents the average of the closing bid and ask prices of TMNG's common stock, as reported on the NASDAQ National Market, over the twenty trading days immediately preceding the second day prior to the Closing Date of September 5, 2001. Additionally, TMNG incurred direct costs of $158,000 related to the acquisition, and recorded approximately $221,000 as an increase to purchase price in connection with the exchange of the Company's stock options for vested stock appreciation rights held by Tri-Com employees at the time of acquisition. A portion of the purchase price has been preliminarily allocated to assets acquired and liabilities assumed based on estimated fair value at the date of acquisition. The excess of the purchase price over the estimated fair value of the net assets acquired is allocated between goodwill and other identifiable intangibles and is estimated to total $7.3 million preliminarily. Amortization expense was recorded in connection with the preliminary allocation of basis on the identifiable intangibles and totaled $100,000 for September 2001.

The purchase price allocation for this acquisition is based on preliminary estimates and is subject to further refinement. The purchase price is subject to refinement based on the finalization of direct acquisition costs incurred in the transaction, and the valuation allocated to identifiable intangible assets purchased in the transaction. The operating results of Tri-Com have been included in the Consolidated Condensed Statements of Income and Comprehensive Income from the date of acquisition.

The following reflects pro forma combined results of the Company and Tri-Com as if the acquisition had occurred as of January 2, 2000. In management's opinion, this pro forma information does not necessarily reflect the actual results that would have occurred nor is it necessarily indicative of future results of operations of the combined entities.

	Pro Forma	
	Nine Months Ended	
(in thousands, except per share amounts)	September 30, 2000	September 29, 2001
Total revenues	$ 67,455	$ 49,039
Net income	$ 6,396	$ 3,973
Diluted earnings per share	$ 0.22	$ 0.13

4. Warrant Grant and Stock Based Compensation

During the thirteen weeks ended September 29, 2001, the Company granted approximately 1,343,000 stock options to employees at a weighted average exercise price $5.24 and recorded net compensation expense related to all stock options of $412,000. Of the 1,343,000 options granted, 729,000 were granted to employees of Tri-Com, (see acquisition disclosure in footnote 3), of which approximately 54,000 options were issued in exchange for fully vested stock appreciation rights held by Tri-Com employees. Additionally, equity related charges to cost of services associated with warrants granted to a significant customer in 1999 totaled $430,000 for the thirteen weeks ended September 29, 2001.

During the thirty-nine weeks ended September 29, 2001, the Company granted approximately 3,257,000 stock options to employees and 34,000 stock options to a non-employee director at a weighted average exercise price of $4.97 and recorded net compensation expense related to all stock options of $1,131,000. Equity related charges to cost of services associated with warrants totaled $1,291,000.

5. Loans to Officers

During the third quarter of fiscal year 2001, three executive officers of the Company reduced their cash base compensation in lieu of receiving

TMNG non-statutory stock options at fair value. Additionally, to assist in meeting the cash flow needs of the officers who reduced their compensation, the Company provided lines of credit, collateralized by Company common stock held by such officers. Borrowings against the line of credit at September 29, 2001 totaled $200,000. In accordance with the loan provisions, the interest rate charged on the loans is equal to the Applicable Federal Rate (AFR), as announced by the Internal Revenue Service, for short-term obligations (with annual compounding) in effect for the month in which the advance is made, until fully paid.

6. New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141 "Business Combinations". The statement is to be adopted for all business combinations initiated after June 30, 2001. Management has adopted this pronouncement for the acquisition of Tri-Com as discussed in footnote 3.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 142 "Accounting for Goodwill and Intangibles". In accordance with certain provisions of the statement, goodwill acquired after June 30, 2001 is not amortized and accordingly, the goodwill recorded in the Tri-Com acquisition described above has not been amortized. All provisions of the statement are required to be applied in the fiscal year beginning after December 15, 2001, to all goodwill and other intangible assets recognized in an entity's balance sheet at the beginning of that fiscal year. Management of the Company has not evaluated the provisions of the Statement, and consequently has not determined what impact, if any, its application might have on the Company's financial statements.

7. 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 aggregated approximately $320,000 and which may be declared preference payments. 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 SEPTEMBER 29, 2001 COMPARED TO THIRTEEN WEEKS ENDED SEPTEMBER 30, 2000

Revenues

Revenues decreased 38.9% to $12.2 million for the thirteen weeks ended September 29, 2001 from $20.0 million for the thirteen weeks ended September 30, 2000. The decrease in revenues was due primarily to a deferral or reduction of management consulting demand by the telecommunications and technology industry, resulting from macroeconomic events impacting this sector, including reductions in capital funding, business failures and industry restructurings and reorganizations. Additionally, for the thirteen weeks ended September 29, 2001, our international revenue base represented 14.4% of our revenues, down from 18.8% for the thirteen weeks ended September 30, 2000, due in part to the domestic revenue generated by our recently acquired subsidiaries, TMNG Marketing, Inc. (formerly known as The Weathersby Group, Inc.) and TMNG Technologies, Inc. (formerly known as Tri-Com Computer Services, Inc.) and the decline in services provided to international customers. Non-consulting revenues recognized by TMNG Technologies represented 2.62% of consolidated revenues for the thirteen weeks ended September 29, 2001 and related to agency commissions received on hardware sales.

Included in revenue for the thirteen weeks ended September 29, 2001 were services provided to one large customer, which accounted for more than 10% of our revenues and represented an aggregate of 20.8% of total revenue. Included in revenue for the thirteen weeks ended September 30, 2000 were services provided to two large customers, which each accounted for more than 10% of our revenues and represented an aggregate of 25.9% of total revenue.

Costs of Services

Direct costs of services decreased 43.9% to $5.8 million for the thirteen weeks ended September 29, 2001, compared to $10.3 million for the thirteen weeks ended September 30, 2000. As a percentage of revenues, gross margin on services was 52.8% for the thirteen weeks ended September 29, 2001 and 48.5% for the thirteen weeks ended September 30, 2000. The increase in gross margin as a percentage of revenue was attributable primarily due to 10% to 15% cost reductions negotiated with most of our vendors, commission revenue associated with hardware sales, and contract price adjustments.

Non-cash stock based compensation charges were $631,000 and $1.2 million for the thirteen weeks ended September 29, 2001 and the thirteen weeks ended September 30, 2000, respectively. Of the $631,000 compensation charges related to the thirteen weeks ended September 29, 2001, $430,000 was recorded in connection with warrants issued during the fourth quarter of 1999 and $201,000 was recorded in connection with stock options previously granted to employees and non-employee consultants, partially offset by a credit for reversal of expense attributable to forfeiture of unvested stock options. The decrease in non-cash stock based compensation charges for the thirteen weeks ended September 29, 2001 compared to the thirteen weeks ended September 30, 2000 was primarily a result of the reduction in the amortization of the deferred compensation charges recorded in connection with pre-initial public offering grants of non-qualified stock options. These charges represent 5.2% of revenues for the thirteen weeks ended September 29, 2001 compared to 6.2% of revenues for the thirteen weeks ended September 30, 2000.

Operating Expenses

In total, operating expenses for the thirteen weeks ended September 29, 2001 increased by 1.5% to $4.8 million compared to $4.7 million for the thirteen weeks ended September 30, 2000. This increase principally reflects amortization charges of $574,000 related to goodwill and intangible assets recognized in 2001 arising from the TMNG Marketing, Inc. acquisition in September 2000 and the Tri-Com acquisition in September 2001, versus amortization charges of $150,000 related to goodwill

amortization at September 30, 2000. Selling, general and administrative expenses decreased to $4.0 million for the thirteen weeks ended September 29, 2001 from $4.2 million for the thirteen weeks ended September 30, 2000. As a percentage of revenues, selling, general and administrative expenses increased to 32.9% compared to 21.0% for the thirteen weeks ended September 29, 2001 and September 30, 2000, respectively. This percentage increase was primarily attributable to the decrease in revenues in the third quarter of fiscal year 2001. Prior to the third quarter of fiscal year 2001, management implemented a number of cost-reduction initiatives in selling, general and administrative areas to address the macroeconomic slow down within the telecommunications industry. Additionally, late in the third quarter of fiscal year 2001, three of our executive officers, Richard Nespola, Micky Woo and Ralph Peck reduced their base cash compensation in exchange for grants of non-statutory stock options, contributing to the decrease in selling, general and administrative expenses. Management continues to evaluate cost reduction opportunities to better match revenues and costs in the revised economic environment.

Non-cash stock based compensation charges of $211,000 and $392,000 for the thirteen weeks ended September 29, 2001 and thirteen weeks ended September 30, 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 1.7% of revenues for the thirteen weeks ended September 29, 2001 compared to 2.0% of revenues for the thirteen weeks ended September 30, 2000. The decrease in non-cash stock based compensation charges for the thirteen weeks ended September 29, 2001 compared to the thirteen weeks ended September 30, 2000 was a result of the reduction in the amortization of the deferred compensation charges recorded in connection with pre-initial public offering grants of non-qualified stock options.

Other Income and Expenses

Interest income was $611,000 and $1,279,000 for the thirteen weeks ended September 29, 2001 and thirteen weeks ended September 30, 2000, respectively, and represented interest earned on invested balances. Interest income decreased for the thirteen weeks ended September 29, 2001 due primarily to the Federal Reserve Bank reducing interest rates during the quarter, which was partially offset by larger invested cash balances, and the Company's shift to tax-exempt investments and the lower interest rates associated with these 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.

Income Taxes

Provision for income taxes for the third quarter of fiscal year 2001 as a percentage of pretax income was 30.3% compared to 40.0% for the third quarter of fiscal year 2000. The decrease in income taxes as a percentage of revenue 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.

THIRTY-NINE WEEKS ENDED SEPTEMBER 29, 2001 COMPARED TO THIRTY-NINE WEEKS ENDED SEPTEMBER 30, 2000

Revenues

Revenues decreased 20.8% to $44.3 million for the thirty-nine weeks ended September 29, 2001 from $55.9 million for the thirty-nine weeks ended September 30, 2000. The decrease in revenues was due primarily to a deferral or reduction of management consulting demand by the telecommunications and technology industry resulting from macroeconomic events in this sector during 2001, including reductions in capital funding, business failures and industry restructurings and reorganizations. Additionally, for the thirty-nine weeks ended September 29, 2001, our international revenue base represented 13.9% of our revenues, down from 25.4% for the thirty-nine weeks ended September 30, 2000, due in part to the domestic revenue generated by our recently acquired subsidiaries, TMNG Marketing, Inc. and TMNG Technologies, Inc., and the decline in services provided to international customers. Non-consulting revenues recognized by TMNG Technologies represented 0.7%

of consolidated revenues for the thirty-nine weeks ended September 29, 2001 and related to agency commissions received on hardware sales.

Included in revenue for the thirty-nine weeks ended September 29, 2001 were services provided to two large customers, which each accounted for more than 10% of our revenues and represented an aggregate of 22.7% of total revenue. Included in revenue for the thirty-nine weeks ended September 30, 2000 were services provided to one large customer, which accounted for more than 10% of our revenues and represented an aggregate of 20.5% of total revenue.

Cost of Services

Direct cost of services decreased 23.3% to $22.2 million for the thirty-nine weeks ended September 29, 2001 compared to $28.9 million for the thirty-nine weeks ended September 30, 2000. As a percentage of revenues, our gross margin on services was 49.8% for the thirty-nine weeks ended September 29, 2001 and 48.2% for the thirty-nine weeks ended September 30, 2000. The increase in gross margin as a percentage of revenue was attributable primarily to cost reductions negotiated with most of our vendors and contract price adjustments.

Non-cash stock based compensation charges were $1.8 million and $5.2 million for the thirty-nine weeks ended September 29, 2001 and September 30, 2000, respectively. Of the $1.8 million compensation charges related to the thirty-nine weeks ended September 29, 2001, $ 1.3 million was recorded in connection with warrants issued during the fourth quarter of 1999 and $ 461,000 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 $556,000 credit in the first, second and third quarters of fiscal year 2001 representing a reversal of previously recorded expense attributable to the forfeiture and cancellation of unvested stock options in the first and second quarters of fiscal year 2001. Additionally, the decrease in non-cash stock based compensation charges for the thirty-nine weeks ended September 29, 2001 compared to the thirty-nine weeks ended September 30, 2000 was primarily a result of the reduction in the amortization of the deferred compensation charges recorded in connection with pre-initial public offering grants of non-qualified stock options. These net charges increase costs of services as a percentage of revenue by 4.0% and 9.2% for the thirty-nine weeks ended September 29, 2001 and the thirty-nine weeks ended September 30, 2000, respectively.

Operating Expenses

In total, operating expenses for the thirty-nine weeks ended September 29, 2001 increased to $15.0 million or 15.5% from $13.0 million for the thirty-nine weeks ended September 30, 2000. The major components of this increase are $1.4 million of goodwill amortization recorded at September 29, 2001 related to the acquisition of TMNG Marketing, Inc. versus $150,000 of goodwill amortization recorded at September 30, 2000, and $1.2 million increase in selling, general and administrative expense primarily related to increased personnel costs and investments in technology. As a percentage of revenues, selling, general and administrative expenses increased to 29.0% compared to 20.8% for the thirty-nine weeks ended September 29, 2001 and September 30, 2000, respectively. This percentage increase was primarily attributable to the decrease in revenues in 2001. In the second quarter of fiscal year 2001, management implemented a number of cost-reduction initiatives in selling, general and administrative areas to address the economic slow down within the telecommunications industry. These initiatives gained momentum in the third quarter of fiscal 2001 and were partially quantified as selling, general and administrative expenses for the thirteen weeks ended September 29, 2001 were comparable to selling, general and administrative expenses for the thirteen weeks ended September 30, 2000. Prior to the third quarter of fiscal year 2001, the Company reported higher selling, general and administrative costs in the first and second quarters of fiscal year 2001 as compared to the first and second quarters of fiscal year 2000. Additionally, late in the third quarter of fiscal year 2001, three of our executive officers, Richard Nespola, Micky Woo and Ralph Peck reduced their base cash compensation in exchange for grants of non-statutory stock options, contributing to the decrease in selling, general and administrative expenses. Management continues to evaluate cost

reduction opportunities to better match revenues and costs in the revised economic environment.

Non-cash stock based compensation charges of $670,000 and $1.2 million for the thirty-nine weeks ended September 29, 2001 and thirty-nine weeks ended September 30, 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 1.5% and 2.2% for the thirty-nine weeks ended September 29, 2001 and the thirty-nine weeks ended September 30, 2000, respectively. The decrease in non-cash stock based compensation charges for the thirty-nine weeks ended September 29, 2001 compared to the thirty-nine weeks ended September 30, 2000 was a result of the reduction in the amortization of the deferred compensation charges recorded in connection with pre-initial public offering grants of non-qualified stock options.

Other Income and Expenses

Interest income was $2.0 million and $2.9 million for the thirty-nine weeks ended September 29, 2001 and September 30, 2000, respectively, and represented interest earned on invested balances. Interest income decreased during the thirty-nine weeks ended September 29, 2001 due primarily to the Federal Reserve Bank reducing interest rates during the period, which was partially offset by larger invested cash balances, and the Company's shift to tax-exempt investments and the lower interest rates associated with these 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.

Income Taxes

Provision for income taxes for the thirty-nine weeks ended September 29, 2001 as a percentage of pretax income was 32.8% compared to 40.0% for the thirty-nine weeks ended September 30, 2000. The decrease in income taxes as a percentage of revenue 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 September 29, 2001, we had approximately $81.4 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 $15.2 million for the thirty-nine weeks ended September 29, 2001 compared to $3.3 million for the thirty-nine weeks ended September 30, 2000. Net cash provided by operating activities increased primarily due to the reduction in accounts receivable reflecting more focused billing and collection activities in 2001 compared to 2000.

Net cash used in investing activities was $4.8 million for the thirty-nine weeks ended September 29, 2001 compared to $12.1 million for the thirty-nine weeks ended September 30, 2000. Of the $4.8 million in fiscal year 2001, $4.0 million relates to the purchase of TMNG Technologies, Inc., $520,000 relates to capital expenditures by the Company for leasehold improvements, computer equipment and software, and $200,000 relates to loans from the Company to three officers of TMNG. Of the $12.1 million in fiscal year 2000, $11.6 million relates to the purchase of TMNG Marketing, Inc. and $485,000 relates to capital expenditures by the Company for leasehold improvements, computer equipment and software.

Net cash provided by financing activities was $317,000 for the thirty-nine weeks ended September 29, 2001, of which $325,000 related to the exercise of non-qualified stock options and $8,000 related to payments made on capital lease obligations. Net cash provided by financing activities was $21.3 million for the thirty-nine weeks ended September 30, 2000 and related primarily to proceeds received from the Company's secondary stock offering.

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.

HISTORICALLY WE HAVE FOCUSED EXCLUSIVELY ON SERVING THE TELECOMMUNICATIONS INDUSTRY, WHICH HAS RECENTLY EXPERIENCED DECLINING RESULTS OF OPERATIONS AND A REDUCTION IN THE AVAILABILITY OF INVESTMENT CAPITAL, AND INDUSTRY CONDITIONS COULD HARM OUR BUSINESS

Historically we derived a significant amount of our revenues from consulting engagements within the telecommunications industry. Much of our past growth arose from business opportunities presented by industry trends that included deregulation, increased competition, technological advances, the growth of e-business and the convergence of service offerings.

However, 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. This poor financial performance in the telecommunications sector has continued through the third quarter of 2001, and may continue for the foreseeable future. Our future operating results could be affected by declining results of operations among telecommunications companies as well as client financial difficulties. 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. Additionally, the telecommunications industry is in a period of consolidation, which could reduce our client base, eliminate future opportunities or create conflicts of interest among clients. As a result, current industry conditions could harm our business, financial condition and results of operations.

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

We derive a significant portion of our revenues from a relatively limited number of clients. For example, for the thirty-nine weeks ended September 29, 2001, revenues from our ten most significant clients accounted for approximately 62.0% 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 OUR 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 assignments;
- consultant turnover, utilization rates and billing rates;
- the loss of key consultants, which could cause clients to end their relationships 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 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.

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 our 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 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.

IF WE DO NOT EFFECTIVELY MANAGE THE CONVERSION OF 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 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 customer 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 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 contractors 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 IS 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 our existing business; and

- adverse effects on the financial statements, including one-time write-offs 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 OUR INTELLECTUAL PROPERTY COULD HARM OUR COMPETITIVE POSITION AND OUR 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 our 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 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, our 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 us.

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 short-term investments, the earnings of which are subject to interest rate fluctuations. The average invested balance during the thirty-nine weeks ended September 29, 2001 was approximately $76.0 million. We make no attempt to hedge this risk.

Part 2. Other Information

Item 1. Legal Proceedings

TMNG has not been subject to any new litigation or claims against the Company since the time of TMNG's last 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) 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 Hambrecht & Quist, Robertson Stephen, 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 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.

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.

In addition to the previously discussed repayment of debt, we have expended approximately $15.6 million to acquire The Weathersby Group, Inc. and Tri-Com Computer Services, Inc. The remainder of the net proceeds generated by our stock offerings is currently invested in short-term, high-grade debt investments. These funds will be used to support TMNG's European initiative, working capital, general corporate purposes and as possible consideration for acquisitions. The use of proceeds described herein does not represent a material change from that described in earlier filings.

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 September 29, 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 and Director (Principal executive officer)	November 13, 2001
/s/ DONALD E. KLUMB Donald E. Klumb	Chief Financial Officer and Treasurer (Principal financial officer and principal accounting officer)	November 13, 2001

*By: /s/ DONALD E. KLUMB

Donald E. Klumb
Attorney-in-Fact