MANAGEMENT NETWORK GROUP INC
Form 10-Q
November 12, 2008

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**
**FORM 10-Q**

þ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the quarterly period ended September 27, 2008**

**or**

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

***Commission file number: 0-27617***

**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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

| | | | |
|---|---|---|---|
| Large accelerated filer o | Accelerated filer o | Non-accelerated filer o | Smaller reporting company þ |

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

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 7, 2008, TMNG had outstanding 34,765,124 shares of common stock.

**THE MANAGEMENT NETWORK GROUP, INC.**
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## PART I. FINANCIAL INFORMATION

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### THE MANAGEMENT NETWORK GROUP, INC.

### CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)
(unaudited)

| | September 27, 2008 | December 29, 2007 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 9,660 | $ 10,022 |
| Short-term investments | | 17,125 |
| Receivables: | | |
| Accounts receivable | 11,410 | 13,044 |
| Accounts receivable unbilled | 5,070 | 7,804 |
| | 16,480 | 20,848 |
| Less: Allowance for doubtful accounts | (494) | (562) |
| Net receivables | 15,986 | 20,286 |
| Prepaid and other current assets | 1,573 | 1,763 |
| Total current assets | 27,219 | 49,196 |
| NONCURRENT ASSETS: | | |
| Property and equipment, net | 1,999 | 1,784 |
| Goodwill | 8,790 | 13,365 |
| Licenses and identifiable intangible assets, net | 6,256 | 11,605 |
| Non-current investments | 13,954 | |
| Other assets | 543 | 616 |
| Total Assets | $ 58,761 | $ 76,566 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| CURRENT LIABILITIES: | | |
| Trade accounts payable | $ 1,434 | $ 1,927 |
| Accrued payroll, bonuses and related expenses | 5,918 | 5,038 |
| Other accrued liabilities | 3,605 | 2,466 |
| Income tax liabilities | 363 | 861 |
| Deferred revenue | 1,048 | 3,554 |
| Accrued contingent consideration | 161 | 1,616 |
| Unfavorable and other contractual obligations | 929 | 1,668 |
| Total current liabilities | 13,458 | 17,130 |

| | | | | |
|---|---|---|---|---|
| NONCURRENT LIABILITIES: | | | | |
| Deferred income tax liabilities | | 481 | | 1,368 |
| Unfavorable and other contractual obligations | | 1,265 | | 1,716 |
| Other noncurrent liabilities | | 965 | | 524 |
| Total noncurrent liabilities | | 2,711 | | 3,608 |
| Commitments and contingencies (Note 10) | | | | |
| Total stockholders equity | | 42,592 | | 55,828 |
| Total Liabilities and Stockholders Equity | $ | 58,761 | $ | 76,566 |

See notes to unaudited condensed consolidated financial statements.

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

| | Thirteen Weeks Ended | | Thirty-nine Weeks Ended | |
|---|---|---|---|---|
| | September 27, 2008 | September 29, 2007 | September 27, 2008 | September 29, 2007 |
| Revenues | $ 17,528 | $ 20,814 | $ 59,645 | $ 51,047 |
| Cost of services (includes net non-cash share-based compensation expense of $65 and $191 for the thirteen weeks ended September 27, 2008 and September 29, 2007, respectively, and $447 and $124 for the thirty-nine weeks ended September 27, 2008 and September 29, 2007, respectively) | 9,899 | 10,514 | 32,385 | 27,308 |
| Gross Profit | 7,629 | 10,300 | 27,260 | 23,739 |
| Operating Expenses: | | | | |
| Selling, general and administrative (includes net non-cash share-based compensation expense of $133 and $577 for the thirteen weeks ended September 27, 2008 and September 29, 2007, respectively, and $977 and $588 for the thirty-nine weeks ended September 27, 2008 and September 29, 2007, respectively) | 6,911 | 8,944 | 23,873 | 22,778 |
| Goodwill and intangible asset impairment | 1,086 | | 10,165 | |
| Special Committee investigation (a) | | 103 | | 2,451 |
| Intangible asset amortization | 885 | 1,057 | 3,379 | 2,149 |
| Total operating expenses | 8,882 | 10,104 | 37,417 | 27,378 |
| (Loss) income from operations | (1,253) | 196 | (10,157) | (3,639) |
| Other Income: | | | | |
| Interest income | 233 | 387 | 750 | 1,185 |
| Other income | 24 | 452 | 24 | 452 |
| Total other income | 257 | 839 | 774 | 1,637 |
| (Loss) income before income tax provision | (996) | 1,035 | (9,383) | (2,002) |
| Income tax provision | (202) | (531) | (444) | (815) |
| Net (loss) income | (1,198) | 504 | (9,827) | (2,817) |
| Other comprehensive (loss) income: | | | | |
| Foreign currency translation adjustment | (1,792) | 121 | (1,833) | 309 |
| Unrealized loss on marketable securities | (384) | | (846) | |

| | | | | |
|---|---|---|---|---|
| Comprehensive (loss) income | $ (3,374) | $ 625 | $ (12,506) | $ (2,508) |
| (Loss) income per common share<br>Basic and diluted | $ (0.03) | $ 0.01 | $ (0.28) | $ (0.08) |
| Weighted average shares used in calculation of net (loss) income per share:<br>Basic | 34,706 | 35,808 | 35,700 | 35,763 |
| Diluted | 34,706 | 36,140 | 35,700 | 35,763 |

(a) For a summary of the Special Committee investigation, refer to Note 15 of the Consolidated Financial Statements included in the Annual Report on Form 10-K as filed with the Securities and Exchange Commission on March 28, 2008.

See notes to unaudited condensed consolidated financial statements.

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

| | For the Thirty-nine Weeks Ended | |
|---|---|---|
| | September 27, 2008 | September 29, 2007 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | $ (9,827) | $ (2,817) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Goodwill and intangible asset impairment | 10,165 | |
| Depreciation and amortization | 4,419 | 3,059 |
| Share-based compensation | 1,424 | 712 |
| Deferred taxes | (775) | (655) |
| Bad debt (recoveries) expense | (150) | 380 |
| Other changes in operating assets and liabilities: | | |
| Accounts receivable | 1,251 | (2,191) |
| Accounts receivable unbilled | 2,544 | (1,554) |
| Prepaid and other assets | 157 | 665 |
| Trade accounts payable | (584) | 191 |
| Income tax liabilities | 2 | 667 |
| Accrued liabilities | (1,568) | 2,650 |
| Net cash provided by operating activities | 7,058 | 1,107 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from maturities/sales of marketable securities | 2,325 | 9,675 |
| Acquisition of businesses, net of cash acquired | (3,580) | (9,943) |
| Acquisition of property and equipment, net | (632) | (300) |
| Net cash used in investing activities | (1,887) | (568) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payments made on unfavorable and other contractual obligations | (1,257) | (783) |
| Purchases of common stock | (3,200) | |
| Proceeds from exercise of stock options | 27 | 162 |
| Issuance of common stock through employee stock purchase plan | 98 | 36 |
| Net cash used in financing activities | (4,332) | (585) |
| Effect of exchange rate on cash and cash equivalents | (1,201) | 60 |

| | | | | |
|---|---|---|---|---|
| Net (decrease) increase in cash and cash equivalents | | (362) | | 14 |
| Cash and cash equivalents, beginning of period | | 10,022 | | 11,133 |
| Cash and cash equivalents, end of period | $ | 9,660 | $ | 11,147 |
| Supplemental disclosure of cash flow information: | | | | |
| Cash paid during period for taxes, net of refunds | $ | 1,249 | $ | 752 |
| Accrued property and equipment additions | $ | 245 | $ | 55 |
| Accrual for contingent consideration earned | | | | |
| Cash | $ | 1,462 | | |
| Common stock | $ | 921 | | |

See notes to unaudited condensed consolidated financial statements.

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

### 1. Basis of Reporting

The condensed consolidated financial statements and accompanying notes of The Management Network Group, Inc. and its subsidiaries ( TMNG, TMNG Global, we, us, our, or the Company ) as of September 27, 2008, and for thirteen and thirty-nine weeks ended September 27, 2008 and September 29, 2007 are unaudited and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for the fair presentation of the Company s condensed consolidated financial position, results of operations, and cash flows as of these dates and for the periods presented. The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ) and pursuant to the rules and regulations of the Securities and Exchange Commission for interim financial information. Consequently, these statements do not include all the disclosures normally required by U.S. GAAP 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 consolidated financial statements and notes thereto for the fiscal year ended December 29, 2007, included in the 2007 Annual Report on Form 10-K ( 2007 Form 10-K ) for additional disclosures, including a summary of the Company s accounting policies. The Condensed Consolidated Balance Sheet as of December 29, 2007 has been derived from the audited Consolidated Balance Sheet at that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for the thirteen and thirty-nine weeks ended September 27, 2008 are not necessarily indicative of the results to be expected for the full year ending January 3, 2009.

*Principles of Consolidation* The consolidated statements include the accounts of TMNG and the following wholly-owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

| Name of Subsidiary/Acquisition | Date Formed/Acquired |
|---|---|
| TMNG Europe Ltd. | March 19, 1997 |
| The Management Network Group Canada Ltd. | May 14, 1998 |
| TMNG.com, Inc. | June 1, 1999 |
| TMNG Marketing, Inc. | September 5, 2000 |
| TMNG Technologies, Inc. | September 5, 2001 |
| Cambridge Strategic Management Group, Inc. | March 6, 2002 |
| Cambridge Adventis Ltd. | March 1, 2006 |
| Cartesian Ltd. ( Cartesian ) | January 2, 2007 |
| RVA Consulting, LLC ( RVA ) | August 3, 2007 |
| TWG Consulting, Inc. ( TWG ) | October 5, 2007 |

*Revenue Recognition* The Company recognizes revenue from time and materials consulting contracts in the period in which its services are performed. In addition to time and materials contracts, the Company s other types of contracts may include time and materials contracts not to exceed contract price, fixed fee contracts, and contingent fee contracts. The Company recognizes revenues on milestone or deliverables-based fixed fee contracts and time and materials contracts not to exceed contract price using the percentage of completion method prescribed by AICPA Statement of Position ( SOP ) No. 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts. For fixed fee contracts where services are not based on providing deliverables or achieving milestones, the Company recognizes revenue on a straight-line basis over the period during which such services are expected to be performed.

As a result of the Cartesian acquisition, the Company now develops, installs and supports customer software in addition to its traditional consulting services. The Company recognizes revenue in connection with its software sales agreements utilizing the SOP No. 81-1 percentage of completion method. These agreements include software right-to-use licenses ( RTU s ) and related customization and implementation services. Due to the long-term nature of the software implementation and the extensive software customization based on customer specific requirements normally experienced by the Company, both the RTU and implementation services are treated as a single element for revenue recognition purposes.

The SOP No. 81-1 percentage-of-completion methodology involves recognizing revenue using the percentage of services completed, on a current cumulative cost to total cost basis, using a reasonably consistent profit margin over the period. Due to the longer term nature of these projects, developing the estimates of costs often requires significant judgment. Factors that must be considered in estimating the progress of work completed and ultimate cost of the projects include, but are not limited to, the availability of labor and labor productivity, the nature and complexity of the work to be performed, and the impact of delayed performance. If changes occur in delivery, productivity or other factors used in developing the estimates of costs or revenues, the Company revises its cost and revenue estimates, which may result in increases or decreases in revenues and costs, and such revisions are reflected in income in the period in which the facts that give rise to that revision become known.

In addition to the professional services related to the customization and implementation of its software, the Company also provides post-contract support ( PCS ) services, including technical support and maintenance services. For those contracts that include PCS service arrangements which are not essential to the functionality of the software solution, the Company separates the SOP No. 81-1 software services and PCS services utilizing the multiple-element arrangement model prescribed by Emerging Issues Task Force ( EITF ) No. 00-21, Revenue Arrangements with Multiple Deliverables. EITF No. 00-21 addresses the accounting treatment for an arrangement to provide the delivery or performance of multiple products and/or services where the delivery of a product or system or performance of services may occur at different points in time or over different periods of time. The Company utilizes EITF No. 00-21 to separate the PCS service elements and allocate total contract consideration to the contract elements based on the relative fair value of those elements. Revenues from PCS services are recognized ratably on a straight-line basis over the term of the support and maintenance agreement.

The Company may also enter into contingent fee contracts, in which revenue is subject to achievement of savings or other agreed upon results, rather than time spent. Due to the nature of contingent fee contracts, the Company recognizes costs as they are incurred on the project and defers revenue recognition until the revenue is realizable and earned as agreed to by its clients. Although these contracts can be very rewarding, the profitability of these contracts is dependent on the Company s ability to deliver results for its clients and control the cost of providing these services. These types of contracts are typically more results-oriented and are subject to greater risk associated with revenue recognition and overall project profitability than traditional time and materials contracts. Revenues from contingent fee contracts were $50,000 for the thirteen and thirty-nine weeks ended September 27, 2008. Revenues and costs associated with contingent fee contracts were $786,000 and $236,000, respectively, for the thirteen and thirty-nine weeks ended September 29, 2007.

*Deferred Revenue* In connection with some fixed price contracts, the Company receives payments from customers that exceed recognized revenues. The Company records the excess of receipts from customers over recognized revenue as deferred revenue. Deferred revenue is classified as a current liability to the extent it is expected to be earned within twelve months from the date of the balance sheet.

*Marketable Securities* Short-term investments and non-current investments, which consist of auction rate securities, are classified as available for sale under the provisions of Statement of Financial Accounting Standards ( SFAS ) No. 115, Accounting for Certain Investments in Debt and Equity Securities. Accordingly, the marketable securities are reported at fair value, with any related unrealized gains and losses included as a separate component of stockholders equity, net of applicable taxes. Realized gains and losses, changes in value judged to be other-than-temporary, interest and dividends are included in interest income within the Consolidated Statements of Operations and Comprehensive (Loss) Income. See Note 2 for further discussion of the Company s auction rate securities portfolio.

*Fair Value Measurement* - The Company utilizes the methods of fair value measurement as described in SFAS No. 157, Fair Value Measurements ( SFAS No. 157 ) to value its financial assets and liabilities. As defined in SFAS No. 157, fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, SFAS No. 157 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3:

Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value.

*Research and Development and Capitalized Software Costs* - Software development costs are accounted for in accordance with SFAS No. 86, Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed. Capitalization of software development costs for products to be sold to third parties begins upon the establishment of technological feasibility and ceases when the product is available for general release. The establishment of technological feasibility and the ongoing assessment of recoverability of capitalized software development costs require considerable judgment by management concerning certain external factors including, but not limited to, the date technological feasibility is reached, anticipated future gross revenue, estimated economic life and changes in software and hardware technologies. The Company capitalizes development costs incurred during the period between the establishment of technological feasibility and the release of the final product to customers if such costs are material. During the thirteen and thirty-nine weeks ended September 27, 2008, $219,000 and $615,000, respectively, of these costs were expensed as incurred. During the thirteen and thirty-nine weeks ended September 29, 2007, $229,000 and $680,000, respectively, of these costs were expensed as incurred. No software development costs were capitalized during the thirteen and thirty-nine weeks ended September 27, 2008 and September 29, 2007, respectively.

*Recent Accounting Pronouncements* In September 2006, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 157. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 was effective for the Company on December 30, 2007. However, in February 2008, the FASB issued Staff Position 157-2, Effective Date of FASB Statement No. 157, ( FSP 157-2 ) which delays the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years, for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. In February 2008, the FASB issued Staff Position 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13, ( FSP 157-1 ) which amends SFAS 157 to exclude SFAS No. 13, Accounting for Leases, and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under Statement 13, with the exception of assets acquired and liabilities assumed in a business combination. In October 2008, the FASB issued Staff Position FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for that Asset is not Active, ( FSP 157-3 ) to provide guidance for determining the fair value of a financial asset in an inactive market. The Company considered FSP FAS 157-3 in the determination of the fair value of its financial assets and financial liabilities. The Company is currently evaluating the impact, if any, that the adoption of SFAS No. 157 and FSP 157-2 for its non-financial assets will have on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141R, Business Combinations, ( SFAS No. 141R ) which replaces SFAS No. 141, Business Combinations. SFAS No. 141R establishes principles and requirements for how an acquirer in a business combination (1) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest, (2) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (3) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141R is to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of an entity s fiscal year that begins after December 15, 2008. The Company will assess the impact of SFAS No. 141R if and when a future acquisition occurs.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 ( SFAS No. 160 ). SFAS No. 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent s equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. SFAS No. 160 clarifies that changes in a parent s ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. SFAS No. 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The adoption of SFAS No. 160 is not expected to have an impact on the Company s consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities ( SFAS No. 161 ). SFAS No.161 requires enhanced disclosures about an entity s derivative and hedging activities and thereby improves the transparency of financial reporting. The objective of the guidance is to provide users of financial statements with an enhanced understanding of how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for; and how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years beginning after November 15, 2008. The Company is currently evaluating the impact, if any, the adoption of SFAS No. 161 will have on its consolidated financial statements.

In April 2008, the FASB issued Staff Position No. FAS 142-3, Determination of Useful Life of Intangible Assets ( FSP FAS 142-3 ). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets. FSP FAS 142-3 also requires expanded disclosures related to the determination of intangible asset useful lives. This standard applies prospectively to intangible assets acquired and/or recognized on or after January 1, 2009. The Company does not believe that the adoption of this standard will have an impact on its consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, Hierarchy of Generally Accepted Accounting Principles ( SFAS 162 ). This statement is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with GAAP. SFAS No. 162 will become effective during the Company s 2008 fourth quarter. The Company does not expect any significant impact on its consolidated financial statements upon implementation of this pronouncement.

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**2. Auction Rate Securities**

As of September 27, 2008, TMNG held $14.0 million in auction rate securities for which the underlying collateral is guaranteed through the Federal Family Education Loan Program of the U.S. Department of Education. The Company s auction rate securities portfolio as of September 27, 2008 consisted of the following:

| Issuer | | Value at September 27, 2008 |
|---|---|---|
| Education Funding Capital Education Loan Backed Notes | $ | 6,250 |
| Access Group Inc. Federal Student Loan Asset Backed Notes | | 2,050 |
| Kentucky Higher Education Loan Revenue Bonds A-4 | | 1,900 |
| Missouri Higher Education Loan Revenue Bonds | | 1,800 |
| Utah State Board of Regents Revenue Bonds | | 1,400 |
| Brazos Student Finance Corporation Student Loan Asset Backed Notes | | 1,000 |
| Kentucky Higher Education Loan Revenue Bonds A-2 | | 400 |
| Par Value | | 14,800 |
| Unrealized Loss on Principal | | (846) |
| Fair Value | $ | 13,954 |

The auction rate securities we hold are generally long-term debt instruments that historically provided liquidity through a Dutch auction process through which interest rates reset every 28 to 35 days. Given the liquidity created by the auctions historically, auction rate securities were presented as current assets under short-term investments on the Company s balance sheet. Beginning in February 2008, auctions of the Company s auction rate securities portfolio failed to receive sufficient order interest from potential investors to clear successfully, resulting in failed auctions. The principal associated with failed auctions will not be accessible until a successful auction occurs, a buyer is found outside of the auction process, the issuers redeem the securities, the issuers establish a different form of financing to replace these securities or final payments come due according to contractual maturities ranging from approximately 22 to 36 years. For each unsuccessful auction, the interest rate moves to a maximum rate defined for each security. At this time, the Company is uncertain as to when the liquidity issues related to these investments will improve. Accordingly, the entire amount of auction rate securities is reflected as non-current assets on the Company s balance sheet as of September 27, 2008.

The Company values its auction rate securities portfolio using a model that takes into consideration those inputs that are based on expected cash flow streams and collateral values, including assessments of counterparty credit quality, default risk underlying the security, discount rates and overall capital market liquidity. Although the auction rate securities continue to pay interest according to their stated terms, based on its analysis of the fair value of these securities, the Company recorded an unrealized loss related to these auction rate securities primarily due to uncertainty about liquidity. Auction rate securities with an original par value of approximately $14.8 million were written-down to an estimated fair value of $14.0 million as of September 27, 2008. Based on an analysis of other-than-temporary impairment factors, this write-down resulted in temporary impairment charges of approximately $0.4 million and $0.8 million reflected as an unrealized loss within other comprehensive income for the thirteen weeks and thirty-nine weeks ended September 27, 2008. The increase in the unrealized loss during the thirteen weeks ended September 27, 2008 is due to a decline in the coupon rates on the auction rate securities while the market yields on similar investments increased during the period.

Although the Company currently believes that any decline in the fair market value of these securities is temporary due to their credit quality, there is a risk that the decline in value may ultimately be deemed to be other-than-temporary. Should it be determined that the decline in value of these securities is other-than-temporary, it would result in a loss being recognized in the Company s consolidated statement of operations in accordance with SFAS No. 115, which could be material.

Due to the lack of observable market quotes on the Company s auction rate securities portfolio, the Company utilizes valuation models that rely exclusively on Level 3 inputs including those that are based on expected cash flow streams and collateral values, including assessments of counterparty credit quality, default risk underlying the security, discount rates and overall capital market liquidity. The valuation of the Company s auction rate securities portfolio is subject to uncertainties that are difficult to predict. Factors that may impact the Company s valuation include changes to credit ratings of the securities as well as to the underlying assets supporting those securities, rates of default of the underlying assets, underlying collateral value, discount rates, counterparty risk and ongoing strength and quality of market credit and liquidity.

During the thirteen weeks ended September 27, 2008, state and federal regulators reached settlement agreements with both of the brokers who advised the Company to purchase the auction rate securities currently held by the Company. The settlement agreements with the regulators were intended to eventually provide liquidity for holders of auction rate securities. Subsequent to September 27, 2008, we received a settlement offer from a broker who holds $7.6 million par value of the Company s auction rate securities. If accepted, the settlement offer would provide the Company with the ability to require the broker to redeem the securities for their par value during a two-year period beginning June 30, 2010.

In addition to ultimate liquidation of the securities, the settlement offer provides the Company with the opportunity to obtain loans prior to June 30, 2010 up to the par value of its auction rate securities with interest rates that equal the rates it is earning on the underlying investments. The Company has not yet received a settlement offer from the broker holding our remaining auction rate securities.

**3. Business Combinations**

*TWG Consulting, Inc.*

On October 5, 2007, the Company acquired all of the outstanding shares of stock of TWG, a privately-held management consulting firm. Prior to the acquisition, TMNG did not have any material relationship with TWG. Under the purchase agreement, TMNG agreed to acquire the entire ownership interest in TWG for a total cash purchase price of $1.7 million, including approximately $1.2 million paid for TWG s working capital. The Company incurred approximately $0.1 million in transaction costs related to the acquisition. In the event TWG achieves certain performance targets, total consideration under the Agreement could increase to $4.5 million, including $1.3 million of possible contingent cash consideration and approximately 0.7 million shares of TMNG common stock valued at $1.5 million based on the weighted average share price for the twenty days preceding the date of close. TWG is presented as a component of the Management Consulting Services segment.

The measurement of the respective assets and liabilities recognized in connection with the acquisition has been made in accordance with the provisions of SFAS No. 141, Business Combinations. The fair value of the net assets acquired in the TWG acquisition exceeded the total consideration paid by the Company, resulting in negative goodwill of $0.3 million. Because the acquisition involves contingent consideration, the Company is required to recognize additional purchase consideration equal to the lesser of the negative goodwill or the maximum amount of contingent consideration of $2.8 million. The negative goodwill is included in the total purchase price and reflected as a current liability based on the anticipated resolution of the contingent feature. The negative goodwill was reduced during the thirty-nine weeks ended September 27, 2008, by additional consideration of $0.1 million for working capital true-ups. If and when contingent payments are earned, the Company will apply the payments against these contingent liabilities. Any contingent payments in excess of the initial accrued contingent consideration will be recorded as goodwill. To the extent contingent payments are not made, the Company will reduce the basis of certain acquired assets and any remaining negative goodwill will be charged to the results of operations. None of the earn-out consideration was earned as of September 27, 2008.

The aggregate purchase price of $1.9 million consisted of the following (in thousands):

| | |
|---|---|
| Cash | $ 1,660 |
| Transaction costs | 59 |
| Accrued contingent consideration | 161 |
| Total purchase price | $ 1,880 |

*RVA Consulting, LLC*

On August 3, 2007, the Company acquired all of the outstanding membership interests of RVA pursuant to a Membership Interest Purchase Agreement with the members of RVA. TMNG assumed all liabilities of RVA, subject to certain indemnities on the part of the selling members. Certain of the selling members continue to be employed by and participate in the management of RVA after the closing date pursuant to written employment agreements. RVA is presented as a component of the Management Consulting Services segment. In addition to cash consideration paid at closing, the transaction included additional consideration for working capital true-ups and potential earn-out consideration based upon performance of RVA after the closing date. The aggregate potential purchase price of $11.8 million consists of the following (in thousands):

| | |
|---|---|
| Cash paid at closing | $ 6,625 |
| Transaction costs | 247 |
| Contingent cash consideration earned | 2,292 |

| | |
|---|---|
| Contingent stock consideration earned (based on share price as of June 30) | 921 |
| Total purchase price recognized at September 27, 2008 | 10,085 |
| Remaining contingent cash consideration | 1,325 |
| Remaining contingent stock consideration (based on share price as of September 27) | 361 |
| Aggregate potential consideration | $ 11,771 |

The measurement of the respective assets and liabilities recognized in connection with the acquisition has been made in accordance with the provisions of SFAS No. 141. The fair value of the net assets acquired in the RVA acquisition exceeded the total consideration paid by the Company, resulting in negative goodwill. Because the acquisition involves contingent consideration, the Company was initially required to recognize additional purchase consideration equal to the lesser of the negative goodwill or the maximum amount of contingent consideration.

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At December 29, 2007, $0.7 million of negative goodwill was reflected as a current liability based on the anticipated resolution of the contingent feature. During the thirty-nine weeks ended September 27, 2008, additional consideration for working capital true-ups totaling $0.8 million was paid. The first measurement date for contingent cash and stock consideration was June 30, 2008. Cash earn-out consideration in the amount of $1.5 million has been accrued for in other accrued liabilities on the balance sheet and will be paid on or prior to November 15, 2008. Stock consideration in the amount of 654,474 shares of common stock, with a value of $0.9 million as of September 27, 2008, was earned as of the measurement date and was issued on September 29, 2008. These shares have been included in basic and diluted shares outstanding as they were earned. The working capital true-ups and contingent cash and stock consideration earned resulted in the creation of $2.5 million of goodwill.

*Cartesian Limited*

On January 2, 2007, the Company acquired one-hundred percent of the outstanding common stock of Cartesian Limited. Cartesian is presented within the Software Solutions Segment. In addition to cash consideration paid at closing, the transaction included additional consideration for working capital true-ups and potential earn-out consideration based upon performance of Cartesian after the closing date. The aggregate potential purchase price of $15.9 million consisted of the following (in thousands):

| | |
|---|---|
| Cash paid at closing | $ 6,495 |
| Transaction costs | 534 |
| Contingent consideration earned | 6,156 |
| Total purchase price recognized at September 27, 2008 | 13,185 |
| Remaining contingent cash consideration | 2,757 |
| Aggregate potential consideration | $ 15,942 |

The measurement of the respective assets and liabilities recognized in connection with the acquisition has been made in accordance with the provisions of SFAS No. 141. The fair value of the net assets acquired in the Cartesian acquisition exceeded the total consideration paid by the Company, resulting in negative goodwill. Because the acquisition involves contingent consideration, the Company was initially required to recognize additional purchase consideration equal to the lesser of the negative goodwill or the maximum amount of contingent consideration. At December 29, 2007, $0.6 million of negative goodwill was reflected as a current liability based on the anticipated resolution of the contingent feature. During the thirty-nine weeks ended September 27, 2008, earn-out payments totaling $2.6 million were paid resulting in the creation of $2.0 million of goodwill.

*Pro Forma Combined Results*

The operating results of Cartesian, RVA, and TWG have been included in the Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income subsequent to the respective dates of the purchase. The following reflects pro forma combined results of the Company (including RVA, and TWG) as if the acquisitions had occurred as of January 1, 2007. In management s opinion, this pro forma information does not necessarily reflect the actual results that would have occurred had the acquisitions been completed as of January 1, 2007 nor is it necessarily indicative of future consolidated results of operations of the Company.

| (in thousands, except per share amounts) | For the Thirteen Weeks Ended September 29, 2007 | For the Thirty-nine Weeks Ended September 29, 2007 |
|---|---|---|
| Total revenues | $ 24,656 | $ 71,107 |

| | | |
|---|---|---|
| Net income | $ 2,461 | $ 4,940 |
| Basic and diluted net income per common share | $ 0.07 | $ 0.14 |

**4. Business Segments and Major Customers**

The Company identifies its segments based on the way management organizes the Company to assess performance and make operating decisions regarding the allocation of resources. In accordance with the criteria in SFAS No. 131 Disclosure about Segments of an Enterprise and Related Information, the Company has concluded it has two reportable segments beginning in the first quarter of fiscal 2007; the Management Consulting Services segment and the Software Solutions segment. The Management Consulting Services segment is comprised of five operating segments (Operations, Domestic Strategy, International Strategy, RVA and TWG) which are aggregated into one reportable segment. Management Consulting Services includes consulting services related to strategy and business planning, market research and analysis, organizational development, knowledge management, marketing and customer relationship management, program management, billing system support, operating system support, revenue assurance, and corporate investment services. Software Solutions is a single reportable operating segment that provides custom developed software, consulting and technical services. These services range from developing initial business and system requirements, to software development, software configuration and implementation, and post-contract customer support. The Company began reporting the Software Solutions segment as a result of the acquisition of Cartesian on January 2, 2007.

Management evaluates segment performance based upon income (loss) from operations, excluding share-based compensation (benefits), depreciation and intangibles amortization. Inter-segment sales were approximately $0.5 million and $2.1 million in the thirteen and thirty-nine weeks ended September 27, 2008, respectively. Inter-segment sales were approximately $0.3 million and $0.6 million in the thirteen and thirty-nine weeks ended September 29, 2007. In addition, in its administrative division, entitled Not Allocated to Segments, the Company accounts for non-operating activity and the costs of providing corporate and other administrative services to the segments.

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

| | Management Consulting Services | Software Solutions | Not Allocated to Segments | Total |
|---|---|---|---|---|
| As of and for the thirty-nine weeks ended September 27, 2008: | | | | |
| Revenues | $43,330 | $16,315 | | $ 59,645 |
| Income (loss) from operations | 14,714 | 3,849 | $(28,720) | (10,157) |
| Total assets | $11,035 | $ 4,976 | $ 42,750 | $ 58,761 |
| For the thirteen weeks ended September 27, 2008: | | | | |
| Revenues | $12,246 | $ 5,282 | | $ 17,528 |
| Income (loss) from operations | 3,875 | 1,226 | $ (6,354) | (1,253) |
| As of and for the thirty-nine weeks ended September 29, 2007: | | | | |
| Revenues | $33,354 | $17,693 | | $ 51,047 |
| Income (loss) from operations | 11,658 | 5,495 | $(20,792) | (3,639) |
| Total assets | $14,493 | $ 6,353 | $ 59,604 | $ 80,450 |
| For the thirteen weeks ended September 29, 2007: | | | | |
| Revenues | $14,057 | $ 6,757 | | $ 20,814 |
| Income (loss) from operations | 5,473 | 2,453 | $ (7,730) | 196 |

Segment assets, regularly reviewed by management as part of its overall assessment of the segments performance, 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, excluding deferred tax assets recognized on accounts receivable reserves, which are assigned to their respective segment.

In accordance with the provisions of SFAS No 131, revenues earned in the United States and internationally based on the location where the services are performed are shown in the following table (amounts in thousands):

| | For the Thirteen Weeks Ended | | For the Thirty-nine Weeks Ended | |
|---|---|---|---|---|
| | September 27, | September 29, | September 27, | September 29, |

| | 2008 | 2007 | 2008 | 2007 |
|---|---|---|---|---|
| United States | $ 10,648 | $ 12,102 | $ 36,416 | $ 27,023 |
| International: | | | | |
| United Kingdom | 6,555 | 8,300 | 21,898 | 22,139 |
| Germany | | 25 | | 714 |
| Ireland | 124 | 107 | 704 | 301 |
| Other | 201 | 280 | 627 | 870 |
| Total | $ 17,528 | $ 20,814 | $ 59,645 | $ 51,047 |

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Major customers in terms of significance to TMNG s revenues (i.e. in excess of 10% of revenues) for the thirteen and thirty-nine weeks ended September 27, 2008, and accounts receivable as of September 27, 2008 were as follows (amounts in thousands):

| | Revenues for the thirteen weeks ended September 27, 2008 | | Revenues for the thirty-nine weeks ended September 27, 2008 | | Accounts Receivable as of September 27, 2008 | |
|---|---|---|---|---|---|---|
| | $ Amount | % of total | $ Amount | % of total | $ Amount | % of total |
| Customer A | $4,262 | 24.3% | $17,013 | 28.5% | $2,209 | 13.8% |
| Customer B | $2,084 | 11.9% | $ 8,919 | 15.0% | $2,694 | 16.9% |

Revenues from Customer A were reported within the Management Consulting Services segment. Revenues of $1.5 million and $0.6 million for Customer B were reported within the Software Solutions and Management Consulting Services segments, respectively, during the thirteen weeks ended September 27, 2008. Revenues of $5.1 million and $3.8 million for Customer B were reported within the Software Solutions and Management Consulting Services segments, respectively, during the thirty-nine weeks ended September 27, 2008. Revenues from the Company s ten most significant customers accounted for approximately 80.9% and 81.3% of revenues during the thirteen and thirty-nine weeks ended September 27, 2008, respectively.

**5. Goodwill and Other Identifiable Intangible Assets**

The changes in the carrying amount of goodwill for the thirty-nine weeks ended September 27, 2008 are as follows (in thousands):

| | Management Consulting Services Segment | Software Solutions Segment | Total |
|---|---|---|---|
| Balance as of December 30, 2007 | $ 13,365 | | $ 13,365 |
| 2008 Cartesian goodwill from earn-out payments | | $ 2,039 | 2,039 |
| 2008 RVA goodwill from earn-out payments | 2,465 | | 2,465 |
| 2008 impairment loss | (9,079) | | (9,079) |
| Balance as of September 27, 2008 | $ 6,751 | $ 2,039 | $ 8,790 |

Included in intangible assets, net are the following (in thousands):

| | September 27, 2008 | | December 29, 2007 | |
|---|---|---|---|---|
| | Cost | Accumulated Amortization | Cost | Accumulated Amortization |
| Acquired software | $ 2,757 | $ (1,206) | $ 2,988 | $ (747) |
| Customer relationships | 5,605 | (1,956) | 6,090 | (977) |
| Employment agreements | 2,238 | (1,228) | 2,692 | (736) |
| Customer backlog | 2,100 | (2,100) | 2,598 | (1,373) |
| Tradename | 368 | (322) | 398 | (199) |
| S3 license agreement | | | 1,500 | (629) |
| | $ 13,068 | $ (6,812) | $ 16,266 | $ (4,661) |

Intangible amortization expense for the thirteen weeks ended September 27, 2008 and September 29, 2007 was $1,063,000 and $1,246,000, respectively, including $179,000 and $189,000 reported in cost of services for the thirteen weeks ended September 27, 2008 and September 29, 2007, respectively. Intangible amortization expense for the thirty-nine weeks ended September 27, 2008 and September 29, 2007 was $3,928,000 and $2,707,000, respectively, including $549,000 and $558,000 reported in cost of services for the thirty-nine weeks ended September 27, 2008 and September 29, 2007, respectively. Future intangible amortization expense is estimated to be as follows (in thousands):

| Future Period | Total estimated intangible amortization | Estimated intangible amortization to be included in cost of services |
|---|---|---|
| Remainder of fiscal year 2008 | $ 755 | $ 173 |
| Fiscal year 2009 | 2,837 | 689 |
| Fiscal years 2010 2011 | 2,664 | 689 |

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The Company evaluates goodwill for impairment on an annual basis on the last day of the first fiscal month of the fourth quarter and whenever events or circumstances indicate that these assets may be impaired. During the second quarter of 2008, based on an analysis of the present value of future cash flows the Company recognized a charge of approximately $9.1 million for the impairment of the carrying value of goodwill in the Management Consulting Services Segment. The impairment charge was the result of a reduction in the size and scope of operations which impacted our assessment of future cash flows of the strategy reporting unit. This goodwill impairment loss has been reflected as a component of Loss from Operations in the Statement of Operations and Comprehensive (Loss) Income. The Company performed its impairment test for goodwill in accordance with SFAS No. 142, Accounting for Goodwill and Intangible Assets.

The Company reviews long-lived assets and certain identifiable intangibles to be held and used for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets might not be recoverable in accordance with the provisions of SFAS No. 144. During the third quarter of 2008, based on an analysis of the present value of future cash flows, the Company determined that the carrying value of the S3 license agreement and the intangibles related to the TWG acquisition exceeded their fair market values and recorded an impairment loss related to the Management Consulting Segment of approximately $1.1 million. This impairment loss has been reflected as a component of Loss from Operations in the Condensed Consolidated Statement of Operations and Comprehensive (Loss) Income.

**6. Share-Based Compensation**

The Company issues stock option awards and nonvested share awards under its share-based compensation plans. The key provisions of the Company s share-based compensation plans are described in Note 4 of the Company s consolidated financial statements included in the 2007 Form 10-K.

During the thirteen and thirty-nine weeks ended September 27, 2008, the Company recognized income tax benefits of $72,000 and $247,000 respectively related to share-based compensation arrangements. The Company did not recognize any income tax benefit for share-based compensation arrangements for the thirteen and thirty-nine weeks ended September 29, 2007. In addition, no costs related to share-based compensation expense were capitalized during the thirteen and thirty-nine weeks ended September 27, 2008 and September 29, 2007. During the third quarter of 2008 and the first quarter of 2007, the Company revised its estimate of options that are expected to be forfeited prior to vesting. As a result of this change in estimate, pre-tax share-based compensation expense was reduced by $233,000 in the 2008 period and $968,000 in the 2007 period.

**1998 Equity Incentive Plan**

**Stock Options**

A summary of the option activity under the Company s 1998 Equity Incentive Plan, as amended and restated (the 1998 Plan ), as of September 27, 2008 and changes during the thirty-nine weeks then ended is presented below:

| | Shares | Weighted Average Exercise Price |
|---|---|---|
| Outstanding at December 29, 2007 | 4,794,341 | $ 3.47 |
| Granted | 16,000 | $ 1.05 |
| Exercised | (12,775) | $ 2.10 |
| Forfeited/cancelled | (413,894) | $ 2.31 |
| Outstanding at September 27, 2008 | 4,383,672 | $ 3.58 |
| Options vested and expected to vest at September 27, 2008 | 3,738,497 | $ 3.82 |

| | | | |
|---|---|---|---|
| Options exercisable at September 27, 2008 | 2,628,571 | $ | 4.50 |
| Weighted average fair value of options granted during the thirty-nine weeks ended September 27, 2008 | | $ | 0.59 |

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**Nonvested Shares**

A summary of the status of nonvested stock granted under the 1998 Plan as of September 27, 2008 and changes during the thirty-nine weeks then ended is presented below:

| | Shares | Weighted Average Grant Date Fair Value |
|---|---|---|
| Outstanding at December 29, 2007 | 107,500 | $ 2.24 |
| Vested | (50,625) | $ 2.24 |
| Outstanding at September 27, 2008 | 56,875 | $ 2.23 |

**2000 Supplemental Stock Plan**

A summary of the option activity under the Company s 2000 Supplemental Stock Plan as of September 27, 2008 and changes during the thirty-nine weeks then ended is presented below:

| | Shares | | Weighted Average Exercise Price |
|---|---|---|---|
| Outstanding at December 29, 2007 | 1,399,736 | $ | 2.58 |
| Granted | 469,000 | $ | 1.72 |
| Forfeited/cancelled | (246,088) | $ | 2.56 |
| Outstanding at September 27, 2008 | 1,622,648 | $ | 2.34 |
| Options vested and expected to vest at September 27, 2008 | 1,305,430 | $ | 2.39 |
| Options exercisable at September 27, 2008 | 541,893 | $ | 2.86 |
| Weighted average fair value of options granted during the thirty-nine weeks ended September 27, 2008 | | $ | 1.01 |

**7. Earnings (Loss) 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. The weighted average number of common shares outstanding excludes treasury shares purchased by the Company. Diluted earnings (loss) per share is computed in the same manner except the weighted average number of shares is increased for dilutive securities.

In accordance with the provisions of SFAS 128, Earnings per Share, the Company uses the treasury stock method for calculating the dilutive effect of employee stock options and nonvested shares. These instruments will have a dilutive effect under the treasury stock method only when the respective period s average market value of the underlying Company common stock exceeds the actual proceeds. In applying the treasury stock method, assumed proceeds include the amount, if any, the employee must pay upon exercise, the amount of compensation cost for future services that the Company has not yet recognized, and the amount of tax benefits, if any, that would be credited to additional paid-in capital assuming exercise of the options and the vesting of nonvested shares. The Company has not included the effect of stock options and nonvested shares in the calculation of diluted loss per share for the thirteen and thirty-nine weeks ended September 27, 2008 or for the thirty-nine weeks ended September 29, 2007 as the Company reported a net loss for these periods and the effect would have been anti-dilutive. During the thirteen weeks ended September 29, 2007, the calculation of diluted earnings per share excludes the impact of 5,613,390 options under the treasury stock method because the impact of these stock options would have been anti-dilutive.

**8. Income Taxes**

In the thirteen and thirty-nine weeks ended September 27, 2008, the Company recorded income tax provisions of $202,000 and $444,000, respectively. In the thirteen and thirty-nine weeks ended September 29, 2007, the Company recorded income tax provisions of $531,000 and $815,000, respectively. The tax provisions in these periods are primarily related to international income taxes due to the profitability of the Company s United Kingdom operations. During both periods, the Company recorded full valuation allowances against income tax benefits related to domestic operations in accordance with the provisions of SFAS No. 109 Accounting for Income Taxes, which requires an estimation of the recoverability of the recorded income tax asset balances. As of September 27, 2008, the Company has recorded $34.2 million of valuation allowances attributable to its net deferred tax assets.

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The Company analyzes its uncertain tax positions pursuant to the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109, ( FIN 48 ). The Company recognizes interest and penalties related to unrecognized tax benefits as a component of the income tax provision. During the thirteen and thirty-nine weeks ended September 27, 2008, the liability for uncertain tax positions increased to $965,000. The liability increased by $417,000 related to tax positions taken during the current period and $8,000 for interest. As of September 27, 2008, the Company believes there are no positions for which it is reasonably possible that the total amount of unrecognized tax benefits will significantly increase or decrease within the next 12 months.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2002. As of September 27, 2008, the Company has one examination in process by the Internal Revenue Service related to employment and stock option matters.

**9. Loans to Officers**

As of September 27, 2008, there is one outstanding line of credit between the Company and its Chief Executive Officer, Richard P. Nespola, which originated in fiscal year 2001. Aggregate borrowings outstanding against the line of credit at September 27, 2008 and December 29, 2007 totaled $300,000 and are due in 2011. These amounts are included in other assets in the non-current assets section of the balance sheet. 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. Pursuant to the Sarbanes-Oxley Act, no further loan agreements or draws against the line may be made by the Company to, or arranged by the Company for its executive officers. Interest payments on this loan are current as of September 27, 2008.

**10. Commitments and Contingencies**

The Company may become involved in various legal and administrative actions arising in the normal course of business. These could include actions brought by taxing authorities challenging the employment status of consultants utilized by the Company. In addition, future customer bankruptcies could result in additional claims on collected balances for professional services near the bankruptcy filing date. The resolution of any of such actions, claims, or the matters described above may have an impact on the financial results for the period in which they occur.

Upon the acquisition of RVA, the Company assumed a contractual liability pursuant to a services agreement originally entered into by RVA. Under this agreement, the Company has the right to use office space and to receive certain information technology and human resource services through December 2008. As of September 27, 2008, the Company is obligated to make remaining payments of $0.3 million for office space and services. The off-market portion of these payments was recorded through purchase accounting in connection with the Company s acquisition of RVA. As of September 27, 2008, the unamortized balance of the obligation was $0.2 million and is included as a current liability in Unfavorable and other contractual obligations.

On February 19, 2008, the independent members of the Company s Board of Directors approved an executive incentive compensation plan for fiscal year 2008 (the Plan ). The Plan establishes a cash bonus pool (the Pool ) for the Company s chief executive officer, president and chief operating officer, and chief financial officer if the Company meets or exceeds a non-GAAP earnings target (as defined) of $7.0 million for fiscal year 2008. The calculation of the non-GAAP EBITDA target excludes non-cash charges (e.g., share-based compensation expense, etc.) and may exclude extraordinary one-time items to the extent determined to be appropriate by the Compensation Committee. The amount available for payment from the Pool ( Payout Amount ) begins at $800,000 if the Company achieves the non-GAAP EBITDA target. If the target is exceeded, the Payout Amount increases in accordance with a graduated, ascending scale ranging from 15% to 25% of the non-GAAP EBITDA in excess of the target, provided that the Payout Amount will in no event exceed $3,000,000. As of September 27, 2008, $0.6 million has been accrued related to the Plan. The distribution of the Payout Amount, if any, among the Company s eligible executive management will be determined by the Company s Compensation Committee and/or independent directors at a later date.

**11. Share repurchase**

On June 6, 2008, the Company s Board of Directors authorized management to enter into stock purchase agreements with certain stockholders of the Company. On June 11 and 12, 2008, pursuant to these agreements the Company repurchased 2,000,000 shares of its common stock from these stockholders at a price of $1.60 per share. In connection with the transactions, the Company entered into standstill agreements with each of the selling stockholders pursuant to which the stockholders agreed for a period of two years not to, among other things, acquire any voting securities of the Company, form or join in a group with other stockholders, effect or encourage a tender offer or business combination involving the Company or any of its subsidiaries, or take other actions seeking to control or influence the management, Board of Directors or policies of the Company.

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This repurchase was not conducted under the share repurchase program approved by the Company s Board of Directors on September 5, 2006. In October 2006, the Company s Board of Directors suspended share repurchase activity under the share repurchase program. This suspension remains in effect.

| | Treasury Shares |
|---|---|
| Balance as of December 29, 2007 | 200,000 |
| Purchases of treasury stock | 2,000,000 |
| Balance as of September 27, 2008 | 2,200,000 |

**12. Stockholder Rights Plan**

Effective March 27, 2008, the Company s Board of Directors adopted a stockholder rights plan, pursuant to which a dividend consisting of one preferred stock purchase right (a Right ) was distributed for each share of Company common stock held as of the close of business on April 7, 2008. The description and terms of the Rights are set forth in a Rights Agreement, dated as of March 27, 2008, between the Company and Computershare Trust Company, N.A., as Rights Agent (the Rights Plan ). In certain circumstances, the Rights may be redeemed by the Company. If the Rights are not earlier redeemed, the Rights Plan will terminate on March 27, 2018.

The Company adopted the Rights Plan in an effort to protect against the triggering of limitations on the Company s ability to utilize net operating loss carryforwards to offset future taxable income of the Company and to ensure, to the extent possible, that all stockholders receive fair and equal treatment in the event of a proposed takeover of the Company. The Company has historically experienced substantial net operating losses (See Note 8, Income Taxes ). If the Company experiences an ownership change as defined in Section 382 of the Internal Revenue Code, the Company s ability to use the net operating losses could be substantially diminished. An ownership change is generally a more than 50 percentage point increase in stock ownership, during a moving 3-year testing period, by stockholders owning or deemed to own 5% or more of the Company s outstanding shares.

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

*Cautionary Statement Regarding Forward-Looking Statements*. In addition to historical information, this quarterly report contains forward-looking statements. Forward-looking statements include, but are not limited to, statements of plans and objectives, statements of future economic performance or financial projections, statements of assumptions underlying such statements, and statements of the Company s or management s intentions, hopes, beliefs, expectations or predictions of the future. Forward-looking statements can often be identified by the use of forward-looking terminology, such as believes, expects, may, should, could, intends, plans, estimates or anticipates, v or similar expressions. 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, our ability to successfully integrate recent acquisitions and to successfully locate new acquisition candidates, conditions in the industry sectors that we serve, including the recent slowing of client decisions on proposals and project opportunities along with scope reduction of existing projects, overall economic and business conditions, including the recent worsening of conditions in the credit markets and in general economic conditions, our ability to retain the limited number of large clients that constitute a major portion of our revenues, technological advances and competitive factors in the markets in which we compete, and the factors discussed in the sections entitled Cautionary Statement Regarding Forward-Looking Information and Management s Discussion and Analysis of Financial Condition and Results of Operations in our annual report on Form 10-K for the fiscal year ended December 29, 2007. 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 cautionary statements contained 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 as presented in our annual report on Form 10-K for the fiscal year ended December 29, 2007.

## OVERVIEW

TMNG is a leading provider of professional services to the converging communications, media and entertainment industries and the capital formation firms that support them. We offer a fully integrated suite of consulting offerings including strategy, organizational development, knowledge management, marketing, operational, and technology consulting services. We have consulting experience with almost all major aspects of managing a global communications company. Our portfolio of solutions includes proprietary methodologies and toolsets, deep industry experience, and hands-on operational expertise. These solutions assist clients in tackling complex business problems. With our 2007 acquisitions we further extended our capabilities and client base. The Cartesian acquisition extended our offerings to include a suite of software applications. The RVA and TWG acquisitions support our carrier positioning strategy and add several new practices to our portfolio. RVA provides telecom systems integration and transformational consulting for leading, Tier-one U.S. carriers. RVA has also historically been very successful in building relationships with key carriers as the industry has consolidated in recent years. RVA will also complement the technical capabilities that Cartesian has brought to TMNG. TWG s strength lies in organizational design and development and furthers our capabilities to support knowledge management, leveraging our knowledge surrounding the Web 2.0 movement and its extension to corporate intranets. The details of these acquisitions are outlined in Item 1, Note 3, Business Combinations, to the unaudited condensed consolidated financial statements. These acquisitions combined with our investment in targeting the cable industry have re-positioned us to better serve consolidating telecommunications carriers and the converging global media and entertainment companies. Our efforts are helping us build what we believe is a more sustainable revenue model, subject to cyclical economic conditions, and expanding our global presence. We continue to focus our efforts on identifying, adapting to and capitalizing on the changing dynamics prevalent in the converging communications industry, as well as providing our wireless and IP services within the communications sector.

The convergence of communications with media and entertainment and the consolidation of large telecommunications carriers have required us to focus our strategy on building a global presence, continuing to expand our offerings and strengthening our position within the large carriers and media and entertainment companies. We have demonstrated recent success on building a global presence. Our total revenues grew by 16.8% for the thirty-nine weeks ended September 27, 2008 from the same period in 2007, driven by acquisitions. International revenues for the thirty-nine weeks ended September 27, 2008 represent 38.9% of our total revenues. However, beginning in the third quarter of fiscal 2008, as a result of negative economic trends, spurred by sub-prime mortgage failures and falling real estate prices impacting financial markets, we began to see the financial impact to the communications sector. The impact to TMNG has been a noted slowing of client decisions on proposals and project opportunities along with scope reduction of existing projects. Our results for the thirteen weeks ended September 27, 2008 reflect such reductions in project activity with our revenues declining 15.8% as compared the thirteen weeks ended September 29, 2007.

Generally our client relationships begin with a short-term consulting engagement utilizing a few consultants. Our sales strategy focuses on building long-term relationships with both new and existing clients to gain additional engagements within existing accounts and referrals for new clients. Strategic alliances with other companies are also used to sell services. We anticipate that we will continue to pursue these marketing strategies in the future. The volume of work performed for specific clients may vary from period to period and a major client from one period may not use our services or the same volume of services in another period. In addition, clients generally may end their engagements with little or no penalty or notice. If a client engagement ends earlier than expected, we must re-deploy professional service personnel as any resulting non-billable time could harm margins.

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Cost of services consists primarily of compensation for consultants who are employees and amortization of share-based compensation for stock options and nonvested stock (restricted stock), as well as fees paid to independent contractor organizations and related expense reimbursements. Employee compensation includes certain non-billable time, training, vacation time, benefits and payroll taxes. Gross margins are primarily impacted by the type of consulting services provided; the size of service contracts and negotiated discounts; changes in our pricing policies and those of competitors; utilization rates of consultants and independent subject matter experts; and employee and independent contractor costs, which tend to be higher in a competitive labor market.

Gross margins were 45.7% in the thirty-nine weeks ended September 27, 2008 compared with 46.5% in the same period of 2007. Gross margins were 43.5% for the thirteen weeks ended September 27, 2008 compared with 49.5% for the same period of 2007. The decline in gross margin percentage in the 2008 periods as compared to the same periods of 2007 is primarily due to both a reduction during 2008 in project revenues on higher margin fixed price projects and the related impact on consultant utilization as a result of such project reductions. We continue to evaluate the size of our employee consultant base and reduce the base as required to align to reduced revenue levels and a more challenging economic environment.

Sales and marketing expenses consist primarily of personnel salaries, bonuses, and related costs for direct client sales efforts and marketing staff. We primarily use a relationship sales model in which partners, principals and senior consultants generate revenues. In addition, sales and marketing expenses include costs associated with marketing collateral, product development, trade shows and advertising. General and administrative expenses consist mainly of costs for accounting, recruiting and staffing, information technology, personnel, insurance, rent, and outside professional services incurred in the normal course of business.

Management has focused on aligning operating costs with operating segment revenues. As a percentage of revenues, we have reduced selling, general and administrative expenses to 40.0% in the thirty-nine weeks ended September 27, 2008 from 44.6% in the same period of 2007. Selling general and administrative expenses in the 2008 period include a net increase of approximately $0.4 million in share-based compensation expenses due primarily to adjustments to our forfeiture assumptions in the first quarter of 2007 that resulted in a reduction in expense in the 2007 period. We continue to leverage integration of our recent acquisitions and evaluate selling, general and administrative expense reduction opportunities to improve earnings.

Intangible asset amortization increased substantially to $3.4 million in the thirty-nine weeks ended September 27, 2008 from $2.1 million in the same period of 2007. The increase in amortization expense was due to the amortization of intangibles recorded in connection with the RVA and TWG acquisitions.

We recorded net loss of $9.8 million for the thirty-nine weeks ended September 27, 2008 compared to a net loss of $2.8 million for the thirty-nine weeks ended September 29, 2007. The increase in net loss is primarily attributable to a $9.1 million impairment of goodwill related to our strategy business and a $1.1 million impairment of intangible assets within our Management Consulting Services Segment, partially offset by the benefits of scale as a result of increased revenues combined with effective cost management initiatives.

Although the year over year growth in our business has been positive, the more recent economic outlook has added significant challenges to our clients in the communications and media sector. The result is reduced client spend on capital and operational initiatives. This reduction in spending, coupled with increased competition pursuing fewer opportunities could result in further price reductions, fewer client projects, under utilization of consultants, reduced operating margins, and loss of market share. Declines in our revenues can have a significant impact on our financial results. Although we have a very flexible cost base comprised primarily of employee and related costs, there is a lag in time required to scale the business appropriately if revenues are reduced. In addition, our future revenues and operating results may fluctuate from quarter to quarter based on the number, size and scope of projects in which we are engaged, the contractual terms and degree of completion of such projects, any delays incurred in connection with a project, consultant utilization rates, the use of estimates to complete ongoing projects, general economic conditions and other factors.

From a cash flow perspective, cash flows provided by operating activities were $7.1 million during the thirty-nine weeks ended September 27, 2008. Net cash flows provided by operating activities were $1.1 million during the thirty-nine weeks ended September 29, 2007. The improvement in cash flows from operating activities during the thirty-nine weeks ended September 27, 2008 as compared with the same 2007 period primarily related to revenue scale and cost and working capital management, including non-recurring payments of $2.5 million made in the 2007 period related to the Special Committee investigation of our past stock option granting practices and related accounting, and positive cash flow from net working capital changes.

At September 27, 2008, we have working capital of approximately $14 million and minimal long-term obligations. Additionally, our non-current investments consist of $14.0 million in auction rate securities guaranteed through the Federal Family Education Loan Program of the U.S. Department of Education. Due to recent events in the credit markets, the liquidity of auction rate securities has been negatively impacted. See Note 2, Auction Rate Securities, in Notes to Condensed Consolidated Financial Statements (Unaudited) and Critical Accounting Policies below for further discussion of our auction rate securities.

**CRITICAL ACCOUNTING POLICIES**

While the selection and application of any accounting policy may involve some level of subjective judgments and estimates, we believe the following accounting policies are the most critical to our condensed consolidated financial statements, potentially involve the most subjective judgments in their selection and application, and are the most susceptible to uncertainties and changing conditions:

Marketable Securities;

Allowance for Doubtful Accounts;

Fair Value of Acquired Businesses;

Impairment of Goodwill and Long-lived Assets;

Revenue Recognition;

Share-based Compensation Expense;

Accounting for Income Taxes; and

Research and Development and Capitalized Software Costs.

*Marketable Securities* Short-term investments and non-current investments, which consist of auction rate securities, are classified as available for sale under the provisions of Statement of Financial Accounting Standards ( SFAS ) No. 115, Accounting for Certain Investments in Debt and Equity Securities. Accordingly, these investments are reported at fair value, as measured pursuant to SFAS No. 157, Fair Value Measurements, with any temporary unrealized gains and losses included as a separate component of stockholders equity, net of applicable taxes, when applicable. Realized gains and losses, changes in value judged to be other-than-temporary, interest and dividends are included in interest income within the Consolidated Statements of Operations and Comprehensive (Loss) Income.

The auction rate securities we hold are generally long-term debt instruments that historically provided liquidity through a Dutch auction process through which interest rates reset every 28 to 35 days; consequently, interest rate movements did not materially affect the fair value of these investments. At December 29, 2007 there were no unrealized gains or losses on short-term investments. Given the liquidity created by the auctions, auction rate securities were presented as current assets under short-term investments on our balance sheet. Beginning in February 2008, auctions of our auction rate securities portfolio failed to receive sufficient order interest from potential investors to clear successfully, resulting in failed auction status. The principal associated with failed auctions will not be accessible until a successful auction occurs, a buyer is found outside of the auction process, the issuers redeem the securities, the issuers establish a different form of financing to replace these securities or final payments come due according to contractual maturities ranging from approximately 22 to 36 years. For each unsuccessful auction, the interest rate moves to a maximum rate defined for each security. In the event we are able to successfully liquidate our auction rate securities portfolio we intend to reinvest these balances into money market or similar investments. At this time, we are uncertain as to when the liquidity issues related to these investments will improve. Accordingly, the entire amount of auction rate securities is classified as non-current assets on our balance sheet as of September 27, 2008.

We value our auction rate securities portfolio using a model that takes into consideration inputs that are based on expected cash flow streams and collateral values, including assessments of counterparty credit quality, default risk underlying the security, discount rates and overall capital market liquidity. Although the auction rate securities are guaranteed through the Federal Family Education Loan Program of the U.S. Department of Education and continue to pay interest according to their stated terms, based on our analysis of the fair value of these securities, we recorded an impairment related to these auction rate securities. Auction rate securities with an original par value of approximately $14.8 million were written-down to an estimated fair value of $14.0 million as of September 27, 2008. Based on our analysis of other-than-temporary impairment factors, this write-down resulted in temporary impairment charges of approximately $0.4 million and $0.8 million reflected as an unrealized loss within other comprehensive income for the thirteen weeks and thirty-nine weeks ended September 27, 2008. The increase in the unrealized loss during the thirteen weeks ended September 27, 2008 is due to a decline in the coupon rates on the auction rate securities while the market yields on similar investments increased during the period.

During the thirteen weeks ended September 27, 2008, state and federal regulators reached settlement agreements with both of the brokers who advised the Company to purchase the auction rate securities currently held by the Company. The settlement agreements with the regulators were intended to eventually provide liquidity for holders of auction rate securities. Subsequent to September 27, 2008, we received a settlement offer from a broker who holds $7.6 million par value of the Company s auction rate securities. If accepted, the settlement offer would provide the Company with the ability to require the broker to redeem the securities for their par value during a two-year period beginning June 30, 2010. In addition to ultimate liquidation of the securities, the settlement offer provides the Company with the opportunity to obtain no-cost loans prior to June 30, 2010 up to the par value of its auction rate securities. The Company has not yet received a settlement offer from the broker holding our remaining auction rate securities.

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We continually monitor the credit quality and liquidity of our auction rate securities. To the extent we believe we will not be able to collect all amounts due according to the contractual terms of a security, we will record an other-than-temporary impairment. This could require us to recognize losses in our consolidated statement of operations in accordance with SFAS No. 115, which could be material.

*Allowances for Doubtful Accounts* Substantially all of our receivables are owed by companies in the communications industry. We typically bill customers for services after all or a portion of the services have been performed and require customers to pay within 30 to 60 days. We attempt to control credit risk by being diligent in credit approvals, limiting the amount of credit extended to customers and monitoring customers payment records and credit status as work is being performed for them.

We recorded bad debt recoveries of $150,000 for the thirteen and thirty-nine weeks ended September 27, 2008 and bad debt expense of $90,000 and $380,000 for the thirteen and thirty-nine weeks ended September 29, 2007. Our allowance for doubtful accounts totaled $494,000 and $562,000 as of September 27, 2008 and December 29, 2007, respectively. The calculation of these amounts is based on judgment about the anticipated default rate on receivables owed to us as of the end of the reporting period. That judgment is based on uncollected account experience in prior years and our ongoing evaluation of the credit status of our customers and the communications industry in general. We have attempted to mitigate credit risk by concentrating our marketing efforts on the largest and most stable companies in the communications industry and by tightly controlling the amount of credit provided to customers. If we are unsuccessful in these efforts, or if our customers file for bankruptcy or experience financial difficulties, it is possible that the allowance for doubtful accounts will be insufficient and we will have a greater bad debt loss than the amount reserved, which would adversely affect our financial performance and cash flow.

*Fair Value of Acquired Businesses* TMNG has acquired seven organizations over the last six years. A significant component of the value of these acquired businesses has been allocated to intangible assets. Statement of Financial Accounting Standard ( SFAS ) No. 141 Business Combinations requires acquired businesses to be recorded at fair value by the acquiring entity. SFAS No. 141 also requires that intangible assets that meet the legal and separable criterion be separately recognized on the financial statements at their fair value, and provides guidance on the types of intangible assets subject to recognition. Determining the fair value for these specifically identified intangible assets involves significant professional judgment, estimates and projections related to the valuation to be applied to intangible assets like customer lists, employment agreements and tradenames. The subjective nature of management s assumptions adds an increased risk associated with estimates surrounding the projected performance of the acquired entity. Additionally, as the Company amortizes the intangible assets over time, the purchase accounting allocation directly impacts the amortization expense the Company records on its financial statements.

*Impairment of Goodwill and Long-lived Assets* As of September 27, 2008, we have $8.8 million in goodwill and $6.3 million in long-lived intangible assets, net of accumulated amortization. Goodwill and other long-lived intangible assets arising from our acquisitions are subjected to periodic review for impairment. SFAS No. 142 Goodwill and Other Intangible Assets requires an evaluation of these assets annually and whenever events or circumstances indicate that such assets may be impaired. The evaluation is conducted at the reporting unit level of the fair value of goodwill and compares the calculated fair value of the reporting unit to its book value to determine whether impairment has been deemed to occur. Any impairment charge would be based on the most recent estimates of the recoverability of the recorded goodwill. If the remaining book value assigned to goodwill in an acquisition is higher than the estimated fair value of the reporting unit, there is a requirement to write down these assets. The determination of fair value requires management to make assumptions about future cash flows and discount rates. These assumptions require significant judgment and estimations about future events and are thus subject to significant uncertainty. If actual cash flows turn out to be less than projected, we may be required to take further write-downs, which could increase the variability and volatility of our future results.

In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, we use our best estimates based upon reasonable and supportable assumptions and projections to review for impairment of long-lived assets and certain identifiable intangibles to be held and used whenever events or changes in circumstances indicate that the carrying amount of our assets might not be recoverable.

During the second quarter of 2008, we recognized a $9.1 million charge for the impairment of the carrying amount of goodwill in the Management Consulting Services Segment. The impairment charge was the result of a reduction in the size and scope of operations which impacted our assessment of future cash flows of the strategy business. During the third quarter of 2008, we recognized a $1.1 million charge for the impairment of the carrying amount of intangible assets in the Management Consulting Services Segment. The impairment charge was related to the evaluation of the value of our S3 license agreement and intangibles related to our acquisition of TWG. See Note 5, Goodwill and Other Identifiable Intangible Assets in the Notes to Condensed Consolidated Financial Statements (Unaudited).

*Revenue Recognition* We recognize revenue from time and materials consulting contracts in the period in which our services are performed. In addition to time and materials contracts, our other types of contracts include time and materials contracts not to exceed contract price, fixed fee contracts, and contingent fee contracts. We recognize revenues on milestone or deliverables-based fixed fee contracts and time and materials contracts not to exceed contract price using the percentage of completion method prescribed by AICPA Statement of Position ( SOP ) No. 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts. For fixed fee contracts where services are not based on providing deliverables or achieving milestones, the Company recognizes revenue on a straight-line basis over the period during which such services are expected to be performed. In connection with some fixed fee contracts, we receive payments from customers that exceed recognized revenues. We record the excess of receipts from customers over recognized revenue as deferred revenue. Deferred revenue is classified as a current liability to the extent it is expected to be earned within twelve months from the date of the balance sheet.

As a result of the Cartesian acquisition, we now develop, install and support customer software in addition to our traditional consulting services. We recognize revenue in connection with our software sales agreements utilizing the percentage of completion method prescribed by SOP No. 81-1. These agreements include software right-to-use licenses ( RTU s ) and related customization and implementation services. Due to the long-term nature of the software implementation and the extensive software customization based on customer specific requirements normally experienced by the Company, both the RTU and implementation services are treated as a single element for revenue recognition purposes.

The SOP No. 81-1 percentage-of-completion methodology involves recognizing revenue using the percentage of services completed, on a current cumulative cost to total cost basis, using a reasonably consistent profit margin over the period. Due to the longer term nature of these projects, developing the estimates of costs often requires significant judgment. Factors that must be considered in estimating the progress of work completed and ultimate cost of the projects include, but are not limited to, the availability of labor and labor productivity, the nature and complexity of the work to be performed, and the impact of delayed performance. If changes occur in delivery, productivity or other factors used in developing the estimates of costs or revenues, we revise our cost and revenue estimates, which may result in increases or decreases in revenues and costs, and such revisions are reflected in income in the period in which the facts that give rise to that revision become known.

In addition to the professional services related to the customization and implementation of its software, the Company also provides post-contract support ( PCS ) services, including technical support and maintenance services. For those contracts that include PCS service arrangements which are not essential to the functionality of the software solution, we separate the SOP No. 81-1 software services and PCS services utilizing the multiple-element arrangement model prescribed by Emerging Issues Task Force ( EITF ) No. 00-21, Revenue Arrangements with Multiple Deliverables. EITF No. 00-21 addresses the accounting treatment for an arrangement to provide the delivery or performance of multiple products and/or services where the delivery of a product or system or performance of services may occur at different points in time or over different periods of time. The Company utilizes EITF No. 00-21 to separate the PCS service elements and allocate total contract consideration to the contract elements based on the relative fair value of those elements. Revenues from PCS services are recognized ratably on a straight-line basis over the term of the support and maintenance agreement.

We also may enter into contingent fee contracts, in which revenue is subject to achievement of savings or other agreed upon results, rather than time spent. Due to the nature of contingent fee contracts, we recognize costs as they are incurred on the project and defer revenue recognition until the revenue is realizable and earned as agreed to by our clients. Although these contracts can be very rewarding, the profitability of these contracts is dependent on our ability to deliver results for our clients and control the cost of providing these services. These types of contracts are typically more results-oriented and are subject to greater risk associated with revenue recognition and overall project profitability than traditional time and materials contracts. Revenues from contingent fee contracts were $50,000 for the thirteen and thirty-nine weeks ended September 27, 2008. Revenues and costs associated with contingent fee contracts were $786,000 and $236,000, respectively, for the thirteen and thirty-nine weeks ended September 29, 2007.

*Share-based Compensation Expense* - We grant stock options and non-vested stock to our employees and also provide employees the right to purchase our stock at a discount pursuant to an employee stock purchase plan. The benefits provided under these plans are share-based payment awards subject to the provisions of SFAS No. 123R, Share-based Payments. Under SFAS No. 123R, we are required to make significant estimates related to determining the value of our share-based compensation. Our expected stock-price volatility assumption is based on historical volatilities of the underlying stock which are obtained from public data sources. For stock option grants issued during the thirteen and thirty-nine weeks ended September 27, 2008, we used a weighted-average expected stock-price volatility of 56% and 60%, respectively. The expected term of options granted is based on the simplified method in accordance with the SEC s Staff Accounting Bulletin ( SAB ) No. 110 as our historical share option exercise experience does not provide a reasonable basis for estimation. As such, we used a weighted-average expected option life assumption of 6.25 years.

If factors change and we develop different assumptions in the application of SFAS No. 123R in future periods, the compensation expense that we record under SFAS No. 123R may differ significantly from what we have recorded in the current period. There is a high degree of subjectivity involved when using option pricing models to estimate share-based compensation under SFAS No. 123R. Changes in the subjective input assumptions can materially affect our estimates of fair values of our share-based compensation. Certain share-based payment awards, such as employee stock options, may expire worthless or otherwise result in zero intrinsic value as compared to the fair values originally estimated on the grant date and reported in our financial statements. Alternatively, values may be realized from these instruments that are significantly in excess of the fair values originally estimated on the grant date and reported in our financial statements. Although the fair value of employee share-based awards is determined in accordance with SFAS No. 123R and SAB No. 110 using an option pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

In addition, under SFAS No. 123R we are required to net estimated forfeitures against compensation expense. This requires us to estimate the number of awards that will be forfeited prior to vesting. If actual forfeitures in future periods are different than our initial estimate, the compensation expense that we ultimately record under SFAS No. 123R may differ significantly from what was originally estimated. The estimated forfeiture rate for unvested options outstanding as of September 27, 2008 is 31%.

*Accounting for Income Taxes* - Accounting for income taxes requires significant estimates and judgments on the part of management. Such estimates and judgments include, but are not limited to, the effective tax rate anticipated to apply to tax differences that are expected to reverse in the future, the sufficiency of taxable income in future periods to realize the benefits of net deferred tax assets and net operating losses currently recorded and the likelihood that tax positions taken in tax returns will be sustained on audit.

We account for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes and Financial Accounting Standards Board ( FASB ) Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 ( FIN 48 ). As required by SFAS No. 109, we record deferred tax assets or liabilities based on differences between financial reporting and tax bases of assets and liabilities using currently enacted rates that will be in effect when the differences are expected to reverse. SFAS No. 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized. As of September 27, 2008, cumulative valuation allowances in the amount of $34.2 million were recorded in connection with the net deferred income tax assets. As required by FIN 48, we have performed a comprehensive review of our portfolio of uncertain tax positions in accordance with recognition standards established by the Interpretation. Pursuant to FIN 48, an uncertain tax position represents the Company s expected treatment of a tax position taken in a filed tax return, or planned to be taken in a future tax return, that has not been reflected in measuring income tax expense for financial reporting purposes. As of September 27, 2008, we have recorded a liability of approximately $965,000 for unrecognized tax benefits.

We have generated substantial deferred income tax assets related to our domestic operations primarily from the accelerated financial statement write-off of goodwill, the charge to compensation expense taken for stock options and net operating losses. For us to realize the income tax benefit of these assets, we must generate sufficient taxable income in future periods when such deductions are allowed for income tax purposes. In some cases where deferred taxes were the result of compensation expense recognized on stock options, our ability to realize the income tax benefit of these assets is also dependent on our share price increasing to a point where these options have intrinsic value at least equal to the grant date fair value and are exercised. In assessing whether a valuation allowance is needed in connection with our deferred income tax assets, we have evaluated our ability to generate sufficient taxable income in future periods to utilize the benefit of the deferred income tax assets. We continue to evaluate our ability to use recorded deferred income tax asset balances. If we continue to report domestic operating losses for financial reporting in future years, no additional tax benefit would be recognized for those losses, since we will not have accumulated enough positive evidence to support our ability to utilize net operating loss carryforwards in the future.

During the fourth quarter of 2007, we performed a review of our transfer pricing methodology specifically as it relates to inter-company charges for headquarter support services performed by our domestic entities on behalf of various foreign affiliates. We adopted a cost plus fixed margin transfer pricing methodology. While the application of the new transfer pricing methodology did not change the Company s revenues or operating loss on a consolidated basis, it impacted the allocation of revenues and costs between the Company and its international subsidiaries, thus impacting the tax liability for certain international subsidiaries.

International operations have become a significant part of our business. As part of the process of preparing our financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. The judgments and estimates used are subject to challenge by domestic and foreign taxing authorities. It is possible that such authorities could challenge those judgments and estimates and draw conclusions that would cause us to incur liabilities in excess of those currently recorded. We use an estimate of our annual effective tax rate at each interim period based upon the facts and circumstances available at that time, while the actual annual effective tax rate is calculated at year-end. Changes in the geographical mix or estimated amount of annual pre-tax income could impact our overall effective tax rate.

*Research and Development and Capitalized Software Costs* - Software development costs are accounted for in accordance with SFAS No. 86, Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed. Capitalization of software development costs for products to be sold to third parties begins upon the establishment of technological feasibility and ceases when the product is available for general release. The establishment of technological feasibility and the ongoing assessment of recoverability of capitalized software development costs require considerable judgment by management concerning certain external factors including, but not limited to, technological feasibility, anticipated future gross revenue, estimated economic life and changes in software and hardware technologies. We capitalize development costs incurred during the period between the establishment of technological feasibility and the release of the final product to customers. During the thirteen and thirty-nine weeks ended September 27, 2008, no software development costs were capitalized and $219,000 and $615,000, respectively, of these costs were expensed as incurred. During the thirteen and thirty-nine weeks ended September 29, 2007, no software development costs were capitalized and $229,000 and $680,000, respectively, of these costs were expensed as incurred.

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**RESULTS OF OPERATIONS**
**THIRTEEN WEEKS ENDED SEPTEMBER 27, 2008 COMPARED TO THIRTEEN WEEKS ENDED SEPTEMBER 29, 2007**

**REVENUES**

Revenues decreased 15.8% to $17.5 million for the thirteen weeks ended September 27, 2008 from $20.8 million for the thirteen weeks ended September 29, 2007. Revenues decreased in both our software solutions segment and the management consulting services segment as discussed below.

*Management Consulting Services Segment* - Management Consulting Services segment revenues decreased 12.9% to $12.2 million for the thirteen weeks ended September 27, 2008, from $14.0 million for the same period of 2007. The 2007 period included the recognition of a $0.8 million contractual commission related to the sale of a managed service client. In addition, overall revenues in the segment were down approximately $1 million primarily due to scope reductions in client projects during the second and third quarters of fiscal 2008, as a result of the worsening of conditions in the credit markets and in general economic conditions. During the thirteen weeks ended September 27, 2008, this segment provided services on 103 customer projects, compared to 108 projects performed in the thirteen weeks ended September 29, 2007. The average revenue per project was $119,000 in the thirteen weeks ended September 27, 2008 compared to $130,000 in the thirteen weeks ended September 29, 2007. Our international revenues from this segment decreased to $1.6 million, or 13.1% of revenues, for the thirteen weeks ended September 27, 2008 from $2.0 million, or 13.9% of revenues, for the thirteen weeks ended September 29, 2007. The decrease as a percentage of revenues was due to an overall increase in the mix of project activity domestically, driven by the acquisitions of RVA and TWG, along with the completion of a major international project.

Revenues recognized in connection with fixed price engagements totaled $7.0 million and $7.3 million, representing 56.9% and 52.1% of total revenues of the segment, for the thirteen weeks ended September 27, 2008 and September 29, 2007, respectively. The increase in fixed price engagements as a percentage of total segment revenues is primarily due to the RVA and TWG acquisitions.

*Software Solutions Segment* - Revenues declined 21.8% to $5.3 million for the thirteen weeks ended September 27, 2008 from $6.8 million for the thirteen weeks ended September 29, 2007. All revenues were generated internationally. The decrease in revenues was due to unfavorable exchange rate movements along with the completion of a major international client engagement. During the thirteen weeks ended September 27, 2008 and September 29, 2007, this segment provided services on 77 and 72 customer projects, respectively. Average software and services revenue per project was approximately $58,000 and $88,000, respectively, for the thirteen weeks ended September 27, 2008 and September 29, 2007. The decrease in revenue per project for the thirteen weeks ended September 27, 2008 as compared to the 2007 period is primarily due to an increase in the number of smaller engagements combined with the completion of a number of larger projects during fiscal year 2007. In addition, revenues from post-contract support services were approximately $580,000 and $448,000 for the thirteen weeks ended September 27, 2008 and September 29, 2007, respectively. During the thirteen weeks ended September 27, 2008, revenues from software licensing were $238,000. There were no revenues from software licensing during the thirteen weeks ended September 29, 2007.

**COSTS OF SERVICES**

Costs of services decreased 5.8% to $9.9 million for the thirteen weeks ended September 27, 2008 compared to $10.5 million for the thirteen weeks ended September 29, 2007. Our gross margin was 43.5% for the thirteen weeks ended September 27, 2008, compared to 49.5% for the thirteen weeks ended September 29, 2007. The decrease in gross margin in the third quarter of 2008 as compared to the same period of 2007 is primarily due to a reduction in project scope for higher margin fixed price projects in our Management Consulting segment along with high margins on the 2007 contractual commissions previously discussed. Our Management Consulting Services segment gross margin was 47.2 % for the thirteen weeks ended September 27, 2008 compared to 48.9% for the thirteen weeks ended September 29, 2007. Our Software Solutions segment gross margin was 35.0% for the thirteen weeks ended September 27, 2008, compared to 50.8% for the thirteen weeks ended September 29, 2007. Margin reductions are primarily related to lower revenue volumes for the quarter and thus lower utilization of personnel and a decrease in the mix of software license revenues. Costs of services in the Software Solutions segment included amortization of intangible assets of $179,000 and $189,000, respectively for the thirteen weeks ended September 27, 2008 and September 29, 2007, related to acquired software.

**OPERATING EXPENSES**

Operating expenses decreased by 12.1% to $8.9 million for the thirteen weeks ended September 27, 2008, from $10.1 million for the thirteen weeks ended September 29, 2007. Excluding the $1.1 million of goodwill and intangible asset impairment in the thirteen weeks ended September 27, 2008, operating expenses decreased by 22.8% from the same period in 2007. Operating expenses for the 2008 period include selling, general and administrative expenses (inclusive of share-based compensation) and goodwill and intangible asset amortization. For the thirteen weeks ended September 29, 2007, operating expenses also included Special Committee charges of approximately $0.1 million related to the investigation of our past stock option granting practices and related accounting. These costs primarily consisted of professional services for legal, accounting and tax guidance.

Selling, general and administrative expenses decreased to $6.9 million for the thirteen weeks ended September 27, 2008, compared to $8.9 million for the thirteen weeks ended September 29, 2007. As a percentage of revenues, our selling, general and administrative expense was 39.4% for the thirteen weeks ended September 27, 2008, compared to 43.0% for the thirteen weeks ended September 29, 2007. We initiated cost reductions in the 2008 quarter as we identified softness in the economic marketplace We continue to evaluate cost reductions through the integration of our acquisitions and alignment of costs to revenues for each operating segment.

Intangible asset amortization was $885,000 for the thirteen weeks ended September 27, 2008, compared to $1,057,000 for the thirteen weeks ended September 29, 2007. The decrease in amortization expense was primarily due to the fully amortized intangibles recorded in connection with the RVA and TWG acquisitions.

**OTHER INCOME AND EXPENSES**

Interest income was $233,000 and $387,000 for the thirteen weeks ended September 27, 2008 and September 29, 2007, respectively, and represented interest earned on invested balances. Interest income decreased for the thirteen weeks ended September 27, 2008 as compared to the thirteen weeks ended September 29, 2007 due primarily to reductions in invested balances attributable to cash utilized for acquisitions and reductions in interest rates. We primarily invest in money market funds and have holdings in auction rate securities. During the thirteen weeks ended September 29, 2007, we recorded other income in the amount of $452,000 related to the settlement of foreign withholding tax disputes.

**INCOME TAXES**

In the thirteen weeks ended September 27, 2008 and September 29, 2007, we recorded income tax provisions of $202,000 and $531,000, respectively. The income tax provisions in both periods are primarily due to the profitability of our United Kingdom operations. For the thirteen weeks ended September 27, 2008 and September 29, 2007, we recorded no income tax benefit related to our domestic pre-tax losses in accordance with the provisions of SFAS No. 109 Accounting for Income Taxes which requires an estimation of our ability to use recorded deferred income tax assets. We have recorded a valuation allowance against all domestic and certain international deferred income tax assets generated due to uncertainty about their ultimate realization due to our history of operating losses. If we continue to report domestic net operating losses for financial reporting, no additional tax benefit would be recognized for those losses, since we will not have accumulated enough positive evidence to support our ability to utilize the net operating loss carryforwards in the future.

**NET LOSS**

We had net loss of $1.2 million for the thirteen weeks ended September 27, 2008 compared to net income of $0.5 million for the thirteen weeks ended September 29, 2007. This net loss was primarily attributable to the impairment of intangible assets and reductions in revenue, partially offset by continued cost management. In addition, the 2007 period included $0.1 million in Special Committee charges which did not recur in the thirteen weeks ended September 27, 2008.

**THIRTY-NINE WEEKS ENDED SEPTEMBER 27, 2008 COMPARED TO THIRTY-NINE WEEKS ENDED SEPTEMBER 29, 2007**

**REVENUES**

Revenues increased 16.8% to $59.6 million for the thirty-nine weeks ended September 27, 2008 from $51.0 million for the thirty-nine weeks ended September 29, 2007. The increase in revenues is primarily due to the acquisitions of RVA in August 2007 and TWG in October 2007, which contributed $14.0 million and $1.5 million, respectively, in revenues during the thirty-nine weeks ended September 27, 2008. Organic revenues were down 13.5% in the thirty-nine weeks ended September 27, 2008 as compared to the same period of 2007, due primarily to negative economic trends which have led to protractions and scope reductions in client projects.

*Management Consulting Services Segment* - Management Consulting Services segment revenues increased $10.0 million or 29.9%, to $43.3 million for the thirty-nine weeks ended September 27, 2008 from $33.3 million for the same period of 2007. The acquisitions of RVA and TWG accounted for $14.0 million and $1.5 million, respectively, of this increase. Revenues from the remainder of the segment decreased $5.5 million.

During the thirty-nine weeks ended September 27, 2008, this segment provided services on 207 customer projects, compared to 202 projects performed in the thirty-nine weeks ended September 29, 2007. Average revenue per project was $209,000 in the thirty-nine weeks ended September 27, 2008 compared to $165,000 in the thirty-nine weeks ended September 29, 2007. The increase in average revenue per project is primarily attributable to an increase in the number of large projects due to the acquisition of RVA. Our international revenues from this segment increased to $6.9 million for the thirty-nine weeks ended September 27, 2008 from $6.3 million for the thirty-nine weeks ended September 29, 2007. However, international revenues have decreased as a percentage of total revenues of the segment from 19.0% in the thirty-nine weeks ended September 29, 2007 to 16.0% in the 2008 period. The decrease as a percentage of revenues was due to an overall increase in the mix of project activity domestically, driven by the acquisitions of RVA and TWG and the completion of a major international project.

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Revenues recognized in connection with fixed price engagements totaled $26.1 million and $15.3 million, representing 60.3% and 45.9% of total revenues of the segment, for the thirty-nine weeks ended September 27, 2008 and September 29, 2007, respectively. This increase is primarily due to the increase in deliverable based projects, primarily related to the RVA and TWG acquisitions.

*Software Solutions Segment* - Revenues of $16.3 million and $17.7 million, respectively, were generated for the thirty-nine weeks ended September 27, 2008 and September 29, 2007. All revenues were generated internationally. The decrease in revenues was due to unfavorable exchange rate movements together with the completion of a major international client engagement. During the thirty-nine weeks ended September 27, 2008 and September 29, 2007, this segment provided services on 139 and 110 customer projects, respectively. Average software and services revenue per project was approximately $103,000 and $149,000 for the thirty-nine weeks ended September 27, 2008 and September 29, 2007, respectively. The decrease in revenue per project for the thirty-nine weeks ended September 27, 2008 as compared to the 2007 period is primarily due to an increase in the number of smaller engagements combined with the completion of a number of larger projects during fiscal year 2007. In addition, revenues from post-contract support services were approximately $1,724,000 and $1,341,000 for the thirty-nine weeks ended September 27, 2008 and September 29, 2007, respectively. During the thirty-nine weeks ended September 27, 2008, revenues from software licensing were $238,000. There were no revenues from software licensing during the thirty-nine weeks ended September 29, 2007.

## COSTS OF SERVICES

Costs of services increased 18.6% to $32.4 million for the thirty-nine weeks ended September 27, 2008 compared to $27.3 million for the thirty-nine weeks ended September 29, 2007. Our gross margin was 45.7% for the thirty-nine weeks ended September 27, 2008, compared to 46.5% for the thirty-nine weeks ended September 29, 2007. The decrease in gross margin in the thirty-nine weeks ended September 27, 2008 is primarily due to reduction in project scope for higher margin fixed price projects in our management consulting segment. Our Management Consulting Services segment gross margin was 49.5% for the thirty-nine weeks ended September 27, 2008, compared to 46.7% for the thirty-nine weeks ended September 29, 2007. Our Software Solutions segment gross margin was 35.7% for the thirty-nine weeks ended September 27, 2008, compared to 46.0% for the thirty-nine weeks ended September 29, 2007. The lower margin was due to reduced revenue volumes and related lower utilization of personnel. Costs of services in the Software Solutions segment included amortization of intangible assets of $549,000 and $558,000, respectively for the thirty-nine weeks ended September 27, 2008 and September 29, 2007, related to acquired software.

## OPERATING EXPENSES

Operating expenses increased by 36.7% to $37.4 million for the thirty-nine weeks ended September 27, 2008, from $27.4 million for the thirty-nine weeks ended September 29, 2007. Operating expenses for the 2008 period included selling, general and administrative expenses (inclusive of share-based compensation), impairment of goodwill and intangible asset amortization. For the thirty-nine weeks ended September 27, 2008, operating expenses included $10.1 million of goodwill and intangible asset impairment. For the thirty-nine weeks ended September 29, 2007, operating expenses also included Special Committee charges of approximately $2.5 million related to the investigation of our past stock option granting practices and related accounting. These costs primarily consisted of professional services for legal, accounting and tax guidance.

Selling, general and administrative expenses increased to $23.9 million for the thirty-nine weeks ended September 27, 2008, compared to $22.8 million for the thirty-nine weeks ended September 29, 2007. As a percentage of revenues, our selling, general and administrative expense was 40.0% for the thirty-nine weeks ended September 27, 2008, compared to 44.6% for the thirty-nine weeks ended September 29, 2007. Selling, general and administrative expenses of acquired businesses were $3.6 million for the thirty-nine weeks ended September 27, 2008 compared to $0.7 million in the comparable fiscal 2007 period. Excluding costs related to these acquisitions, organic selling general and administrative expenses decreased by $1.8 million, or 7.9%, as compared to the same period of 2007. The reductions were the result of cost reduction initiatives supporting integration activities and reducing the utilization of consultants and third-party advisors. Partially offsetting these cost reductions was a net increase in share-based compensation expense of $0.4 million due primarily to adjustments to our forfeiture assumptions in the thirty-nine weeks ended September 29, 2007 that resulted in a reduction in expense in the 2007 period. We continue to evaluate cost reductions through the integration of our acquisitions and alignment of costs to revenues for each operating segment.

Intangible asset amortization increased by $1,230,000 to $3,379,000 for the thirty-nine weeks ended September 27, 2008, compared to $2,149,000 for the thirty-nine weeks ended September 29, 2007. The increase in amortization expense was due to the amortization of intangibles recorded in connection with the RVA and TWG acquisitions.

**OTHER INCOME AND EXPENSES**

Interest income was $750,000 and $1,185,000 for the thirty-nine weeks ended September 27, 2008 and September 29, 2007, respectively, and represented interest earned on invested balances. Interest income decreased for the thirty-nine weeks ended September 27, 2008 as compared to the thirty-nine weeks ended September 29, 2007 due primarily to reductions in invested balances attributable to cash utilized for acquisitions and reductions in interest rates. We primarily invest in money market funds and have holdings in auction rate securities. During the thirty-nine weeks ended September 29, 2007, we recorded other income in the amount of $452,000 related to the settlement of foreign withholding tax disputes.

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## INCOME TAXES

In the thirty-nine weeks ended September 27, 2008 and September 29, 2007, we recorded income tax provisions of $444,000 and $815,000, respectively. The income tax provisions in both periods are primarily due to the profitability of our United Kingdom operations. For the thirty-nine weeks ended September 27, 2008 and September 29, 2007, we recorded no income tax benefit related to our domestic pre-tax losses in accordance with the provisions of SFAS No. 109 Accounting for Income Taxes which requires an estimation of our ability to use recorded deferred income tax assets. We have recorded a valuation allowance against all domestic and certain international deferred income tax assets generated due to uncertainty about their ultimate realization due to our history of operating losses. If we continue to report domestic net operating losses for financial reporting, no additional tax benefit would be recognized for those losses, since we will not have accumulated enough positive evidence to support our ability to utilize the net operating loss carryforwards in the future.

## NET LOSS

We had net loss of $9.8 million for the thirty-nine weeks ended September 27, 2008 compared to a net loss of $2.8 million for the thirty-nine weeks ended September 29, 2007. This increase in net loss was primarily attributable to the impairment of goodwill and intangible assets of $10.2 million and an increase in share-based compensation expense of $0.7 million resulting from the adjustment for forfeitures during the 2007 period, partially offset by revenue growth, including the accretive acquisitions of Cartesian and RVA, and improved operating leverage obtained through scale and continued cost management. In addition, the 2007 period included $2.5 million in Special Committee charges which did not recur in the thirty-nine weeks ended September 27, 2008.

## LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was $7.1 million and $1.1 million for the thirty-nine weeks ended September 27, 2008 and September 29, 2007. The significant change in cash flows from operating activities for the thirty-nine weeks ended September 27, 2008 as compared to the same period in 2007 was due to improvements in operating results and positive cash flow from net working capital changes. The thirty-nine weeks ended September 29, 2007, included payments related to the Special Committee that did not occur in the 2008 period.

Net cash used in investing activities was $1.9 million and $0.6 million for the thirty-nine weeks ended September 27, 2008 and September 29, 2007, respectively. Investing activities in fiscal year 2008 included $0.8 and $2.6 in earn-out payments related to the acquisitions of RVA and Cartesian, respectively, and fiscal year 2007 included $9.9 million for the acquisition of Cartesian and RVA. Investing activities in fiscal year 2008 include $0.1 million in payments for TWG working capital true-ups. Investing activities include proceeds from sales of marketable securities of $2.3 and $9.7 million in the thirty-nine weeks ended September 27, 2008 and September 29, 2007, respectively. Net cash used in investing activities also included $0.6 million and $0.3 million for the thirty-nine weeks ended September 27, 2008 and September 29, 2007, respectively, related to the purchase of office equipment, software and computer equipment.

Net cash used in financing activities was $4.3 million and $0.6 million for the thirty-nine weeks ended September 27, 2008 and September 29, 2007, respectively. During the 2008 period, $3.2 million was utilized to purchase shares of our common stock. In addition, in both periods cash was used to make payments on long-term obligations, including unfavorable contract obligations assumed as part of the RVA acquisition, partially offset by proceeds received from the exercise of employee stock options.

At September 27, 2008, we had approximately $9.7 million in cash and cash equivalents and $13.8 million in net working capital. We believe we have sufficient cash and short-term investments to meet anticipated cash requirements, including anticipated capital expenditures and earn-out payments, and any future operating losses that may be incurred, for at least the next 12 months. Furthermore, based on an analysis of our investments classified as cash equivalents, we do not believe that we have any material risk related to the liquidity or valuation of these investments, nor do we believe that we have any counterparty credit risk related to these investments. Should our cash and short-term investments prove insufficient we may need to obtain new debt or equity financing to support our operations or complete acquisitions. Recently, credit and capital markets have experienced unusual volatility and disruption, and equity and debt financing have become more expensive and difficult to obtain. If we need to obtain new debt or equity financing to support our operations or complete acquisitions in the future, we may be unable to obtain debt or equity financing or reasonable terms. We have established a flexible model that provides a lower fixed cost structure than most consulting firms, enabling us to scale operating cost structures more quickly based on market conditions. Our strong balance sheet has enabled us to make acquisitions and related investments in intellectual property and businesses we believe are enabling us to capitalize on the current transformation of the industry; however, if demand for our consulting services is reduced and we experience negative cash flow, we could experience liquidity challenges at some future point.

As previously discussed, the liquidity of auction rate securities has been negatively impacted by recent events in the credit markets. As of September 27, 2008, we hold auction rate securities in the face amount of $14.8 million, with an estimated fair value of $14.0 million, collateralized by government guaranteed student loans. Beginning in February 2008, auctions of the Company s auction rate securities portfolio failed to receive sufficient order interest from potential investors to clear successfully, resulting in failed auction status. Except as noted below, the principal associated with failed auctions will not be accessible until a successful auction occurs, a buyer is found outside of the auction process, the issuers redeem the securities, the issuers establish a different form of financing to replace these securities or final payments come due according to contractual maturities ranging from approximately 22 to 36 years. For each unsuccessful auction, the interest rate moves to a

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maximum rate defined for each security. At this time, we are uncertain as to when the liquidity issues related to these investments will improve. Accordingly, the entire amount of auction rate securities is classified as non-current assets on our balance sheet as of September 27, 2008.

During the thirteen weeks ended September 27, 2008, state and federal regulators reached settlement agreements with both of the brokers who advised the Company to purchase the auction rate securities currently held by the Company. As a result of these agreements, we may be able to require the brokers to redeem at least a portion of the securities beginning June 30, 2010 and may have the opportunity to obtain no-cost loans prior to June 30, 2010 up to the par value of at least a portion of the auction rate securities. See Note 2, Auction Rate Securities in the Notes to Condensed Consolidated Financial Statements (Unaudited).

In the event we are able to successfully liquidate our auction rate securities portfolio we intend to reinvest these balances into money market or similar investments. We continually monitor the credit quality and liquidity of our auction rate securities. To the extent we believe we will not be able to collect all amounts due according to the contractual terms of a security, we will record an other-than-temporary impairment. This could require us to recognize losses in our consolidated statement of operations in accordance with SFAS No. 115, which could be material. Based on our expected operating cash flows, and our other sources of cash, we do not currently anticipate the potential lack of liquidity of these investments will affect our ability to execute our current business plan.

## FINANCIAL COMMITMENTS

During fiscal year 2007, we purchased 100% of the outstanding stock of Cartesian, acquired all of the outstanding membership interests of RVA and acquired all of the outstanding shares of stock of TWG. In addition to consideration paid at closing for these acquisitions, we have potential contingent purchase price obligations of approximately $2.8 million, $1.7 million and $2.8 million, respectively, at September 27, 2008 related to future earn-out consideration based upon the performance of Cartesian, RVA and TWG after the closing dates.

The first measurement date for contingent cash and stock consideration related to the RVA acquisition was June 30, 2008. Cash earn-out consideration in the amount of $1.5 million was earned and will be paid on or prior to November 15, 2008. Stock consideration in the amount of 654,474 shares of common stock, with a value of $0.9 million as of September 27, 2008, was earned as of the measurement date and was issued on September 29, 2008.

On February 19, 2008, the independent members of our Board of Directors approved an executive incentive compensation plan for fiscal year 2008 (the Plan ). The Plan establishes a cash bonus pool (the Pool ) for our chief executive officer, president and chief operating officer, and chief financial officer if we meet or exceed a non-GAAP EBITDA target (as defined) of $7.0 million for fiscal year 2008. The calculation of the non-GAAP EBITDA target excludes non-cash charges (e.g., share-based compensation expense, etc.) and may exclude extraordinary one-time items to the extent determined to be appropriate by the Compensation Committee. The amount available for payment from the Pool ( Payout Amount ) begins at $800,000 if we achieve the Non-GAAP EBITDA target. If the target is exceeded, the Payout Amount increases in accordance with a graduated, ascending scale ranging from 15% to 25% of the earnings in excess of the target, provided that the Payout Amount will in no event exceed $3,000,000. As of September 27, 2008, $0.6 million has been accrued for the Plan. The distribution of the Payout Amount, if any, among our eligible executive management will be determined by the Compensation Committee and/or independent directors at a later date.

## TRANSACTIONS WITH RELATED PARTIES

During the thirteen and thirty-nine weeks ended September 27, 2008, we paid legal fees of $6,000 and $31,000, respectively, for services provided by Bingham McCutchen, LLP, a law firm in which a member of our Board of Directors, Andrew Lipman, owns an equity interest. Payments made during the 2008 period were in connection with income tax and potential acquisition related matters. During the thirteen and thirty-nine weeks ended September 29, 2007, we paid legal fees of $21,000 and $435,000, respectively, for services provided by Bingham McCutchen, LLP. Payments made during the 2007 period were in connection with our acquisition of Cartesian and other potential acquisition matters. Our Board of Directors has affirmatively determined that such payments do not constitute a material relationship between the director and the Company and concluded the director is independent as defined by the NASDAQ corporate governance rules. All payments were made within the limitations set forth by NASDAQ Rules as to the qualifications of an independent director.

As of September 27, 2008, there is one outstanding line of credit between the Company and its Chief Executive Officer, Richard P. Nespola, which originated in fiscal year 2001. Aggregate borrowings outstanding against the line of credit at September 27, 2008 and December 29, 2007 totaled $300,000 and are due in 2011. These amounts are included in other assets in the non-current assets section of the balance sheet. 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. Pursuant to the Sarbanes-Oxley Act, no further loan agreements or draws against the line may be made by the Company to, or arranged by the Company for its executive officers. Interest payments on this loan are current as of September 27, 2008.

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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

**ITEM 4. CONTROLS AND PROCEDURES**

Not applicable.

**ITEM 4T. CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures and Changes in Internal Control Over Financial Reporting*

The Company maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 ( the Exchange Act )) that are designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms; and (ii) accumulated and communicated to the Company s management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. We have established a Disclosure Committee, consisting of certain members of management, to assist in this evaluation. The Disclosure Committee meets on a regular quarterly basis, and as needed.

A review and evaluation was performed by our management, including our Chief Executive Officer (the CEO ) and Chief Financial Officer (the CFO ), of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this quarterly report. Based upon this evaluation, the Company s CEO and CFO have concluded that the Company s disclosure controls and procedures were effective as of September 27, 2008.

There was no change in internal control over financial reporting during the fiscal quarter ended September 27, 2008, that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

## PART II. OTHER INFORMATION

**ITEM 1. LEGAL PROCEEDINGS**

We have not been subject to any material new litigation since filing on March 28, 2008 of our Annual Report on Form 10-K for the year ended December 29, 2007. For a summary of litigation in which we are currently involved, refer to our Annual Report on Form 10-K for the year ended December 29, 2007, as filed with the Securities and Exchange Commission on March 28, 2008 and Note 10 of the Condensed Consolidated Financial Statements (Unaudited) included elsewhere in this report.

**ITEM 1A. RISK FACTORS**

Not applicable

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

(a) During fiscal year 2007, we purchased all of the outstanding membership interests of RVA. Under the terms of the Membership Interest Purchase Agreement with the members of RVA, as part of the consideration for the outstanding membership interests in RVA and the performance of certain consulting services by one of the members of RVA in connection with the acquisition, we agreed to issue to the members of RVA up to 1,133,308 shares of our common stock as contingent equity consideration, based upon RVA s performance during the three years following the closing of the acquisition of RVA and as to certain shares upon the completion of certain consulting services by one of the members of RVA.

The first measurement date for contingent stock consideration related to the RVA acquisition was June 30, 2008. Stock consideration in the amount of 654,474 shares of common stock, with a value of $0.9 million as of September 27, 2008, was earned as of the measurement date and was issued on September 29, 2008.

The issuance of shares of common stock was not registered under the Securities Act of 1933, as amended, in reliance upon Section 4(2) of the Securities Act of 1933, as amended, as a transaction by an issuer not involving a public offering. The shares were issued to the members of RVA in a private transaction in which such members agreed to customary restrictions on resale.

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**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None

**ITEM 5. OTHER INFORMATION**

None

**ITEM 6. EXHIBITS**

(a) Exhibits

| | |
|---|---|
| Exhibit 31. | Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 32. | Certifications furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

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**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.

The Management Network Group, Inc.

(Registrant)

| | | |
|---|---|---|
| Date November 12, 2008 | By | /s/ Richard P. Nespola |
| | | (Signature)<br>Richard P. Nespola<br>Chairman and Chief Executive Officer<br>(Principal executive officer) |
| Date November 12, 2008 | By | /s/ Donald E. Klumb |
| | | (Signature)<br>Donald E. Klumb<br>Chief Financial Officer and Treasurer<br>(Principal financial officer and principal accounting officer) |

## EXHIBIT INDEX

| Exhibit No. | Description of Exhibit |
| --- | --- |
| Exhibit 31. | Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 32. | Certifications furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |