MANAGEMENT NETWORK GROUP INC
Form 10-Q
August 13, 2002

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 June 29, 2002

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 August 7, 2002 TMNG had outstanding 33,297,456 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 29, 2001
CURRENT ASSETS:	
Cash and cash equivalents	$ 86,396

Receivables:	
Accounts receivable	8,518
Accounts receivable - unbilled	2,962
	11,480
Less: Allowance for doubtful accounts	(517)
	10,963
Refundable and deferred income taxes	365
Other assets	1,706
Total current assets	99,430
Property and equipment, net	1,686
Goodwill, net	22,147
Intangibles, net	1,191
Deferred tax asset	4,080
Other assets	508
Total assets	$ 129,042
CURRENT LIABILITIES:	
Trade accounts payable	$ 210
Accrued payroll, bonuses and related expenses	1,393
Other accrued liabilities	3,258
Total current liabilities	4,861
Unfavorable lease liability	
Capital lease obligations	100
Other liabilities	89
STOCKHOLDERS' EQUITY	
Common Stock:	30
Voting - $.001 par value, 100,000,000 shares authorized; 30,204,919 and 33,279,123 issued and outstanding on December 29, 2001 and June 29, 2002, respectively	
Additional paid-in capital	141,451
Accumulated deficit	(16,463)
Accumulated other comprehensive income -	
Foreign currency translation adjustment	17
Unearned compensation	(1,043)
Total stockholders' equity	123,992
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 129,042

See notes to consolidated condensed financial statements.

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

	For the thirteen weeks ended		For th we
	June 30, 2001	June 29, 2002	June 30, 20
REVENUES	$ 13,691	$ 9,927	$ 32,025
COST OF SERVICES:			
Direct cost of services	6,892	4,264	16,436
Equity related charges	707	177	1,120
Total cost of services	7,599	4,441	17,556
GROSS PROFIT	6,092	5,486	14,469
OPERATING EXPENSES:			
Selling, general and administrative	3,970	7,768	8,815
Goodwill and intangibles amortization	467	728	933
Equity related charges	261	117	459
Total operating expenses	4,698	8,613	10,207
INCOME (LOSS) FROM OPERATIONS	1,394	(3,127)	4,262
OTHER INCOME			
Interest income	692	212	1,412
Other, net	(3)	(4)	(17)
Total other income	689	208	1,395
INCOME (LOSS) BEFORE INCOME TAX (PROVISION) BENEFIT AND CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	2,083	(2,919)	5,657
INCOME TAX (PROVISION) BENEFIT	(655)	1,097	(1,893)
INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	1,428	(1,822)	3,764
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, NET OF TAX BENEFIT OF $760			
NET INCOME (LOSS)	1,428	(1,822)	3,764
OTHER COMPREHENSIVE INCOME (LOSS) - Foreign currency translation adjustment	(3)	15	(48)
COMPREHENSIVE INCOME (LOSS)	$ 1,425	$ (1,807)	$ 3,716
INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE PER COMMON SHARE			
Basic	$ 0.05	$ (0.05)	$ 0.13
Diluted	$ 0.05	$ (0.05)	$ 0.12
CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE PER COMMON SHARE			
Basic			

Diluted			
NET INCOME (LOSS) PER COMMON SHARE			
Basic	$ 0.05	$ (0.05)	$ 0.13
Diluted	$ 0.05	$ (0.05)	$ 0.12
SHARES USED IN CALCULATION OF INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE AND NET INCOME (LOSS) PER COMMON SHARE			
Basic	29,560	33,259	29,525
Diluted	30,491	34,041	30,456

See notes to consolidated condensed financial statements.

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

	For the twenty-six weeks ended	
	June 30, 2001	June 29, 2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 3,764	$ (4,627)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Cumulative change in accounting principle		1,140
Depreciation and amortization	1,182	1,570
Equity related charges	1,579	952
Income tax benefit realized upon exercise of stock options	17	17
(Benefit) provision for deferred income taxes	(206)	317
Loss on retirement of assets		140
Other changes in operating assets and liabilities, net of business acquisitions		
Accounts receivable	6,081	1,949
Accounts receivable - unbilled	2,664	(346)
Other assets	161	681
Trade accounts payable	(21)	446
Accrued liabilities	(2,424)	(2,017)
Unfavorable lease liability		196
Net cash provided by operating activities	12,797	418
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of business, net of cash acquired		(32,332)

Acquisition of property and equipment	(454)	(213)
Loans to officers, net		(100)
Net cash used in investing activities	(454)	(32,645)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments made on long-term obligations		(151)
Exercise of options	158	276
Issuance of common stock, net of expenses		107
Net cash provided by financing activities	158	232
Effect of exchange rate on cash and cash equivalents	(48)	(18)
Net increase (decrease) in cash and cash equivalents	12,453	(32,013)
Cash and cash equivalents, beginning of period	70,583	86,396
Cash and cash equivalents, end of period	$ 83,036	$ 54,383
Supplemental disclosure of cash flow information:		
Cash paid during period for interest	$	$ 41
Cash paid during period for taxes	$ 1,411	$ 132
Supplemental disclosure of non-cash investing and financing transactions --		
Fair value of assets acquired		$ 53,953
Liabilities incurred or assumed		$ (7,490)
Common stock issued		$ 13,480

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. ("TMNG," or the "Company") as of June 29, 2002, and for the thirteen and twenty-six weeks ended June 29, 2002 and June 30, 2001, 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 (loss) per share using a dual presentation of basic and diluted earnings (loss) per share. Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share reflects the potential dilution of securities by adding common stock options in the weighted average number of common shares outstanding for a period, if dilutive.

The reconciliation of weighted average common shares outstanding included in the computation of basic and diluted net income (loss) per common share for the periods indicated is as follows (amounts in thousands):

	FOR THE THIRTEEN WEEKS ENDED		FOR THE TWENTY-SIX
	JUNE 30, 2001	JUNE 29, 2002	JUNE 30, 2001
Weighted average common shares outstanding for basic earnings per share	29,560	33,259	29,525
Effect of stock options	931	782	931
Weighted average shares of common stock outstanding for diluted earnings per share	30,491	34,041	30,456

3. Business Combinations

On March 6, 2002, TMNG announced the purchase of the business and primary assets of Cambridge Strategic Management Group, Inc. ("CSMG") of Boston, Massachusetts. CSMG provides high-end advisory services to global communication service and equipment providers and investment firms that provide capital to the industry. CSMG's range of business strategy services include analyses of industry and competitive environments; product and distribution strategies; finance, including business case development, modeling, cost analysis and benchmarking; and due diligence and risk assessment.

The acquisition, recorded under the purchase method of accounting, resulted in a total purchase price of approximately $46.5 million. Consideration consisted of $33.0 million cash and 2,892,800 shares of TMNG Common Stock valued at approximately $13.5 million. Share consideration was calculated in accordance with the Asset Purchase Agreement at a fixed price of $4.66 per share. All shares are restricted from trading for one year from the closing. An escrow was established as part of the transaction, consisting of 566,502 shares and $4.0 million of cash (collectively, the "Escrowed Property"). The Escrowed Property is subject to certain claims as set forth in the Asset Purchase Agreement and is scheduled to be distributed to the Seller pro rata in four installments over a 24 month period. On the date of announcement of the acquisition, the closing pricing of TMNG's Common Stock was $4.56 per share.

The transaction was structured as a taxable transaction for Federal income tax purposes, and included $5.4 million in cash consideration to the Seller representing a sharing of tax benefits and costs. The purchase price also included $5.2 million representing the working capital purchased from CSMG.

The initial purchase price will be subject to refinement based on the finalization of the balances of the working capital items and income tax sharing at the date of close, and the finalization of direct acquisition costs incurred in the transaction. The operating results of CSMG have been included in the Consolidated Condensed Statements of Income (Loss) and Comprehensive Income (Loss) from the date of the purchase.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed as of the date of acquisition. The allocation of the purchase price is based on preliminary estimates and is subject to further refinement, however, adjustments, if any, are not expected to be material. The preliminary allocation of the purchase price to identifiable intangible assets was determined by an independent price appraisal.

	AT MARCH 6, 2002 (AMOUNTS IN THOUSANDS)
Current assets	$ 6,081
Property, plant and equipment	1,548
Employment agreements	3,200
Customer backlog	420
Company tradename	350
Deferred taxes (non-current)	1,501
Goodwill	40,853
Total assets acquired	53,953
Current liabilities	3,506
Noncurrent liabilities	3,984
Total liabilities assumed	7,490
Net assets acquired	$46,463

Of the $420,000 assigned to the customer backlog, no residual value has been identified with this asset. The customer backlog had an estimated useful life of 3 months and was amortized on a straight-line basis. As of June 29, 2002, customer backlog was fully amortized by TMNG.

Of the $350,000 assigned to the company tradename, no residual value has been identified with this asset. The company tradename has an estimated useful life of 24 months and is amortized on a straight-line basis.

Of the $3,200,000 assigned to the employment agreements, no residual value has been identified with this asset. The employment agreements have a weighted average useful life of approximately 32 months and are amortized on a straight-line basis.

As part of the acquisition of CSMG, the Company assumed liabilities of approximately $899,000 related to capital leases.

The following reflects pro forma combined results of the Company and CSMG as if the acquisition had occurred as of December 30, 2001 and December 31, 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.

(in thousands, except per share amounts)	FOR THE THIRTEEN WEEKS ENDED JUNE 30, 2001	FOR THE THIRTEEN WEEKS ENDED JUNE 29, 2002	FOR THE JUNE 20
Total revenues	$ 19,209	$ 9,927	$ 4
Income (loss) before cumulative effect of accounting changes	$ 1,349	$ (1,822)	$
Net income (loss)	$ 1,349	$ (1,822)	$
Basic income (loss) before cumulative effect of accounting changes per common share	$ 0.04	$ (0.05)	$
Diluted income (loss) before cumulative effect of accounting changes per common share	$ 0.04	$ (0.05)	$
Basic net income (loss) per common share	$ 0.04	$ (0.05)	$
Diluted net income (loss) per common share	$ 0.04	$ (0.05)	$

4. Severance

During the thirteen weeks ended June 29, 2002, the Company recorded approximately $1,879,000 of severance expense in connection with the termination of various employees. For the twenty-six weeks ended June 29, 2002, the Company recorded severance expense of approximately

$1,933,000 and had paid approximately $155,000. These charges are included in the selling, general and administrative section of the accompanying Consolidated Condensed Statement of Income (Loss) and Comprehensive Income (Loss).

5. Equity Related Charges

During the thirteen weeks ended June 29, 2002, the Company granted approximately 1,376,000 stock options to employees at a weighted average exercise price of $2.98 and recorded net compensation expense related to all stock options of $102,000. Equity related charges to cost of services associated with a warrant totaled $192,000. During the twenty-six weeks ended June 29, 2002, the Company granted approximately 1,439,000 stock options to employees at a weighted average exercise price of $3.14 and recorded net compensation expense related to all stock options of $329,000. During the same period, the Company recorded equity related charges to cost of services associated with the warrant of $623,000.

6. Contingencies

In June 1998, the bankruptcy trustee of a former client, Communications Network Corporation, sued TMNG for a total of $320,000 in the U.S. Bankruptcy Court in New York seeking recovery of $160,000 alleging an improper payment of consulting fees paid by the former client during the period from July 1, 1996, when an involuntary bankruptcy proceeding was initiated against the former client, through August 6, 1996, when the former client agreed to an order for relief in the bankruptcy proceeding, and $160,000 in consulting fees paid by the former client after August 6, 1996.

The bankruptcy trustee has also sued TMNG for at least $1.85 million for breach of contract, breach of fiduciary duties and negligence. Although assurance cannot be given as to the ultimate outcome of this proceeding, TMNG believes that it has meritorious defenses to the claims made by the bankruptcy trustee, including particularly the claims for breach of contract, breach of fiduciary duty and negligence, and that the ultimate resolution of this matter will not materially harm our business.

The Company has and may become involved in various legal and administrative actions arising in the normal course of business. These could include actions raised by taxing authorities challenging the employment status of consultants utilized by the Company. In addition, customer bankruptcies could result in a claim on collected balances for professional services near the bankruptcy filing date. While the resolution of any of such actions, claims, or the matter described above may have an impact on the financial results for the period in which it is resolved, the Company believes that the ultimate disposition of these matters will not have a material adverse effect upon its consolidated results of operations, cash flows or financial position.

7. Loans to Officers

During the third quarter of fiscal year 2001, three executive officers of the Company received stock options at fair market value in lieu of receiving their cash base compensation, which subsequently resumed in the first quarter of fiscal year 2002. 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. The maximum available borrowings under the loan agreements between the three officers and the Company are $1,300,000 in total. Borrowings against the line of credit at June 29, 2002 totaled $300,000. 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.

8. Business Segments

The Company has identified its segments based on the way management organizes the Company to assess performance and make operating decisions regarding the allocation of resources.

Based on the criteria of Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosure about Segments of an Enterprise and Related Information," the Company has two segments, only one of which is separately reportable: The Management Consulting Services segment, and All Other. Management Consulting Services includes business strategy and planning, marketing and customer relationship management, operating system support, revenue assurance, corporate investment services, networks, and business model transformation. All Other consists of computer hardware commission and rebates received in connection with the procurement of hardware for third parties. Management evaluates performance based upon operating earnings before interest income (expense), foreign currency transaction gains (losses), extraordinary items, if any, and income taxes excluding equity related charges and goodwill and intangibles amortization. Management also evaluates trade accounts receivable as part of its overall assessment of the segments' performance. There are no intersegment sales.

Summarized financial information concerning the Company's reportable segments is shown in the following table (amounts in thousands):

	Management Consulting Services	All Other
For the thirteen weeks ended June 30, 2001:		
Net sales to external customers	$ 13,691	
Income from operations	$ 2,829	
Total assets	$ 16,715	
For the thirteen weeks ended June 29, 2002:		
Net sales to external customers	$ 9,528	$ 399
Income (loss) from operations	$ (2,409)	$ 304
Total assets	$ 12,415	
For the twenty-six weeks ended June 30, 2001:		
Net sales to external customers	$ 32,025	
Income (loss) from operations	$ 6,774	
Total assets	$ 16,715	
For the twenty-six weeks ended June 29, 2002		
Net sales to external customers	$ 16,602	$ 593
Income from operations	$ (4,522)	$ 312
Total assets	$ 12,415	

Segment assets include both billed and unbilled trade accounts receivable, net of allowances, and certain other assets. Assets not assigned to segments include cash and cash equivalents, property and equipment, goodwill and intangible assets and deferred tax assets.

Reconciling information between reportable segments and the Company's totals is shown in the following table (amounts in thousands):

	FOR THE THIRTEEN WEEKS ENDED		FOR THE TWENTY-SIX
	JUNE 30, 2001	JUNE 29, 2002	JUNE 30, 2001
Total operating earnings (losses) for reportable segments	$ 2,829	$ (2,105)	$ 6,774
Equity related charges	(968)	(294)	(1,579)
Goodwill and intangibles amortization	(467)	(728)	(933)
Income (loss) from operations	$ 1,394	$ (3,127)	$ 4,262

9. Goodwill and Other Intangibles

Effective for the start of fiscal year 2002, the Company adopted certain provisions of Statement of Financial Accounting Standards ("SFAS") No. 142 "Accounting for Goodwill and Intangible Assets". In accordance with certain provisions of the Statement, goodwill has not been amortized in fiscal year 2002. This Statement requires that goodwill be evaluated on an annual basis, or more frequently if necessary. This Statement also requires a transitional impairment test within six months of the date of adoption. The Company determines fair value using the present value method of measurement of future cash flows. The present value method includes the estimation of a cash flow stream, applying a discount rate. The Company's best estimate of future cash flows is determined using its internal budgets as the basis. The discount rate used is commensurate with the risks involved, including the nature of the business, the time value of money, expectations about the amount or timing of future cash flows, and factors affecting liquidity. Upon the adoption of SFAS No. 142, the Company recorded a preliminary goodwill impairment loss related to the Management Consulting Segment of approximately $1.9 million and has reflected this amount as a cumulative change in accounting principle, net of tax benefit, in the Statement of Income (Loss) and Comprehensive Income (Loss). The recorded amount for goodwill impairment is preliminary and subject to revision, which is not expected to be material, based on the final valuation of the reporting unit in connection with the second step of the transitional goodwill impairment test.

Included in intangible assets and other assets on the Company's consolidated condensed balance sheet as of the end of the second quarter, June 29, 2002, and as of the latest fiscal year end, December 29, 2001, are the following intangible assets (amounts in thousands):

	December 29, 2001		June 29, 2002	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Goodwill	$24,633	$(2,486)	$63,605	$(2,486)
Intangibles with finite lives	$ 1,503	$ (131)	$ 5,473	$(1,251)

Intangible amortization expense for the thirteen and twenty-six weeks ended June 29, 2002 was $0.7 million and $1.1 million, respectively. Intangible amortization expense is estimated to be approximately $2.0 million for fiscal year 2002. Estimated intangible amortization expense for each of the subsequent three years beginning in 2003 is expected to range from approximately $1.8 million to $0.3 million.

The changes in the carrying amount of goodwill as of June 29, 2002 are as follows (amounts in thousands):

	Management Consulting Segment	All Other Segment	T

Balance as of December 30, 2001	$ 19,156	$ 2,991	$2
Goodwill acquired during fiscal year 2002	40,872		4
Impairment loss	(1,900)		(1
Balance as of June 29, 2002	$ 58,128	$ 2,991	$6

The following pro forma information reconciles the net income and earnings per share reported for the thirteen and twenty-six weeks ended June 30, 2001 to adjusted net income and earnings per share which reflect the adoption of SFAS No. 142 and compares the adjusted information to the current year results (amounts in thousands, except per share data):

	FOR THE THIRTEEN WEEKS ENDED		FOR THE
	JUNE 30, 2001	JUNE 29, 2002	JUNE 30,
Reported income (loss) before cumulative effect of change in accounting principle	$ 1,428	$(1,822)	$ 3,7
Cumulative effect of change in accounting principle			
Reported net income (loss)	1,428	(1,822)	3,7
Goodwill amortization, net of tax	280		5
Net income (loss), as adjusted	$ 1,708	$(1,822)	$ 4,3
Basic income (loss) per share before cumulative effect of change in accounting principle	$ 0.05	$ (0.05)	$ 0.
Cumulative effect of change in accounting principle			
Reported net income (loss) per share	0.05	(0.05)	0.
Add back: Goodwill amortization	0.01		0.
Basic income (loss) per share, as adjusted	$ 0.06	$ (0.05)	$ 0.
Diluted income (loss) per share before cumulative effect of change in accounting principle	$ 0.05	$ (0.05)	$ 0.
Cumulative effect of change in accounting principle			
Reported net income (loss) per share	0.05	(0.05)	0.
Add back: Goodwill amortization	0.01		0.
Diluted income (loss) per share, as adjusted	$ 0.06	$ (0.05)	$ 0.

10. Significant Customer Contract

On December 10, 1999, the Company entered into a consulting services agreement with a significant customer under which such customer committed to $22 million of consulting fees over a three-year period commencing January 1, 2000. Due to financial difficulties experienced by the customer in fiscal year 2001 and continuing into fiscal year 2002, the agreement was extended in April 2002 for two additional years beyond the original term of the agreement, in exchange for an expanded preferred contractor relationship and immediate commitment to a significant consulting arrangement. As of June 29, 2002, $15.0 million of consulting fees had been recognized in connection with the agreement from the commencement date.

11. Letter of Credit

In March 2002, the Company entered into a $1.0 million standby letter of credit ("LOC") facility with a financial institution in connection with the CSMG acquisition. The LOC was required as part of the assignment of the leased office space from CSMG to the Company. The LOC was collateralized by the Company with a $1.0 million cash deposit to the above financial institution. This amount is included in "Cash and Cash

Equivalents" on the Company's consolidated condensed balance sheet as of June 29, 2002.

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 sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business - Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2001. 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 our annual 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 Management's Discussion and Analysis of Financial Condition and Results of Operations and Critical Accounting Policies as presented in the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2001.

RESULTS OF OPERATIONS

THIRTEEN WEEKS ENDED JUNE 29, 2002 COMPARED TO THIRTEEN WEEKS ENDED JUNE 30, 2001

REVENUES

Revenues decreased 27.5% to $9.9 million for the thirteen weeks ended June 29, 2002 from $13.7 million for the thirteen weeks ended June 30, 2001. The decrease in revenues was due primarily to a deferral or reduction of management consulting demand by the communications and technology industry resulting primarily from adverse macroeconomic events in this sector during 2001 and 2002, including reductions in capital funding, business failures, and industry restructurings and reorganizations. Additionally, our international revenue base decreased to 7.0% of our revenues for the thirteen weeks ended June 29, 2002, from 10.2% for the corresponding period in fiscal year 2001, due primarily to the additional domestic revenue generated by our recently acquired subsidiaries, Cambridge Strategic Management Group, Inc. ("CSMG") in March 2002, and TMNG Technologies, Inc. ("TMNG Technologies") in September 2001, and the decline in services provided to international customers related to similar adverse macroeconomic events in those markets. CSMG revenues represented 42.8% of consolidated revenues for the thirteen weeks ended June 29, 2002. Non-consulting revenues recognized by TMNG Technologies represented 4.0% of consolidated revenues for the thirteen weeks ended June 29, 2002, and related to commissions received on hardware sales.

COSTS OF SERVICES

Direct costs of services decreased 38.1% to $4.3 million for the thirteen weeks ended June 29, 2002 compared to $6.9 million for the thirteen weeks ended June 30, 2001, and was attributable primarily to the decrease in consulting engagements and corresponding reductions in consulting personnel costs. As a percentage of revenues, our gross margin based on direct cost of services was 57.0% for the thirteen weeks ended June 29, 2002 compared to 49.7% for the thirteen weeks ended June 30, 2001. The increase in gross margin was primarily attributable to higher margins associated with the strategy offerings provided during the thirteen weeks ended June 29, 2002, compared to the corresponding period in fiscal year 2001.

Non-cash stock based compensation charges were $177,000 and $707,000 for the thirteen weeks ended June 29, 2002 and June 30, 2001, respectively. Of the $177,000 compensation charges related to the thirteen weeks ended June 29, 2002, $146,000 was recorded in connection with pre-initial public offering grants of stock options to employees and non-employee consultants, offset by a $161,000 credit representing a reversal of previously recognized expense attributable to the forfeiture and cancellation of stock options during the thirteen weeks ended June 29, 2002, and $192,000 was recorded in connection with a warrant issued during the fourth quarter of 1999. The primary reasons for the net decrease in non-cash stock based compensation charges for the thirteen weeks ended June 29, 2002 compared to the same period in fiscal year 2001 was the reduction in amortization charges related to the pre-initial public offering grants of stock options in the amount of $184,000, increased forfeitures and cancellations of stock options during the thirteen weeks ended June 29, 2002 in the amount of $108,000, and the reduction in amortization expense recognized on the warrant in the amount of $237,000 as the warrant was fully amortized during the second quarter of fiscal year 2002. These net charges increased costs of services as a percentage of revenue by 1.8% and 5.2% for the thirteen weeks ended June 29, 2002 and June 30, 2001, respectively.

OPERATING EXPENSES

In total, operating expenses increased to $8.6 million for the thirteen weeks ended June 29, 2002, or 83.3% from $4.7 million for the corresponding period in fiscal year 2001. The major components of this $3.9 million increase in operating expenses was a $1.9 million one-time charge related to severance costs incurred by the Company as part of its overall cost-reduction initiatives, and the general and administrative costs associated with our CSMG and TMNG

administrative expenses increased to 78.3% compared to 29.0% for the thirteen weeks ended June 29, 2002 and June 30, 2001, respectively. This percentage increase was primarily attributable to the decreased revenues. Beginning in fiscal year 2001 and continuing into fiscal year 2002, management began implementing a number of cost reduction initiatives including the reduction of sales and marketing staff, minimization of consultant recruitment, and a reduction in the Company's accounting staff. Management believes these initiatives will provide for better management of general and administrative costs in the future. Amortization expense increased by $261,000 for the thirteen weeks ended June 29, 2002 compared to the same period in fiscal year 2001, due primarily to the amortization of specifically identified intangibles acquired in the CSMG and TMNG Technologies acquisitions, offset by the Company no longer recording amortization expense on goodwill in accordance with SFAS No. 142 "Accounting for Goodwill and Intangible Assets."

Non-cash stock based compensation charges of $117,000 and $261,000 for the thirteen weeks ended June 29, 2002 and June 30, 2001, 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 1.2% and 1.9% for the thirteen weeks ended June 29, 2002 and June 30, 2001, respectively. The $144,000 decrease in non-cash stock based compensation charges for fiscal year 2002 compared to fiscal year 2001 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 $212,000 and $692,000 for the thirteen weeks ended June 29, 2002 and June 30, 2001, respectively, and represented interest earned on invested balances. Interest income decreased during the thirteen weeks ended June 29, 2002 due to lower invested balances and lower interest rates from the second quarter of fiscal year 2001 to the second quarter of fiscal year 2002. We invest in short-term, high-grade investment instruments as part of our overall investment policy.

INCOME TAXES

Income tax benefit for the thirteen weeks ended June 29, 2002 as a percentage of pretax loss was 37.6% compared to a provision of 31.4% of pretax income for the thirteen weeks ended June 30, 2001. The increase in the income tax expense (benefit) as a percentage of pre-tax income (loss) was due primarily to the shift away from short-term investments in federally exempt income securities.

TWENTY-SIX WEEKS ENDED JUNE 29, 2002 COMPARED TO TWENTY-SIX WEEKS ENDED JUNE 30, 2001

REVENUES

Revenues decreased 46.3% to $17.2 million for the twenty-six weeks ended June 29, 2002 from $32.0 million for the twenty-six weeks ended June 30, 2001. The decrease in revenues was due primarily to a deferral or reduction of management consulting demand by the communications and technology industry resulting primarily from adverse macroeconomic events in this sector during 2001 and 2002, including reductions in capital funding, business failures, and industry restructurings and reorganizations. Additionally, our international revenue base decreased to 6.4% of our revenues for the twenty-six weeks ended June 29, 2002, down from 13.9% for the twenty-six weeks ended June 30, 2001, due primarily to the additional domestic revenue generated by our recently acquired subsidiaries, CSMG and TMNG Technologies and the decline in services provided to international customers related to similar adverse macroeconomic events in those markets. CSMG revenues represented 33.4% of consolidated revenues for the twenty-six weeks ended June 29, 2002. Non-consulting revenues recognized by TMNG Technologies represented 3.4% of consolidated revenues for the twenty-six weeks ended June 29, 2002, and related to commissions received on hardware sales.

COST OF SERVICES

Direct costs of services decreased 51.7% to $7.9 million for the twenty-six weeks ended June 29, 2002 compared to $16.4 million for the twenty-six weeks ended June 30, 2001, and was attributable primarily to the decrease in consulting engagements and corresponding reductions in consulting personnel costs. As a percentage of revenues, our gross margin based on direct cost of services was 53.8% for the twenty-six weeks ended June 29, 2002 compared to 48.7% for the twenty-six weeks ended June 30, 2001. The increase in gross margin was primarily attributable to higher margins associated with the strategy offerings provided during the twenty-six weeks ended June 29, 2002 compared to the corresponding period in fiscal year 2001.

Non-cash stock based compensation charges were $672,000 and $1,120,000 for the twenty-six weeks ended June 29, 2002 and June 30, 2001, respectively. Of the $672,000 compensation charges related to the twenty-six weeks ended June 29, 2002, $266,000 was recorded in connection with pre-initial public offering grants of stock options to employees and non-employee consultants, offset by a $217,000 credit representing a reversal of previously recognized expense attributable to the forfeiture and cancellation of stock options during fiscal year 2002, and $623,000 was recorded in connection with a warrant issued during the fourth quarter of 1999. The primary reasons for the net decrease in non-cash stock based compensation charges for the twenty-six weeks ended June 29, 2002 compared to the same period in fiscal year 2001 was the reduction in amortization charges related to the pre-initial public offering grants of stock options in the amount of $486,000, decreased forfeitures and cancellations of stock options as an offset to expense in the first twenty-six weeks of fiscal year 2002 in the amount of $275,000, and the reduction in amortization expense recognized on the warrant in the amount of $237,000 as the warrant was fully amortized during the second quarter of fiscal year 2002. These net charges increased costs of services as a percentage of revenue by 3.9% and 3.5% for the twenty-six weeks ended June 29, 2002 and June 30, 2001, respectively.

OPERATING EXPENSES

In total, operating expenses increased to $14.9 million for the twenty-six weeks ended June 29, 2002, or 45.7% from $10.2 million for the twenty-six weeks ended June 30, 2001. The major components of this $4.7 million increase in operating expenses was a $1.9 million one-time charge related to severance costs incurred by the Company as part of its overall cost-reduction initiatives, an $855,000 increase in selling, general and administrative expenses related to the closing of our Lanham office into our Bethesda location in the first quarter of fiscal year 2002, and the additional general and administrative costs associated with our CSMG and TMNG Technologies acquisitions. As a percentage of revenues, selling, general and administrative expenses increased to 78.3% compared to 27.5% for the twenty-six weeks ended June 29, 2002 and June 30, 2001, respectively. This percentage increase was primarily attributable to the decreased revenues. Beginning in fiscal year 2001 and continuing into fiscal year 2002, management began implementing a number of cost reduction initiatives including the reduction of sales and marketing staff, minimization of consultant recruitment, and a reduction in the Company's accounting staff. Management believes these initiatives will provide for better management of general and administrative costs in the future. Amortization expense increased by $187,000 in the twenty-six weeks ended June 29, 2002 compared to the same period in fiscal 2001, due primarily to the amortization of specifically identified intangibles acquired in the CSMG and TMNG Technologies acquisitions, offset by the Company no longer recording amortization expense on goodwill in accordance with SFAS No. 142 "Accounting for Goodwill and Intangible Assets."

Non-cash stock based compensation charges of $280,000 and $459,000 for the twenty-six weeks ended June 29, 2002 and June 30, 2001, 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 1.6% and 1.4% for the twenty-six weeks ended June 29, 2002 and June 30, 2001, respectively. The $179,000 decrease in non-cash stock based compensation charges for the twenty-six weeks ended June 29, 2002 compared to June 30, 2001 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 $522,000 and $1,412,000 for the twenty-six weeks ended June 29, 2002 and June 30, 2001, respectively, and represented interest earned on invested balances. Interest income decreased during the twenty-six weeks ended June 29, 2002 due to lower invested balances and lower interest rates from fiscal year 2001 to fiscal year 2002. We invest in short-term, high-grade investment instruments as part of our overall investment policy.

INCOME TAXES

Income tax benefit for the twenty-six weeks ended June 29, 2002 as a percentage of pretax loss was 39.6% compared to a provision of 33.5% of pretax income for the twenty-six weeks ended June 30, 2001. The increase in the income tax expense (benefit) as a percentage of pre-tax income (loss) was due primarily to a shift away from short-term investments in federally exempt income securities.

CUMULATIVE CHANGE IN ACCOUNTING PRINCIPLE

A cumulative change in accounting principle in the amount of $1.9 million was recorded in the twenty-six weeks ended June 29, 2002 in connection with the Company's preliminary estimate of goodwill impairment. The impairment was calculated in accordance with the provisions of SFAS No. 142 "Accounting for Goodwill and Intangible Assets" and has been reported on the Company's Statement of Income (Loss) and Comprehensive Income (Loss), net of tax benefit in the amount of $1.1 million.

LIQUIDITY AND CAPITAL RESOURCES

At June 29, 2002, we had approximately $54.4 million in cash and cash equivalents. We believe the cash on hand will be sufficient to meet anticipated cash requirements, including anticipated capital expenditures, consideration for possible acquisitions, and to support operations, if necessary, for at least the next 12 months. The Company has established a flexible model that provides a lower fixed cost structure than most consulting firms, enabling TMNG to scale operating cost structures more quickly based on market conditions.

Net cash provided by operating activities was $418,000 and $12.8 million for the twenty-six weeks ended June 29, 2002 and June 30, 2001, respectively. The Company generated positive cash flow from its operating activities in the first half of fiscal 2002, primarily due to the reduction in accounts receivable balances, after giving impact to the CSMG acquisition, reflecting more focused billing and collection activities.

Net cash used in investing activities was $32.6 million and $454,000 for the twenty-six weeks ended June 29, 2002 and June 30, 2001, respectively. Cash used for acquisitions in the twenty-six weeks ended June 29, 2002 was $32.3 million, and related to the CSMG acquisition closed by the Company on March 6, 2002. Capital expenditures of $213,000 and $454,000 for the twenty-six weeks ended June 29, 2002 and June 30, 2001, respectively, relate to the capitalization of leasehold improvements, computer equipment and software by the Company. Additionally, during fiscal 2002 the Company increased its loans to officers by $100,000, resulting in an aggregate borrowing of $300,000 by officers as of June

29, 2002. The maximum available borrowings under the loan agreements between the three officers and the Company are $1,300,000 in total.

Net cash provided by financing activities was $232,000 and $158,000 for the twenty-six weeks ended June 29, 2002 and June 30, 2001, respectively. Cash provided by financing activities in fiscal 2002 related to proceeds from the exercise of stock options and the purchase of stock under the Company's employee stock purchase plan, partially offset from payments made by the Company on the current portion of its capital lease obligations and current portion of outstanding debt. Net cash provided by financing activities was $158,000 for the twenty-six weeks ended June 30, 2001, and related to proceeds from the exercise of employee stock options.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company does not invest excess funds in derivative financial instruments or other market rate sensitive instruments for the purpose of managing its foreign currency exchange rate risk. The Company invests excess funds in short-term investments, the yield of which is exposed to interest rate market risk.

The Company does not have material exposure to market related risks. Foreign currency exchange rate risk may become material given U.S. dollar to foreign currency exchange rate changes and significant increases in international engagements denominated in the local currency of the Company's clients.

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, 2002. For a summary of litigation in which TMNG is currently involved, refer to TMNG's 10-K, as filed with the Securities and Exchange Commission on March 29, 2002.

ITEM 4. SUBMISSION TO A VOTE OF SECURITY HOLDERS

TMNG HELD AN ANNUAL MEETING OF STOCKHOLDERS ON JUNE 5, 2002.

1. The stockholders approved the election of three directors. The votes cast for each nominee were as follows:

	FOR	WITHHELD
Grant G. Behrman	31,810,397	210,778
Richard P. Nespola	30,211,676	1,809,499
Stephen B. Brodeur	30,211,401	1,809,774

2. The stockholders approved the 2002 TMNG Senior Executive Bonus Plan by a vote of 29,620,074 shares in favor of the plan; 1,439,585 shares against the plan; 14,597 shares abstaining and 946,919 shares delivered not voted.

3. The stockholders ratified the appointment of Deloitte & Touche LLP as independent auditor for the Company for the 2002 fiscal year by a vote of

31,872,325 shares in favor of the appointment; 148,650 shares against the appointment and 200 shares abstaining.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

99.1 Certification of Principal Executive Officers Pursuant to 18 U.S.C. Section 1350

(b) Reports on Form 8-K

The Company filed a Form 8-K on March 21, 2002 with the Securities and Exchange Commission disclosing the acquisition of Cambridge Strategic Management Group, Inc. On May 10, 2002 an amendment to this filing was submitted to the Securities and Exchange Commission. The amendment included pro forma consolidated statements of income and comprehensive income for the year ended December 29, 2001 as well as a pro forma consolidated balance sheet dated December 29, 2001. Additionally, the amendment reported CSMG's 2001 financial statements, footnotes, and independent auditors' report.

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)	August 13, 2002
/s/ DONALD E. KLUMB Donald E. Klumb	Chief Financial Officer and Treasurer (Principal financial officer and principal accounting officer)	August 13, 2002

*By: /s/ DONALD E. KLUMB

Donald E. Klumb
Attorney-in-Fact

Exhibit 99.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICERS
PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the accompanying Quarterly Report on Form 10-Q of The Management Network Group, Inc. for the quarter ended June 29, 2002, I, Richard P. Nespola, President and Chief Executive Officer of The Management Network Group, Inc. and I, Donald E. Klumb, Chief Financial Officer and Treasurer of The

Management Network Group, Inc., hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief, that:

(1) such Quarterly Report on Form 10-Q of The Management Network Group for the quarter ended June 29, 2002, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in such Quarterly Report on Form 10-Q of The Management Network Group, Inc. for the quarter ended June 29, 2002, fairly presents, in all material respects, the financial condition and results of operations of The Management Network Group, Inc.

Dated: August 13, 2002 By: /s/ RICHARD P. NESPOLA

President, Chief Executive Officer

/s/ DONALD E. KLUMB

Chief Financial Officer and Treasurer