MANUGISTICS GROUP INC
Form 10-Q/A
July 19, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A
(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended May 31, 2002
OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from________to________

Commission File Number 0-22154

MANUGISTICS GROUP, INC.
(Exact name of Registrant as specified in its charter)

Delaware	52-1469385
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

9715 Key West Avenue, Rockville, Maryland 20850
(Address of principal executive office) (Zip code)
(301) 255-5000
(Registrant s telephone number, including area code)

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

Yes X No

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 69.8 million shares of common stock, $.002 par value, as of July 8, 2002.

The purpose of this amendment is to provide additional disclosure for Part I, Item 1, Financial Information and is not intended to update other information presented in this report as originally filed, except where specifically noted. The amendment reflects the transitional disclosure requirements related to Statement of Financial Accounting Standards (SFAS 142) ***Goodwill and Other Intangible Assets.*** **On March 1, 2002, the Company adopted SFAS 142. SFAS 142 eliminates the amortization of goodwill and assembled workforce. The standard does not call for the restatement of prior period earnings, but does require transitional disclosure for earnings per share and adjusted net income under the revised rules. The transitional disclosure can be found in Note 5 in the Notes to Condensed Consolidated Financial Statements.**

MANUGISTICS GROUP, INC. AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

MANUGISTICS GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

	May 31, 2002	February 28, 2002
	(Unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 208,702	$ 228,801
Marketable securities	4,267	4,259
Accounts receivable, net of allowance for doubtful accounts of $8,971 and $8,308 at May 31, 2002 and February 28, 2002, respectively	71,316	76,443
Deferred tax assets	9,064	9,061
Other current assets	9,589	11,471
Total current assets	302,938	330,035
NON-CURRENT ASSETS:		
Property and equipment, net of accumulated depreciation	31,585	22,872
Software development costs, net of accumulated amortization	14,521	14,506
Goodwill, net of accumulated amortization	283,604	269,998
Other intangible assets and non-current assets, net of accumulated amortization	88,089	73,940
Deferred tax assets	11,289	11,289
TOTAL ASSETS	$ 732,026	$ 722,640
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 12,684	$ 9,009
Accrued compensation	8,449	12,720
Deferred revenue	45,467	43,578
Other accrued liabilities	24,657	27,777
Total current liabilities	91,257	93,084
NON-CURRENT LIABILITES:		
Long-term debt and capital leases	254,791	251,023
Other non-current liabilities	5,441	5,726
Total non-current liabilities	260,232	256,749
ACQUISITION CONSIDERATION PAYABLE	27,800	
COMMITMENTS AND CONTINGENCIES (Note 4) STOCKHOLDERS EQUITY:		
Preferred stock		
Common stock, $.002 par value per share; 300,000 shares authorized; 69,659 and 69,042 issued and outstanding at May 31, 2002 and February 28, 2002, respectively	139	138
Additional paid-in capital	634,220	629,861
Deferred compensation	(7,723)	(9,049)

Accumulated other comprehensive loss	(1,379)	(2,704)
Accumulated deficit	(272,520)	(245,439)
Total stockholders equity	352,737	372,807
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 732,026	$ 722,640

See accompanying notes to the condensed consolidated financial statements.

MANUGISTICS GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(in thousands, except per share data)

	Three Months Ended May 31, 2002	2001
REVENUE:		
Software	$ 24,516	$ 45,056
Services	26,865	27,533
Support	20,209	17,221
Reimbursed expenses	3,010	2,632
Total revenue	74,600	92,442
OPERATING EXPENSES:		
Cost of revenue:		
Cost of software	6,238	5,135
Amortization of acquired technology	2,911	1,580
Cost of services and support	25,821	23,340
Cost of reimbursed expenses	3,010	2,632
Non-cash stock compensation expense for cost of services and support	478	1,729
Total cost of services and support	29,309	27,701
Sales and marketing	30,978	33,999
Non-cash stock compensation expense for sales and marketing	387	2,512
Total cost of sales and marketing	31,365	36,511
Product development	17,532	16,435
Non-cash stock compensation expense for product development	86	1,186
Total cost of product development	17,618	17,621
General and administrative	7,190	7,798
Non-cash stock compensation expense for general and administrative	126	480
Total cost of general and administrative	7,316	8,278
Amortization of intangibles	852	19,928
Purchased research and development	3,800	
Total operating expenses	99,409	116,754
LOSS FROM OPERATIONS	(24,809)	(24,312)
OTHER (EXPENSE) INCOME, NET	(2,193)	682
LOSS BEFORE INCOME TAXES	(27,002)	(23,630)
PROVISION FOR (BENEFIT FROM) INCOME TAXES	79	(204)
NET LOSS	$ (27,081)	$ (23,426)
BASIC AND DILUTED LOSS PER SHARE	$ (0.39)	$ (0.35)
SHARES USED IN BASIC AND DILUTED LOSS PER SHARE COMPUTATION	69,356	67,041

See accompanying notes to the condensed consolidated financial statements.

MANUGISTICS GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(in thousands)

	Three Months Ended May 31, 2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (27,081)	$ (23,426)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	10,598	26,705
Amortization of debt issuance costs	286	283
Purchased research and development	3,800	
Deferred income taxes	(3)	(2,051)
Non-cash stock compensation expense	1,077	5,907
Other	92	(1,229)
Changes in assets and liabilities:		
Accounts receivable	8,187	(3,946)
Other assets	1,657	387
Accounts payable	2,838	(3,134)
Accrued compensation	(5,730)	(5,493)
Other liabilities	(4,906)	(6,254)
Deferred revenue	(1,539)	5,137
Net cash used in operating activities	(10,724)	(7,114)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions, net of cash acquired	(3,093)	(20,956)
Investments in unconsolidated subsidiaries		(10,150)
Sales and purchases of marketable securities, net	(8)	53,013
Purchases of property and equipment	(5,977)	(2,335)
Capitalization and purchases of software	(3,833)	(2,838)
Net cash (used in) provided by investing activities	(12,911)	16,734
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of long-term debt and capital lease obligations	(935)	(68)
Payments of debt issuance costs convertible debt		(163)
Proceeds from exercise of stock options and employee stock plan purchases	3,346	4,435
Net cash provided by financing activities	2,411	4,204
EFFECTS OF EXCHANGE RATES ON CASH BALANCES	1,125	163
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(20,099)	13,987
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	228,801	196,362
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 208,702	$ 210,349

See accompanying notes to the condensed consolidated financial statements.

MANUGISTICS GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
May 31, 2002

1. *The Company and Significant Accounting Policies*

The Company

Manugistics Group, Inc. (the Company) is a leading global provider of Enterprise Profit Optimization (EPO) solutions. The Company provides solutions for supply chain management (SCM), supplier relationship management (SRM), pricing and revenue optimization (PRO) and service and parts management (S&PM). Our solutions help companies lower operating costs, improve customer service, increase revenues, enhance profitability and accelerate revenue and earnings growth.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company and its wholly-owned subsidiaries have been prepared in accordance with generally accepted accounting principles for interim reporting and in accordance with the instructions to the Quarterly Report on Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal, recurring adjustments) which are necessary for a fair presentation of the unaudited results for the interim periods presented have been included. The results of operations for the period presented herein are not necessarily indicative of the results of operations for the entire fiscal year, which ends on February 28, 2003.

These financial statements should be read in conjunction with the financial statements and notes thereto for the fiscal year ended February 28, 2002 included in the Annual Report on Form 10-K of the Company for that year filed with the Securities and Exchange Commission.

Reclassification

Certain prior year information has been reclassified to conform to the current year presentation.

2. *New Accounting Pronouncements*

On March 1, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards No. 141 (SFAS 141) *Business Combinations,* and Statement of Financial Accounting Standards No. 142 (SFAS 142) *Goodwill and Other Intangible Assets,* with the exception of the immediate requirement to use the purchase method of accounting for all business combinations initiated after June 30, 2001. SFAS 141 establishes new standards for accounting and reporting requirements for business combinations and requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS 142 requires goodwill and certain intangible assets to remain on the balance sheet and not be amortized. In addition, SFAS 142 requires assembled workforce and other identifiable intangible assets to be reclassified as goodwill. On an annual basis, and when there is reason to suspect that their values have been impaired, these assets must be tested for impairment and write-downs may be necessary. SFAS 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. In accordance with the standard, the Company stopped amortizing goodwill, including goodwill recorded in past business combinations, on March 1, 2002. SFAS 142 also requires recognized intangible assets with finite lives to be amortized over their respective estimated useful lives and reviewed for impairment in accordance with Statement of Financial Accounting Standards No 144 (SFAS 144) *Accounting for the Impairment of Long-Lived Assets.* Any recognized intangible asset determined to have an indefinite useful life will not be amortized, but instead tested for impairment in accordance with the Standard until its life is determined to no longer be indefinite.

In connection with the goodwill impairment evaluation, SFAS 142 required the Company to perform an assessment of whether there is an indication that goodwill is impaired at the date of adoption. To accomplish this, the Company identified its reporting units and determined the carrying value of each reporting unit by assigning the assets and liabilities, including existing goodwill and intangible assets, to those reporting units as of the date of adoption and determined the fair value of each reporting unit and compared it to the reporting unit s carrying amount. As discussed below, the Company considers itself to have a single reporting unit. To the extent the reporting unit s carrying amount exceeds its fair value, an indication exists that the reporting unit s goodwill may be impaired and the Company must perform the second step of the impairment test. In the second step, the Company must compare the implied fair value of the reporting unit s goodwill, determined by allocating the reporting unit s fair value to all of its assets and liabilities in a manner similar to a purchase price allocation in accordance with SFAS 141, to its carrying amount, both of which would be measured as of the date of adoption.

The Company adopted the provisions of SFAS 141 and SFAS 142 on March 1, 2002 with the exception of the immediate requirement to use the purchase method of accounting for all business combinations initiated after June 30, 2001. Retroactive application of these Standards was not permitted. However, any goodwill and any intangible asset determined to have an indefinite useful life that was acquired in a business combination initiated after June 30, 2001 is not amortized. Goodwill and intangible assets acquired in business combinations initiated before July 1, 2001 were amortized until February 28, 2002. The Company performed the initial goodwill impairment test required by SFAS 142 during the first quarter of fiscal 2003. The Company considers itself to have a single reporting unit. Accordingly, all of our goodwill is associated with the entire Company. As of March 1, 2002, based on the Company s market capitalization, there was no impairment of goodwill recorded upon implementation of SFAS 142. The Company will continue to test for impairment on an annual basis, coinciding with our fiscal year end, or on an interim basis if circumstances change that would more likely than not reduce the fair value of the Company s reporting unit below its carrying amount.

On March 1, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards No. 144 (SFAS 144), *Accounting for the Impairment or Disposal of Long-Lived Assets.* SFAS 144 addresses the financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS 144 supersedes Statement of Financial Accounting Standards No 121 (SFAS 121) *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of,* but retains the fundamental provisions of SFAS 121 for (i) recognition/measurement of impairment of long-lived assets to be held and used and (ii) measurement of long-lived assets to be disposed of by sale. SFAS 144 also supersedes the accounting and reporting provisions of Accounting Principles Board s No. 30 (APB 30), *Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, for segments of a business to be disposed of but retains APB 30 s reporting requirement to report discontinued operations separately from continuing operations and extends that reporting requirement to a component of an entity that either has been disposed of or is classified as held for sale. Adoption of this standard did not have any material impact on the Company s financial statements.

On March 1, 2002, the Company adopted the provisions of Staff Announcement Topic No. D-103 *Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred,* which was subsequently incorporated in Emerging Issues Task Force No. 01-14 (EITF 01-14). EITF 01-14 establishes that reimbursements received for out-of-pocket expenses such as airfare, hotel stays and similar costs should be characterized as revenue in the income statement. Adoption of the guidance had the resulting effect of increased revenue and increased operating expenses. Prior to our adoption of this standard, the Company recorded out-of-pocket expense reimbursements as a reduction of cost of services. Accordingly, the Company reclassified these amounts to revenue in our comparative financial statements beginning in our first quarter of fiscal 2003. Application of EITF 01-14 did not result in any net impact to operating income or net income in any past periods and will not result in any net impact in future periods.

3. *Net Loss Per Share*

Basic net loss per share is computed using the weighted average number of shares of common stock outstanding. Diluted net loss per share is computed using the weighted average number of shares of common stock and, when dilutive, potential common shares from options and warrants to purchase common stock using the treasury stock method, the effect of the assumed conversion of the Company s convertible subordinated debt and the effect of the potential issuance of common stock in connection with acquisitions. The dilutive effect of options and warrants of 5.2 million shares and 6.5 million shares were excluded from the calculation of diluted net loss per share for the three month periods ended May 31, 2002 and May 31, 2001, respectively, because including these shares would be anti-dilutive due to the Company s reported net loss. The assumed conversion of the Company s convertible debt was excluded from the computation of diluted net loss per share for the three months ended May 31, 2002 and May 31, 2001 since it was anti-dilutive. The Company s convertible debt may be exchanged for up to approximately 5.7 million shares of the Company s common stock in future periods. During the three months ended May 31, 2002, the Company acquired the assets and business of Western Data Systems of Nevada, Inc. (WDS) and Digital Freight Exchange, Inc. (DFE). The dilutive effect of the potential issuance of common stock related to the WDS and DFE acquisitions were excluded from the calculation of diluted net loss per share for the three months ended May 31, 2002 because including these potential shares would be anti-dilutive due to the Company s net loss (see Note 7).

4. *Commitments and Contingencies*

The Company is involved in disputes and litigation in the normal course of business. The Company does not believe that the outcome of these disputes or litigation will have a material effect on the Company s business, operating results, financial condition and cash flows. The Company has established accruals related to such matters that are probable and reasonably estimable. However, an unfavorable outcome of some or all of these matters could have a material effect on the Company s business, operating results, financial condition and cash flows.

5. *Intangible Assets and Goodwill*

Intangible assets as of May 31, 2002 and February 28, 2002 were as follows (amounts in thousands):

	Gross Assets	Accumulated Amortization	Net Assets
May 31, 2002			
Acquired technology	$65,371	$(13,492)	$51,879
Customer lists	28,942	(5,272)	23,670
Total	$94,313	$(18,764)	$75,549
February 28, 2002			
Acquired technology	$46,639	$(10,553)	$36,086
Customer lists	22,491	(4,368)	18,123
Total	$69,130	$(14,921)	$54,209

The changes in the carrying amount of goodwill for the three months ended May 31, 2002 are as follows (amounts in thousands):

	Net Assets
Balance as of February 28, 2002	$269,998
Reclassification of assembled workforce as required by SFAS 142	7,102
WDS and DFE acquisitions	5,537
Other	967
Balance as of May 31, 2002	$283,604

Amortization expense related to goodwill and intangible assets was $3.8 million and $21.5 million for the three months ended May 31, 2002 and 2001, respectively. Estimated aggregate future amortization expense for intangible assets remaining as of May 31, 2002 and future fiscal years are as follows (amounts in thousands):

	Fiscal Year Ended February 28 or 29,						
	2003	2004	2005	2006	2007	Thereafter	Total
Amortization expense	$13,725	$18,182	$17,205	$10,753	$9,889	$5,795	$75,549

On March 1, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards No. 142 (SFAS 142) *Goodwill and Other Intangible Assets.* SFAS 142 requires goodwill and certain intangible assets to remain on the balance sheet and not be amortized. In addition, SFAS 142 requires assembled workforce and other identifiable intangible assets to be reclassified as goodwill. SFAS 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. In accordance with the standard, the Company stopped amortizing goodwill, including goodwill recorded in past business combinations, and assembled workforce, on March 1, 2002. SFAS 142 does not require for the restatement of prior period earnings, but does require transitional disclosure for earnings per share and adjusted net income under the revised rules.

A reconciliation of net loss and loss per share in the Consolidated Statements of Operations and Comprehensive Loss to the pro forma amounts adjusted for the exclusion of goodwill and assembled workforce amortization is presented below. For purposes of calculation of the tax effect, the Company assumed a 39.68% statutory tax rate applied to the deductible goodwill and assembled workforce. The pro forma results reflecting the exclusion of goodwill and assembled workforce amortization have been prepared only to demonstrate the impact of goodwill and assembled workforce amortization on net loss and loss per share and are for comparative purposes only.

The following pro forma information presents net loss and loss per common share adjusted to exclude the goodwill and assembled workforce amortization expense of $19.2 million recognized during the three months ended May 31, 2001, and $83.2 million, $14.6 million and $2.3 million, recognized during fiscal 2002, 2001 and 2000, respectively (amounts in thousands, except per share data):

	For the three months ended May 31,		For the fiscal years ended February 28 or 29,		
	2002	2001	2002	2001	2000
Net loss:					
As reported	$(27,081)	$(23,426)	$(115,158)	$(28,078)	$ (8,945)
Add: goodwill and assembled workforce amortization, net of taxes		18,323	77,394	13,317	1,381
Net loss, pro forma	$(27,081)	$ (5,103)	$ (37,764)	$(14,761)	$ (7,564)
Basic and diluted loss per share:					
As reported	$ (0.39)	$ (0.35)	$ (1.69)	$ (0.48)	$ (0.16)
Add: goodwill and assembled workforce amortization, net of taxes		$ 0.27	$ 1.13	$ 0.23	$ 0.02
Basic and diluted loss per share, pro forma	$ (0.39)	$ (0.08)	$ (0.56)	$ (0.25)	$ (0.14)
Shares used in basic and diluted loss per share calculation	69,356	67,041	67,986	58,955	54,972

6. *Comprehensive Loss*

Other comprehensive income (loss) relates primarily to foreign currency translation gains (losses) and unrealized gains (losses) on investments in marketable securities. The following table sets forth the comprehensive loss for the three-month periods ended May 31, 2002 and 2001 (amounts in thousands):

	Three Months Ended May 31, 2002	2001
Net loss	$(27,081)	$(23,426)
Other comprehensive income (loss)	1,325	(1,842)
Total comprehensive loss	$(25,756)	$(25,268)

7. *Acquisitions*

Western Data Systems of Nevada, Inc.

On April 26, 2002, the Company acquired certain assets and assumed certain liabilities of WDS for $26.2 million. WDS is a leading provider of application software and services to commercial aerospace, defense and maritime industries and the military. Approximately $2.6 million of the purchase price was paid in cash at closing. The remaining purchase price of $23.6 million is payable in shares of the Company s common stock, cash, or a combination thereof at the Company s election. If the Company elects to pay some or all of the remaining purchase price in shares of its common stock, the number of shares to be issued will be determined by dividing the remaining $23.6 million (the Negotiated Value) by the average closing price of the common stock for the two consecutive trading days ending on the second trading day prior to the shares becoming registered for resale. Pursuant to the terms of the acquisition, the Company has filed a registration statement with the Securities and Exchange Commission to register for resale by WDS the Shares issuable to WDS in payment of the Negotiated Value. If the registration statement for the shares is not declared effective by November 25, 2002, the Company would be required to pay the Negotiated Value in cash.

If, at the close of the ten trading day period beginning after the registration for resale of the shares becomes effective, the aggregate value of the shares issued to WDS (the Trading Value), using the average closing price of the Company s common stock during such ten trading day period (the Trading Price), is less than 95% of the Negotiated Value, the Company will be required to pay the difference between the Negotiated Value and the Trading Value (not to exceed $8.26 million) to WDS in cash, shares of the Company s common stock or a combination thereof at the Company s election. If the Company elects to pay the difference in shares of its common stock, the number of shares to be issued will be determined by dividing the difference between the Negotiated Value and the Trading Value by the Trading Price. If, at the close of such ten trading day period, the Trading Value is more than 105% of the Negotiated Value, WDS will return shares to the Company in an amount determined in the same manner.

The results of operations for WDS have been included in the Company s operations since the acquisition date. The purchase price has been allocated to the assets acquired and liabilities assumed based on their estimated fair values at the acquisition date, which are subject to change as additional information is obtained. The allocation of the purchase price is subject to final determination based upon estimates and other evaluations of fair market value, identification and valuation of intangible assets and potentially based upon changes in the Company s stock price. Intangible assets related to the WDS acquisition include $16.2 million of acquired technology to be amortized over five years, $6.4 million of customer lists to be amortized over seven years and $3.0 million of goodwill.

There were several in-process research and development projects at the time of the WDS acquisition. The efforts required to complete acquired in-process research and development include planning, designing, testing and other activities necessary to establish that the product or enhancement to existing products can be produced to meet desired functionality and technical performance requirements.

The value of the purchased in-process research and development was computed using discount rates ranging from 26% to 30% on the anticipated income stream of the related product revenue. The discounted cash flows were based on management s forecast of future revenue, costs of revenue and operating expenses related to the products and technologies purchased from WDS. The determined value was then adjusted to reflect only the value creation efforts of WDS prior to the close of the acquisition. At the time of the acquisition, the products and enhancements were at various stages of completion, ranging from approximately 2% to 96% complete. The resulting value of purchased in-process research and development was further reduced by the estimated value of core technology. A purchased research and development charge of $3.8 million was recorded in the three months ended May 31, 2002.

Digital Freight Exchange, Inc.

On May 23, 2002, the Company acquired substantially all of the assets of DFE for $4.5 million. DFE is a provider of collaborative logistics solutions that facilitate online, real-time bids for global transportation contracts. Approximately $0.3 million of the purchase price was paid in cash at closing. The remaining purchase price of $4.2 million is payable in shares of the Company s common stock, cash, or a combination thereof at the Company s election. The Company has agreed to register for resale by DFE shares of the Company s common stock issued as payment of the purchase price. If the Company elects to pay some or all of the remaining purchase price in shares of the Company s common stock, the number of shares to be issued will be determined by dividing the remaining $4.2 million (the DFE Negotiated Value) by the average closing price the Company s common stock for the ten consecutive trading days ending on the third trading day prior to the shares becoming registered for resale. If a registration statement for the shares is not declared effective within 120 days following closing, DFE shall have the right to require the DFE Negotiated Value to be paid in cash.

8. *Restructuring*

Fiscal 2002 Restructuring Plans. During June 2001, the Company adopted a restructuring plan in order to centralize certain of its product development functions in Rockville, MD from two remote offices. This resulted in the closure of one office and reduction of space occupied in another office, as well as the relocation and termination of approximately 10 and 40 employees, respectively. As a result, the Company recorded a restructuring charge related to the product development consolidation of approximately $2.4 million during fiscal 2002.

During October 2001, the Company announced and implemented an additional restructuring plan designed to reduce expenses as a result of expected reduction in revenues caused primarily by client concerns about committing to large capital projects in the face of weakening global economic conditions. Actions taken included a reduction in the Company s workforce and a reduction in the amount of office space to be used in certain of the Company s leased facilities. Involuntary employee terminations totaled 123 across most business functions and geographic regions in fiscal 2002. All terminated employees were notified in fiscal 2002 and none were still employed by the Company as of May 31, 2002. The Company recorded a charge for severance and related benefits of approximately $1.9 million during fiscal 2002. The Company recorded a facility charge of approximately $2.3 million during fiscal 2002 resulting from approximately $0.7 million related to the abandonment of leased office space in two offices as well as approximately $1.6 million from the expected loss of sublease rental income on office space closed in fiscal 1999. These costs include management s best estimates of the remaining lease obligations and loss of sublease rental income.

Fiscal 1999 Restructuring Plan. During the third and fourth quarters of fiscal 1999, the Company implemented a restructuring plan (1999 Plan) aimed at reducing costs and returning the Company to profitability. The 1999 Plan resulted in (i) a reduction of the Company s total workforce by 412 positions, across all divisions, primarily located in the United States, (ii) the abandonment of future lease commitments on office facilities that were closed as part of the 1999

Plan, and (iii) write-downs of operating assets, goodwill and capitalized software made in accordance with SFAS 121.

The following table sets forth a summary of the restructuring charges, payments made against those charges and the remaining liabilities as of May 31, 2002 (in thousands):

	Balance as of Feb 28, 2002	Utilization of cash May 31, 2002	Balance as of May 31, 2002
Lease obligations and terminations	$ 5,476	$ (290)	$ 5,186
Severance and related benefits	244	(39)	205
Relocation	15	(15)	
Total	$ 5,735(1)	$ (344)	$ 5,391(2)

(1) $1.6 million and $4.1 million is included in other accrued current liabilities and other non-current liabilities, respectively, in the consolidated balance sheet as of February 28, 2002.

(2) $1.5 million and $3.9 million is included in other accrued current liabilities and other non-current liabilities, respectively, in the consolidated balance sheet as of May 31, 2002.

9. *Income Taxes*

Income tax expense of $79,000 was recorded for the three-month period ended May 31, 2002. Management regularly evaluates the realizability of its deferred tax assets given the nature of its operations and the tax jurisdictions in which it operates. Based on the Company s historical taxable income when adjusted for non-recurring items, net operating loss carryback potential and estimates of future profitability, management has concluded that future income will, more likely than not, be insufficient to cover all of its deferred tax assets. Management believes that an appropriate valuation allowance was recorded at May 31, 2002 based upon the Company s estimates. The deferred tax asset recorded of $20.4 million at May 31, 2002, net of valuation allowance, is based on the Company s historical taxable income and estimates of future profitability. Management will continue to monitor its estimates of future profitability and realizability of its net deferred tax assets based on evolving business conditions.

10. *Supplemental Cash Flow Information*

Total interest paid by the Company for the three months ended May 31, 2002 and 2001 was $6.3 million and $6.7 million, respectively.

Supplemental information of non-cash financing activities is as follows:

- We recorded approximately $5.1 million in capital leases during the three months ended May 31, 2002.

11. *Subsequent Events*

On June 27, 2002, the Company announced plans to reduce its workforce and contractors by approximately 12%. The reduction in workforce and contractors will be achieved through a combination of attrition and involuntary terminations. In addition, the Company announced other cost containment measures including the consolidation of some smaller field offices, a mandatory unpaid vacation program for all U.S. employees during the first week of July and a voluntary week of unpaid vacation during our second quarter fiscal 2003 for our European employees. These cost containment measures have been devised to better align our cost structure with expected revenue. The Company expects to record a restructuring charge of approximately $10.0 million in the quarter ended August 31, 2002 for severance and related benefits associated with involuntary terminations, lease termination costs, contract termination costs and impairment losses on property and equipment.

On June 27, 2002 the Company also announced that Richard Bergmann, President of the Company, has taken an indefinite personal leave of absence. As a result, all sales and services functions now report directly to Greg Owens Chairman and Chief Executive Officer. Mr. Owens has also assumed certain of Mr. Bergmann s other responsibilities.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on July 19, 2002.

MANUGISTICS GROUP, INC.
(Registrant)

Date: July 19, 2002

/s/Raghavan Rajaji

Raghavan Rajaji
Executive Vice President and
Chief Financial Officer
(Principal financial officer)

/s/ Jeffrey T. Hudkins

Jeffrey T. Hudkins
Vice President, Controller and
Chief Accounting Officer
(Principal accounting officer)