

TORONTO DOMINION BANK
Form 424B2
January 19, 2017

**Filed Pursuant to 424(b)(2)
Registration Statement No. 333-211718**

**Pricing Supplement to the Prospectus Supplement dated June 30, 2016 and the
Prospectus dated June 30, 2016**

The Toronto-Dominion Bank

US\$1,000,000,000 Floating Rate Senior Medium-Term Notes, Series A, Due 2019

We will pay interest on the Floating Rate Senior Medium-Term Notes, Series A, due 2019 (the Notes) quarterly on January 18, April 18, July 18 and October 18 of each year. We will make the first interest payment on April 18, 2017. The interest rate on the Notes for each period will be equal to three-month LIBOR plus a spread of +42 basis points. The Notes will mature on January 18, 2019. The Notes will be our unsecured obligations and will rank equally with all of our other unsecured and unsubordinated indebtedness from time to time outstanding. We will issue the Notes in minimum denominations of US\$2,000 and integral multiples of US\$1,000 in excess of \$2,000.

Other than as set forth under Terms of the Notes Redemption for Tax Reasons, we may not redeem the Notes prior to their maturity. There is no sinking fund for the Notes.

The Notes will not be listed on any securities exchange.

Investing in the Notes involves a number of risks. See Risk Factors beginning on page S-4 of the prospectus supplement dated June 30, 2016 and page 1 of the accompanying prospectus dated June 30, 2016.

The Notes are unsecured and are not savings accounts or insured deposits of a bank. The Notes are not insured or guaranteed by the Canada Deposit Insurance Corporation, the U.S. Federal Deposit Insurance Corporation or any other governmental agency or instrumentality of Canada or the United States.

Neither the Securities and Exchange Commission (the SEC) nor any state securities commission has approved or disapproved of the Notes or determined that this pricing supplement or the accompanying prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

		Notes
	Per Note	Total
Price to the public(1)	100.000%	US\$ 1,000,000,000
Underwriting commissions	0.200%	US\$ 2,000,000
Proceeds to The Toronto-Dominion Bank	99.800%	US\$ 998,000,000

(1) The price to the public also will include interest accrued on the Notes after January 25, 2017, if any. This pricing supplement may be used by certain of our affiliates in connection with offers and sales of the Notes in market-making transactions. TD Securities (USA) LLC is our affiliate. See Underwriting (Conflicts of Interest) in this pricing supplement.

We expect to deliver the Notes in book-entry only form through the facilities of The Depository Trust Company (including through its indirect participants Euroclear, Clearstream and CDS) on or about January 25, 2017, against payment in immediately available funds.

Joint Book-Runners

TD Securities

Pricing Supplement dated January 18, 2017

Morgan Stanley

We are responsible for the information contained or incorporated by reference in this pricing supplement, the accompanying prospectus supplement, the accompanying prospectus, and in any free writing prospectus we may authorize to be delivered to you. We have not, and the agents have not, authorized anyone to give you any other information, and take no responsibility for any other information that others may give you. We are not, and the agents are not, making an offer to sell the Notes in any jurisdiction where the offer or sale is not permitted. You should not assume that the information contained in this pricing supplement, the accompanying prospectus supplement, the accompanying prospectus, the documents incorporated by reference or any free writing prospectus we may authorize to be delivered to you is accurate as of any date other than the dates thereon. Our business, financial condition, results of operations and prospects may have changed since those dates.

PS-i

WHERE YOU CAN FIND MORE INFORMATION

You should read this pricing supplement together with the prospectus supplement dated June 30, 2016 (the prospectus supplement) and the prospectus dated June 30, 2016 (the base prospectus), and the documents incorporated by reference therein (collectively, the prospectus), which together contain the terms of the Notes and supersede all prior or contemporaneous oral statements as well as any other written materials. You should carefully consider, among other things, the matters set forth in Risk Factors in the prospectus supplement and the other information included and incorporated by reference in this pricing supplement and the accompanying prospectus supplement and prospectus. We urge you to consult your investment, legal, tax, accounting and other advisors before you invest in the Notes.

You may access these documents on the SEC website at www.sec.gov as follows (or if such address has changed, by reviewing our filings for the relevant date on the SEC website):

Prospectus Supplement dated June 30, 2016:

<http://www.sec.gov/Archives/edgar/data/947263/000119312516638460/d191617d424b3.htm>

Prospectus dated June 30, 2016:

<http://www.sec.gov/Archives/edgar/data/947263/000119312516638441/d162493d424b3.htm>

In addition to our continuous disclosure obligations under the securities laws of the provinces and territories of Canada, we are subject to the information reporting requirements of the United States Securities Exchange Act of 1934, as amended (the Exchange Act), and in accordance therewith file reports and other information with the SEC. Under the multi jurisdictional disclosure system adopted by the United States, such reports and other information may be prepared in accordance with the disclosure requirements of Canada, which requirements are different from those of the United States. Such reports and other information, when filed by us in accordance with such requirements, can be inspected and copied by you at the SEC's Public Reference Room located at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Our SEC filings are also available to the public at the SEC's website at www.sec.gov. Our common shares are listed on the NYSE, and reports and other information concerning us can be inspected at the offices of the NYSE, 11 Wall Street, New York, New York 10005. Information about us can be located at our website at www.td.com. All Internet references in this pricing supplement and the accompanying prospectus supplement and prospectus are inactive textual references and we do not incorporate website contents into this pricing supplement and the accompanying prospectus supplement and prospectus.

Our Central Index Key, or CIK, on the SEC website is 947263.

DOCUMENTS INCORPORATED BY REFERENCE

The SEC allows the Bank to incorporate by reference the information we file with it, which means we can disclose important information to you by referring you to those documents. Copies of the documents incorporated herein by reference may be obtained upon written or oral request without charge from the Corporate Secretary of The Toronto-Dominion Bank, TD Bank Tower, Toronto-Dominion Centre, Toronto, Ontario, M5K 1A2, Canada (telephone: (416) 308-6963). The documents incorporated by reference are available at www.sec.gov.

We incorporate by reference:

our Annual Report on Form 40-F for the fiscal year ended October 31, 2016 and the auditors' report therein;
and

our Report on Form 6-K dated December 1, 2016 (related to the 4th Quarter 2016 earnings news release).

PS-2

In addition, we will incorporate by reference all documents that we file under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act and, to the extent, if any, we designate therein, reports on Form 6-K we furnish to the SEC after the date of this pricing supplement and prior to the termination of any offering contemplated in this pricing supplement.

Any statement contained in this pricing supplement, the accompanying prospectus supplement and prospectus or in any other document incorporated or deemed to be incorporated by reference will be deemed to be modified or superseded, for the purposes of this pricing supplement, the accompanying prospectus supplement and prospectus, to the extent that a statement contained herein or in any other subsequently filed or furnished document which also is or is deemed to be incorporated by reference modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this pricing supplement, the accompanying prospectus supplement and prospectus.

All documents incorporated by reference, or to be incorporated by reference, have been filed with or furnished to, or will be filed with or furnished to, the SEC.

TERMS OF THE NOTES

We describe the basic features of the Notes in the sections of the base prospectus called "Description of the Debt Securities" and the prospectus supplement called "Description of the Notes We May Offer," subject to and as modified by the provisions described below. References in this pricing supplement to we, us, our, TD or the Bank are to The Toronto-Dominion Bank.

Issuer:	The Toronto-Dominion Bank
Title of Series:	Senior Medium-Term Notes, Series A
Issue:	Floating Rate Senior Medium-Term Notes, Series A, due 2019
Ranking:	Senior
Aggregate Principal Amount Initially Being Issued:	US\$1,000,000,000
Currency:	U.S. Dollars
Minimum Denominations:	US\$2,000 and integral multiples of US\$1,000 in excess of US\$2,000
Pricing Date:	January 18, 2017
Issue Date:	January 25, 2017
Maturity Date:	January 18, 2019
CUSIP/ISIN:	89114QBR8/US89114QBR83
Day Count Fraction:	Actual/360
Base Rate:	USD LIBOR (Reuters page LIBOR01)
Index Maturity:	Three months
Spread:	+42 basis points
Interest Payment Dates and Interest Reset Dates:	Quarterly, on January 18, April 18, July 18 and October 18 of each year, beginning on April 18, 2017; provided that (i) if the interest payment date falls on a day that is not a business day, the required payment of interest may instead be paid on the next succeeding business day and interest will accrue to but excluding that next succeeding business day; provided further that if the next business day falls in the next calendar month, then the interest payment date will be the next preceding day that is a business day and interest will accrue to but excluding that next preceding business day and (ii) if the interest reset date falls on a day that is not a business day, the interest reset date will be postponed to the next day that is a business day; provided further that if that business day is in the next succeeding calendar month, the interest reset date will be the immediately preceding business day.
Interest Determination Date:	

Edgar Filing: TORONTO DOMINION BANK - Form 424B2

The second London business day preceding the applicable Interest Reset Date.

Record Dates for Interest Payments:

The fifteenth calendar day prior to the applicable Interest Payment Date.

Redemption at Our Option:

Not applicable, other than as set forth under Redemption for Tax Reasons.

Optional Redemption by Holders of Notes:

Not applicable.

PS-4

Listing:	The Notes will not be listed on any securities exchange.
Clearance and Settlement:	DTC global (including through its indirect participants Euroclear, Clearstream and CDS as described under Description of the Debt Securities Book-Entry Procedures and Settlement in the base prospectus).
Conflicts of Interest:	TD Securities (USA) LLC is our affiliate. The agents are members of the Financial Industry Regulatory Authority, Inc. (FINRA). Accordingly, the offering of the Notes will conform to the requirements of FINRA Rule 5121. TD Securities (USA) LLC is not permitted to sell the Notes to an account over which it exercises discretionary authority without the prior specific written approval of the account holder.

Additional Amounts

All payments of principal and interest and other amounts payable in respect of the Notes by us will be made without us making any withholding of or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (Taxes), unless the withholding or deduction of such Taxes is required or authorized by law or the administration thereof. In that event, we will, subject to certain exceptions and limitations set forth below, pay such additional amounts (Additional Amounts) to the holder or beneficial owner of any Note as may be necessary in order that every net payment of the principal of and interest on such Note and any other amounts payable on such Note, after any withholding or deduction for Taxes imposed or levied by or on behalf of Canada or any political subdivision or taxing authority thereof or therein having the power to tax (each a Taxing Jurisdiction) (and Taxes imposed or levied by a Taxing Jurisdiction on such Additional Amounts), will not be less than the amount such holder or beneficial owner would have received if such Taxes imposed or levied by or on behalf of a Taxing Jurisdiction had not been withheld or deducted. We will not, however, be required to make any payment of Additional Amounts to any holder or beneficial owner for or on account of:

any Taxes that would not have been so imposed but for a present or former connection (including, without limitation, carrying on business in a Taxing Jurisdiction or having a permanent establishment or fixed base in a Taxing Jurisdiction) between such holder or beneficial owner of a Note (or between a fiduciary, settlor, beneficiary, member or shareholder of, or possessor of power over, such holder or beneficial owner, if such holder or beneficial owner is an estate, trust, partnership, limited liability company or corporation) and a Taxing Jurisdiction, other than merely holding such Note or receiving payments with respect to such Note;

any estate, inheritance, gift, sales, transfer or personal property Tax or any similar Tax with respect to a Note;

any Tax imposed by reason that such holder or beneficial owner of a Note or other person entitled to payment under the Note does not deal at arm's length within the meaning of the *Income Tax Act* (Canada) with us or is, or does not deal at arm's length with any person who is, a specified shareholder of us for purposes of the thin capitalization rules in the *Income Tax Act* (Canada);

any Tax that is levied or collected otherwise than by withholding from payments on or in respect of a Note;

any Tax required to be withheld by any paying agent from any payment on a Note, if such payment can be made without such withholding by at least one other paying agent;

any Tax that would not have been imposed but for the failure of a holder or beneficial owner of a Note to comply with certification, identification, declaration, information or other reporting requirements, if such compliance is required by a Taxing Jurisdiction (including where required by statute, treaty, regulation or administrative pronouncement) as a precondition to relief or exemption from such Tax;

PS-5

any Tax which would not have been imposed but for the presentation of a Note (where presentation is required) for payment on a date more than 30 days after (i) the date on which such payment became due and payable or (ii) the date on which payment thereof is duly provided for, whichever occurs later;

any withholding or deduction imposed pursuant to (i) Sections 1471 to 1474 of the U.S. Internal Revenue Code of 1986, as amended (FATCA), or any successor version thereof, or any similar legislation imposed by any other governmental authority, (ii) any treaty, law, regulation or other official guidance enacted by Canada implementing FATCA or an intergovernmental agreement with respect to FATCA or any similar legislation imposed by any other governmental authority, or (iii) any agreement between us and the United States or any authority thereof implementing FATCA; or

any combination of the items listed above;

nor shall Additional Amounts be paid with respect to any payment on a Note to a holder who is a fiduciary or partnership or any person other than the sole beneficial owner of such payment to the extent a beneficiary or settlor with respect to such fiduciary, a member of such partnership or such beneficial owner would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner held its interest in the Note directly.

Redemption for Tax Reasons

We may redeem the Notes, in whole but not in part, at our option at any time prior to maturity, upon the giving of a notice of redemption as described below, if:

(i) as a result of any change (including any announced prospective change) in or amendment to the laws or treaties (or any rules, regulations, rulings or administrative pronouncements thereunder) of Canada or of any political subdivision or taxing authority thereof or therein affecting taxation, or any change in official position regarding the application or interpretation of such laws, treaties, rules, regulations, rulings or administrative pronouncements (including a holding by a court of competent jurisdiction), which change or amendment is announced or becomes effective on or after the date of this pricing supplement, in the written opinion of our legal counsel of recognized standing, we have or will become obligated to pay, on the next succeeding date on which interest is due, Additional Amounts (assuming, in the case of any announced prospective change, that such announced change will become effective as of the date specified in such announcement and in the form announced); or

(ii) on or after the date of this pricing supplement any action has been taken by any taxing authority of, or any decision has been rendered by a court of competent jurisdiction in, Canada or any political subdivision or taxing authority thereof or therein, including any of those actions specified in the paragraph immediately above, whether or not such action was taken or decision was rendered with respect to us, or any change, amendment, application or interpretation shall be officially proposed, which, in any such case, in the written opinion of our legal counsel of recognized standing, will result in our becoming obligated to pay, on the next succeeding date on which interest is due, Additional Amounts (assuming, in the case of any announced prospective change, that such announced change will become effective as of the date specified in such announcement and in the form announced);

and, in any such case, we in our business judgment, determine that such obligation cannot be avoided by the use of reasonable measures available to us. For the avoidance of doubt, reasonable measures do not include a change in the terms of the Notes or a substitution of the debtor.

Prior to the giving of any notice of redemption pursuant to the above paragraph, we will deliver to the trustee:

a certificate stating that we are entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to our right to so redeem have occurred; and

an opinion of counsel prepared in accordance with the terms of the indenture.

PS-6

Any Notes redeemed for tax reasons will be redeemed at 100% of their principal amount together with interest accrued up to, but excluding, the redemption date. Notice of redemption will be given not less than 30 nor more than 60 days prior to the date fixed for redemption, which date and the applicable redemption price will be specified in the notice.

PS-7

U.S. FEDERAL INCOME TAX CONSIDERATIONS

For a discussion of certain material U.S. federal income tax consequences of owning the Notes, please see the section **Tax Consequences – United States Taxation** in the base prospectus.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

For a discussion of certain material Canadian federal income tax consequences of owning the Notes, please see the section **Tax Consequences – Canadian Taxation** in the base prospectus.

BENEFIT PLAN INVESTOR CONSIDERATIONS

For a discussion of certain considerations in connection with owning the Notes with plan assets, please see the section **Benefit Plan Investor Considerations** in the base prospectus.

PS-8

UNDERWRITING (CONFLICTS OF INTEREST)

On January 18, 2017, we entered into a terms agreement with the agents pursuant to the Distribution Agreement, dated June 30, 2016, between us and TD Securities (USA) LLC for the purchase and sale of the Notes. We have agreed to sell to each of the agents and each of the agents has agreed to purchase from us, as principal, the principal amount of the Notes shown opposite its name at the public offering price set forth above.

Agent	Principal Amount of Notes
TD Securities (USA) LLC	US\$800,000,000
Morgan Stanley & Co. LLC	US\$200,000,000
Total	US\$1,000,000,000

The agents initially propose to offer the Notes to the public at the public offering price set forth on the cover page of this pricing supplement and may offer the Notes to certain dealers at the public offering price less a concession not in excess of 0.120% of the principal amount of the Notes. The agents may allow, and such dealers may reallow, a concession not in excess of 0.070% of the principal amount of the Notes on sales to certain dealers. After the initial offering of the Notes, the public offering price and other selling terms may from time to time be changed. The offering of the Notes by the agents is subject to receipt and acceptance and subject to the agents' right to reject any order in whole or in part.

We estimate that the total offering expenses for the Notes, excluding underwriting commissions, will be approximately US\$190,000.

We have agreed to indemnify the agents against certain liabilities, including liabilities under the Securities Act of 1933, as amended.

We expect that delivery of the Notes will be made against payment for the Notes on or about January 25, 2017, which is the fifth (5th) business day following the pricing date (this settlement cycle being referred to as "T+5"). Rule 15c6-1 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), generally requires that securities trades in the secondary market settle in three business days, unless the parties to a trade expressly agree otherwise.

Accordingly, purchasers who wish to trade the Notes on the pricing date and the next succeeding business day will be required, by virtue of the fact that the Notes will settle in T+5, to specify an alternative settlement cycle at the time of any such trade to prevent a failed settlement. Such purchasers should also consult their own advisors in this regard. See Supplemental Plan of Distribution (Conflicts of Interest) in the prospectus supplement.

The agents and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Certain of the agents and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the Bank, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the agents and their respective affiliates may make or hold a broad array of investments, including serving as counterparties to certain derivative and trading arrangements, and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of the Bank. The agents and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and

instruments.

PS-9

Conflicts of Interest

TD Securities (USA) LLC is our affiliate. The agents are members of FINRA. Accordingly, the offering of the Notes will conform to the requirements of FINRA Rule 5121. TD Securities (USA) LLC is not permitted to sell the Notes to an account over which it exercises discretionary authority without the prior specific written approval of the account holder.

Selling Restrictions

The People's Republic of China

This pricing supplement and the prospectus have not been filed with or approved by the People's Republic of China (for such purposes, not including Hong Kong and Macau Special Administrative Regions or Taiwan) authorities, and is not an offer of securities (whether public offering or private placement) within the meaning of the Securities Law or other pertinent laws and regulations of the People's Republic of China. This pricing supplement and the prospectus shall not be offered to the general public if used within the People's Republic of China, and the Notes so offered cannot be sold to anyone that is not a qualified purchaser of the People's Republic of China. Each agent has represented, warranted and agreed that the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the People's Republic of China, except under circumstances that will result in compliance with applicable laws and regulations.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), each agent has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this pricing supplement and the prospectus to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant agents nominated by the Bank for any such offer; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of Notes referred to in (a) to (c) above shall require the Bank or any agent to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an offer of Notes to the public in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that

Member State, the expression Prospectus Directive means Directive 2003/71/EC (as amended by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

Hong Kong

The Notes may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong

PS-10

Kong), or (ii) to professional investors within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a prospectus within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the Financial Instruments and Exchange Law) and each agent has agreed that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

Singapore

This pricing supplement and the prospectus have not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this pricing supplement and the prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the SFA), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries rights and interest in that trust will not be transferable for six months after that corporation or that trust has acquired the Notes under Section 275 except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.

South Korea

The Notes have not been and will not be registered under the Financial Investments Services and Capital Markets Act of Korea and the decrees and regulations thereunder (the FSCMA) and the Notes have been and will be offered in Korea as a private placement under the FSCMA. None of the Notes may be offered, sold and delivered directly or indirectly, or offered or sold to any person for re-offering or resale, directly or indirectly, in Korea or to any resident of Korea except pursuant to the applicable laws and regulations of Korea, including the FSCMA and the Foreign Exchange Transaction Law of Korea and the decrees and regulations thereunder (the FETL). For a period of one year from the issue date of the Notes, any acquirer of the Notes who was solicited to buy the Notes in Korea is prohibited

from transferring any of the Notes to another person in any way other

PS-11

than as a whole to one transferee. Furthermore, the purchaser of the Notes shall comply with all applicable regulatory requirements (including but not limited to requirements under the FETL) in connection with the purchase of the Notes.

Each agent has represented and agreed that it has not offered, sold or delivered the Notes directly or indirectly, or offered or sold the Notes to any person for re-offering or resale, directly or indirectly, in Korea or to any resident of Korea and will not offer, sell or deliver the Notes directly or indirectly, or offer or sell the Notes to any person for re-offering or resale, directly or indirectly, in Korea or to any resident of Korea, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FSCMA, the FETL and other relevant laws and regulations of Korea.

Taiwan

The Notes may be made available for purchase outside Taiwan by investors residing in Taiwan (either directly or through properly licensed Taiwan intermediaries acting on behalf of such investors) but may not be offered or sold in Taiwan.

United Kingdom

Each agent has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the FSMA)) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Bank; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

LEGAL MATTERS

The validity of the Notes will be passed upon, on behalf of the Bank, by McCarthy Tétrault LLP, Toronto, Ontario, as to matters of Canadian law and applicable matters of Ontario law, and Simpson Thacher & Bartlett LLP, New York, New York, as to matters of New York law.

PS-12

Total operating expenses
111,909 58,689 327,075 188,944

(LOSS) INCOME FROM OPERATIONS
(43,164) 11,307 (97,556) (10,279)
OTHER (EXPENSE) INCOME, NET
(12,250) 306 (12,433) 1,021

(LOSS) INCOME BEFORE INCOME TAXES
(55,414) 11,613 (109,989) (9,258)
(BENEFIT FROM) PROVISION FOR INCOME TAXES
(10,434) 2,190 (19,919) 2,154

NET (LOSS) INCOME
\$(44,980) \$9,423 \$(90,070) \$(11,412)

NET (LOSS) INCOME PER SHARE:

BASIC

\$(0.66) \$0.16 \$(1.33) \$(0.20)

DILUTED

\$(0.66) \$0.14 \$(1.33) \$(0.20)

SHARES USED IN NET (LOSS) INCOME PER SHARE CALCULATION:

BASIC

68,142 57,969 67,736 57,378

DILUTED

68,142 66,224 67,736 57,378

See accompanying notes to the condensed consolidated financial statements.

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

	Nine Months Ended November 30, 2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (90,070)	\$ (11,412)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	84,384	13,742
Amortization of debt issuance costs	855	
Deferred income taxes	(22,389)	(13,389)
Tax benefit from stock options exercised		11,970
Non-cash stock compensation (benefit) expense	(4,160)	14,638
Loss on investments	10,604	
Other	1,034	(38)
Changes in assets and liabilities:		
Accounts receivable	7,057	(35,415)
Other assets	2,002	3,603
Accounts payable	(1,253)	(179)
Accrued compensation	(9,559)	4,416
Other liabilities	(3,089)	5,089
Deferred revenue	(1,055)	5,865
	<u>(25,639)</u>	<u>(1,110)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions, net of cash acquired	(30,644)	
Investments in businesses	(10,150)	(1,000)
Proceeds from sale of investment	362	
Investments and sales of marketable securities, net	90,254	4,763
Purchases of property and equipment, net	(8,323)	(5,542)
Capitalization and purchases of software	(10,674)	(8,985)
	<u>30,825</u>	<u>(10,764)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of long-term debt and capital lease obligations, net	(116)	(167)
Proceeds from issuance of convertible debt, net of issuance costs	(180)	242,500
Proceeds from exercise of stock options and employee stock plan purchases	8,567	9,262
Net change in line of credit		(6,000)
	<u>8,271</u>	<u>245,595</u>
EFFECTS OF EXCHANGE RATES ON CASH BALANCES	(1,018)	270
NET INCREASE IN CASH AND CASH EQUIVALENTS	12,439	233,991
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	196,362	41,803
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 208,801</u>	<u>\$ 275,794</u>

See accompanying notes to the condensed consolidated financial statements.

MANUGISTICS GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
November 30, 2001

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Manugistics Group, Inc. (the Company) 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, 2002.

These financial statements should be read in conjunction with the financial statements and notes thereto for the fiscal year ended February 28, 2001 included in the Annual Report on Form 10-K of the Company for that year filed with the Securities and Exchange Commission.

2. Net (Loss) Income Per Share

Basic net (loss) income per share is computed using the weighted average number of shares of common stock outstanding. Diluted net (loss) income 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 and the effect of the assumed conversion of the Company's convertible subordinated debt. The dilutive effect of options and warrants of 2.8 million shares, 5.5 million shares and 7.4 million shares were excluded from the calculation of diluted net loss per share for the three month period ended November 30, 2001, and the nine month periods ended November 30, 2001 and 2000, respectively, as including them would have been anti-dilutive due to the Company's reported net loss for those periods. The assumed conversion of the Company's convertible debt was excluded from the computation of diluted net loss per share for all periods presented 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.

The following table sets forth the computation of basic and diluted net (loss) income per share (in thousands, except per share data):

	Three months ended November 30,		Nine months ended November 30,	
	2001	2000	2001	2000
Weighted average common shares	68,142	57,969	67,736	57,378
Dilutive potential common shares		8,255		
Shares used in diluted computation	68,142	66,224	67,736	57,378
Net (loss) income	\$(44,980)	\$ 9,423	\$(90,070)	\$(11,412)
Basic net (loss) income per share	\$ (0.66)	\$ 0.16	\$ (1.33)	\$ (0.20)
Diluted net (loss) income per share	\$ (0.66)	\$ 0.14	\$ (1.33)	\$ (0.20)

3. 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 any pending disputes or litigation will have a material effect on the Company's

financial condition or operating results. However, an unfavorable outcome of legal matters could have a material effect on the Company's business, operating results, financial condition or cash flows. The Company has established accruals related to legal matters where a loss is probable and reasonably estimable.

The Company has previously reported its legal proceedings with Information Resources, Inc. (IRI) arising from the acquisition of certain assets from IRI in March 1997. IRI's claims involving revenue streams was submitted to arbitration. IRI sought a total of \$15.9 million in damages. The Company contended that the conditions to these amounts becoming due have never been satisfied and that no amounts were due to IRI, because, among other reasons, of a failure of consideration in the overall transaction.

In December 2001, the Company and IRI settled their dispute. The Company has agreed to pay to IRI an aggregate of approximately \$8.6 million in various installments on or before September 2002. The payment obligation has two components. The first component requires the Company to make cash payments totaling approximately \$4.7 million in installments to IRI, the last of which shall be made on or before April 2002. In addition, the Company has agreed to issue shares of its common stock to IRI in payment of the remaining \$3.9 million to be paid to IRI, under certain circumstances, or pay cash. The number of shares to be issued shall be determined by dividing \$3.9 million by the closing price of our common stock reported by Nasdaq National Market System on the day a registration statement relating to the shares becomes effective. We have the right to pay all or a part of such remaining amount in cash in lieu of shares. In addition, IRI has the right, under certain circumstances in the future, to require the Company to pay cash in lieu of all or a portion of the shares.

As part of the settlement, we agreed to prepare and file with the Securities and Exchange Commission (the SEC), a registration statement on Form S-3 under the Securities Act of 1933 relating to the issuance of our shares to IRI. We further agreed to deliver the shares promptly after the SEC had declared the registration statement effective.

The Company had recorded a liability of approximately \$5.5 million in prior years related to this matter. Such amount was included in other accrued liabilities in the condensed consolidated balance sheet as of February 28, 2001.

The Company has previously reported that Grocery Logistics Limited has filed a claim against the Company and Manugistics U.K. Limited alleging that the implementation of software failed to meet the requirements of its contract for the supply of software, support, maintenance and training services. The claim alleges damages in the range of approximately \$6.5 to \$11.0 million. A trial date has been set for April 9, 2002, and is estimated to take five weeks.

4. Comprehensive Loss

Other comprehensive loss relates primarily to foreign currency translation losses and unrealized gains or losses on investments in marketable securities. The following table sets forth the comprehensive loss for the three and nine months ended November 30, 2001 and 2000 (dollar amounts in thousands):

	Three months ended November 30,		Nine months ended November 30,	
	2001	2000	2001	2000
Net (loss) income	\$(44,980)	\$ 9,423	\$(90,070)	\$(11,412)
Other comprehensive income (loss)	24	(1,147)	(1,621)	(958)
Total comprehensive (loss) income	\$(44,956)	\$ 8,276	\$(91,691)	\$(12,370)

5. Acquisitions

On May 17, 2001, the Company acquired certain assets of One Release, LLC and its affiliates (the *One Release Acquisition*), a software engineering services and systems business, for \$4.3 million of common stock (135,793 shares). The Company may also pay up to an additional \$1.0 million in contingent consideration if certain performance criteria are attained during the first year after the acquisition date. The *One Release Acquisition* was accounted for using the purchase method of accounting. The results of operations for One Release have been included in the Company's operations since the acquisition date. The Company allocated approximately \$5.7 million to assembled workforce, which is included in other intangible assets and noncurrent assets, net of accumulated amortization, in the condensed consolidated balance sheet as of November 30, 2001.

On May 31, 2001, the Company acquired the collaborative sourcing and design assets of Partminer CSD, Inc., as well as related assets from its parent, Partminer, Inc. and its affiliates (the *CSD Acquisition*) for cash. Partminer CSD, Inc. is a developer of product design and sourcing software. The *CSD Acquisition* included developed technology, existing customer contracts, personnel and other intangible assets. The *CSD Acquisition* was accounted for using the purchase method of accounting. The purchase price has been allocated to the assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. Intangible assets related to the *CSD Acquisition* include developed technology and goodwill. Contemporaneously, in another transaction, the Company entered into a software license agreement with Partminer, Inc. for various products for use in its electronic components procurement and sourcing business.

On July 25, 2001, the Company acquired the intellectual property and certain other assets of SpaceWorks, Inc. (the *SpaceWorks Transaction*) for cash. SpaceWorks, Inc. software provides solutions that help enable companies to automate complex order-related activities. The *SpaceWorks Transaction* was accounted for as a purchase of developed technology, which is included in other intangible assets and noncurrent assets, net of accumulated amortization, in the condensed consolidated balance sheet as of November 30, 2001.

Total aggregate cash consideration paid in the *CSD Acquisition* and the *SpaceWorks Transaction* was \$28.3 million during the nine months ended November 30, 2001.

6. Investments in Businesses

On May 30, 2001, the Company purchased approximately \$10.2 million of preferred stock of Converge, Inc. (the *Converge Investment*). Converge, Inc. is a private marketplace exchange for components used by electronics and high technology manufacturers. Founding investors in Converge, Inc. include Agilent Technologies, Inc., Compaq Computer Corporation and Hewlett-Packard Company, among others. The *Converge Investment* is accounted for under the cost method of accounting for investments. In a separate transaction approximately two weeks prior to the *Converge Investment*, the Company entered into a software license agreement with Converge, Inc. for various products for use in its marketplace exchange business.

During the three months ended November 30, 2001, the Company recorded an impairment loss of approximately \$10.2 million relating to an other-than temporary decline in the fair value of its equity investment in Converge, Inc. The impairment was recorded to reflect the investment at fair value. As of November 30, 2001, the Company's recorded basis in the *Converge Investment* was reduced to \$0 due to concerns about the ability of Converge to continue funding its operations in light of current market conditions in the high technology sector. The impairment loss is included in other (expense) income in the condensed consolidated statements of operations for the three and nine months ended November 30, 2001.

7. 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 to operations related to the product development consolidation of approximately \$2.4 million during the three months ended August 31, 2001.

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 workforce and a reduction in the amount of office space to be used in certain of the Company's leased facilities. Involuntary employee terminations have totaled 123 across most business functions and geographic regions through November 30, 2001. All terminated employees were notified by November 30, 2001 and four were still employed by the company as of November 30, 2001. The Company recorded a charge for severance and related benefits of approximately \$1.9 million during the three months ended November 30, 2001. The Company recorded a facility charge of approximately \$2.3 million during the three months ended November 30, 2001 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 November 30, 2001 (in thousands):

	Balance as of Feb 28, 2001	Utilization of cash of Q1FY02	Balance as of May 31, 2001	Charges of Q2FY02	Utilization of cash of Q2FY02	Balance as of Aug 31, 2001	Charges of Q3FY02	Utilization of cash of Q3FY02	Balance as of Nov 30, 2001
Lease obligations and terminations	\$3,440	\$(647)	\$2,793	\$1,353	\$(271)	\$3,875	\$2,300	\$(223)	\$5,952
Severance and related benefits				425	(171)	254	1,893	(1,456)	691
Relocation				497	(138)	359		(179)	180
Write-down of leasehold improvements				144					
Total	\$3,440	\$(647)	\$2,793	\$2,419	\$(580)	\$4,488	\$4,193	\$(1,858)	\$6,823(1)

(1) \$2.8 million and \$4.0 million is included in other accrued current liabilities and other noncurrent liabilities, respectively, in the condensed consolidated balance sheet as of November 30, 2001.

8. Income Taxes

An income tax benefit of \$10.4 million and \$19.9 million was recorded for the three and nine-month periods ended November 30, 2001, respectively. 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 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 November 30, 2001 based upon the Company's estimates. The deferred tax asset recorded at November 30,

2001, net of the 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 based on evolving business conditions.

9. Reclassifications

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

10. Supplemental Cash Flow Information

Total interest paid by the Company for the nine months ended November 30, 2001 and 2000 was \$12.6 million and \$0.5 million, respectively.

11. New Accounting Pronouncements

On March 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133 (SFAS 133), *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS 137 and 138. SFAS 133 requires all derivatives to be recorded at fair value. Unless designated as hedges, changes in these fair values will be recorded in the income statement. Fair value changes involving hedges will generally be recorded by offsetting gains and losses on the hedge and on the hedged item, even if the fair value of the hedged item is not otherwise recorded. Adoption of this standard had no material impact on the Company's financial statements.

In June, 2001, the Financial Accounting Standards Board issued 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*. 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. Goodwill and certain intangible assets will remain on the balance sheet and not be amortized. 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. Amortization of goodwill, including goodwill recorded in past business combinations, will cease upon adoption of this statement. SFAS 142 will also require recognized intangible assets to be amortized over their respective estimated useful lives and reviewed for impairment in accordance with 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*. 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 will require 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 will identify its reporting units and determine 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 to determine the fair value of each reporting unit and compare it to the reporting unit's carrying amount. To the extent a 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. Any impairment loss will be recognized as the cumulative effect of a change in accounting principle in the Company's statement of operations.

The Company is required to adopt 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 completed after June 30, 2001. Early adoption and retroactive application of these Standards are not permitted. However, any goodwill and any intangible asset determined to have an indefinite useful life that is acquired in a business combination completed after June 30, 2001 will not be amortized. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized until February 28, 2002. The Company will stop amortizing goodwill

at that time, but will continue amortizing other intangible assets. At this time we have not determined how goodwill will be allocated to specific reporting units upon adoption of SFAS 142 on March 1, 2002. Additionally, we have not appraised the value of any such reporting units. Accordingly, we have not yet made a determination about whether or not an impairment charge will be necessary upon adoption of the new standard. Beginning in our fiscal year 2003, we expect a reduction in our quarterly amortization expense of approximately \$20.4 million for the quarter ending May 31, 2002, \$18.9 million for the quarters ending August 31, 2002 and November 30, 2002 and \$17.9 million for the quarter ending February 28, 2003, based on our current amortization schedule. The Company will need to periodically evaluate the recoverability of its goodwill. It is possible that the Company may incur impairment charges upon the adoption of SFAS 141 and SFAS 142 in the future.

In August 2001 the Financial Accounting Standards Board issued 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 SFAS 121 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 requirement to report discontinued operations separately from continuing operations and extends that reporting to a component of an entity that either has been disposed of or is classified as held for sale. SFAS 144 is effective for fiscal years beginning after December 15, 2001. The Company will adopt the provisions of SFAS 144 effective March 1, 2002, and does not expect adoption of this standard to have any material impact on the Company s financial statements.

In November, 2001, the Financial Accounting Standards Board issued a Staff Announcement Topic No. D-103 (Topic D-103), *Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred*. Topic D-103 establishes that reimbursements received for out-of-pocket expenses should be characterized as revenue in the income statement. The Company is required to adopt the guidance effective March 1, 2002. Currently the Company records out-of-pocket expense reimbursements as a reduction of operating expenses. Beginning in fiscal 2003, the Company will record these reimbursements as revenue which will result in increased services revenue and increased operating expenses. Comparative financial statements for prior year information will be reclassified to conform to the new presentation. The Company is in the process of determining the effect on services revenue and operating expenses. The application of Topic D-103 will not result in any impact to operating or net income in any past or future periods.

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

We are a leading global provider of Enterprise Profit Optimization™ (EPO) solutions. We provide solutions for supplier relationship management (SRM), supply chain management (SCM), and pricing and revenue optimization (PRO). Our solutions help companies lower operating costs, improve customer service, increase revenues, enhance profitability and accelerate revenue and earnings growth. They do this by creating efficiencies in both how goods and services are brought to market (supplier relationship management, supply chain management) and how they are sold (pricing and revenue optimization). EPO solutions provide additional benefits by combining the proven cost-reducing power of SRM and SCM solutions and the revenue-enhancing capacity of PRO solutions. These solutions integrate pricing, forecasting, and operational planning and execution to help enhance margins across the enterprise and the extended trading network.

Our SRM solutions help improve the activities required to design, source, and procure goods and to collaborate more effectively with key suppliers of direct materials. Our SCM solutions enable a company to plan and execute its supply chain processes. These processes include manufacturing, distribution and service operations, and collaboration with a company's extended trading network of suppliers and customers. Our PRO solutions help optimize a company's demand chain, including pricing and promotions to all customers through all channels, with the aim of balancing the trade-offs between profits and other strategic objectives such as market share. We also provide strategic consulting and implementation services to our clients as part of our solutions.

Increasing global competition, shortening product life cycles and more demanding customers are forcing businesses to provide improved levels of customer service while shortening the time it takes to bring their products and services to market. We were an early innovator in solutions that allow collaboration among our clients and their customers and suppliers. Our first Internet-ready products were commercially available in late 1997. We focus the development of our technology on meeting the changing needs of companies in the markets we serve, including the need to do business in new electronic marketplaces. We offer solutions to companies in many industries including apparel, footwear, & textiles; automotive; chemical & energy; communications & high technology; consumer packaged goods; food & agriculture; forest products; financial services; government & public sector; life sciences; retail; third party logistics and travel, transport & hospitality. Our customer base of approximately 1,100 clients includes large, multinational enterprises such as 3Com; Amazon.com; Boeing Co.; BP Amoco Corp.; Brown & Williamson Tobacco Corp.; Caterpillar; Cisco Systems Inc.; Coca-Cola Bottling Co. Consolidated; ComPaq; DuPont; eConnections; Ford Motor Company; General Electric; Harley-Davidson, Inc.; Hormel Foods Corp.; Levi Strauss & Co.; Marriott; Nestle; Texas Instruments; Timberland; Unilever Home & Personal Care, USA; and United Airlines as well as mid-sized enterprises.

During the three months ended August 31, 2001, we experienced delays in consummating software license transactions, especially during the last few days of the period. The delays were caused primarily by prospects' concerns about committing to large capital projects in the face of weakening global economic conditions. We believe that these concerns were heightened further by the terrorist attacks in the United States on September 11, 2001 making it difficult for us to accurately forecast our revenues while global economic conditions were uncertain. Our software revenue and total revenue decreased \$20.2 million and \$18.8 million during the three months ended August 31, 2001 compared to the three months ended May 31, 2001, or 44.9% and 21.0%, respectively. During the three months ended November 30, 2001, our software revenue and total revenue remained at reduced levels; both declining slightly from the quarter ended August 31, 2001. Based on improvements in closure rates on software license transactions late in our fiscal third quarter and the level of software transactions closed in December 2001, we expect our total revenue to increase during the quarter ended February 28, 2002 compared to the quarterly period ended November 30, 2001. See Forward Looking Statements and Factors That May Effect Future Results.

In response to the downturn in the economy during fiscal 2002, the Company has enacted several cost containment measures to reduce its operating cost structure, including the 2002 restructuring plans. In addition to reducing its workforce, the Company has also enacted additional cost cutting measures, including a temporary mandatory leave without pay program for all United States employees, a voluntary leave without pay program in Europe, a reduction in the use of outside contractors, a reduction in professional service providers and reduced travel expenses. The mandatory leave program in the

Edgar Filing: TORONTO DOMINION BANK - Form 424B2

United States began on October 1, 2001 and is expected to last throughout the remainder of fiscal 2002. The voluntary leave without pay program in Europe began on January 1, 2002 and is expected to last approximately six months.

With these cost containment programs in place, the Company was able to reduce its spending by approximately \$7.8 million in aggregate across all functional areas during the three months ended November 30, 2001 compared to the three months ended August 31, 2001.

RESULTS OF OPERATIONS

The following table includes the consolidated statements of operations data for the three and nine months ended November 30, 2001 and 2000 expressed as a percentage of revenue:

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2001	2000	2001	2000
REVENUE:				
Software	32.2%	51.1%	40.1%	50.5%
Services	40.1%	29.4%	36.0%	27.5%
Support	27.7%	19.5%	23.9%	22.0%
Total revenue	100.0%	100.0%	100.0%	100.0%
OPERATING EXPENSES:				
Cost of revenue:				
Cost of software	6.9%	6.1%	6.5%	7.3%
Amortization of acquired technology	3.9%	0.1%	2.9%	0.1%
Cost of services and support	34.3%	20.3%	31.0%	21.9%
Sales and marketing	39.1%	43.9%	39.6%	44.1%
Product development	25.1%	12.8%	23.5%	14.1%
General and administrative	9.3%	8.5%	9.2%	9.1%
Amortization of intangibles	31.7%	0.8%	27.3%	1.0%
Non-cash stock compensation expense (benefit)	1.9%	(8.7)%	(1.8)%	8.2%
Restructuring charge	6.1%		2.9%	
IRI settlement	4.5%		1.4%	
Total operating expenses	162.8%	83.8%	142.5%	105.8%
(Loss) income from operations	(62.8)%	16.2%	(42.5)%	(5.8)%
Other (expense) income, net	(17.8)%	0.4%	(5.4)%	0.6%
(Loss) income before income taxes	(80.6)%	16.6%	(47.9)%	(5.2)%
(Benefit from) provision for income taxes	(15.2)%	3.1%	(8.7)%	1.2%
Net (loss) income	(65.4)%	13.5%	(39.2)%	(6.4)%

The percentages shown above for cost of services and support, sales and marketing, product development and general and administrative expenses have been calculated, excluding non-cash stock compensation expense (benefit) which are shown below (in thousands):

	Three months ended November 30,		Nine months ended November 30,	
	2001	2000	2001	2000
Cost of services and support	\$ 535	\$ (1,373)	\$ (390)	\$ 4,864

Edgar Filing: TORONTO DOMINION BANK - Form 424B2

Sales and marketing	537	(3,000)	(2,166)	4,349
Product development	115	(1,240)	(1,393)	4,103
General and administrative	116	(460)	(211)	1,322
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	\$ 1,303	\$ (6,073)	\$ (4,160)	\$ 14,638
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

See Non-cash Stock Compensation Expense (Benefit) for further detail.

REVENUES:

General. Our revenue is derived from three categories: software, services and support. Software revenue is generally recognized upon execution of a software license agreement and shipment of the software, provided the fees are fixed and determinable and collection is considered probable in accordance with the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 97-2, *Software Revenue Recognition*", as modified by SOP 98-9, *Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions*, and Securities and Exchange Commission (SEC) Staff Accounting Bulletin 101 (SAB 101), *Revenue Recognition*. Fees are allocated to the various elements of software license agreements based on our historical fair value experience. We generate the majority of our software revenue from our direct sales force with lesser amounts coming through indirect sales channels such as complementary software vendors, consulting firms, systems integrators and resellers. Services revenue is recognized as the services are performed. Support revenue is recognized ratably over the support period defined in the software license agreement.

When we provide services that are considered essential to the functionality of software products sold or if software sold requires significant development, modification or customization, we account for the software and services revenue in accordance with SOP 81-1, *Accounting for Performance of Construction Type and Certain Production Type Contracts* , which requires us to use the percentage-of-completion method of revenue recognition. Revenue is recognized based on labor hours incurred to date compared to total estimated labor hours for the contract.

Total revenue decreased 1.8%, or \$1.3 million, and increased 28.5%, or \$50.9 million, during the three and nine months ended November 30, 2001, respectively, compared to the same periods in 2000. The decrease in total revenue during the three-month comparable periods resulted primarily from the weakened global economy and global political uncertainty, which led to fewer closed software transactions and lower average sales prices (see *Software* below.) The increase in total revenue during the nine-month comparable period was primarily due to:

increased market acceptance for our products and services;

an increased customer base desiring training, consulting and implementation services;

an increase in the number of clients that have licensed our software and entered into annual support arrangements; and

the acquisition of Talus Solutions, Inc. (Talus) in December 2000.

Software. Software revenue decreased 38.1%, or \$13.7 million, and increased 1.9%, or \$1.7 million, for the three and nine months ended November 30, 2001, respectively, as compared to the same periods in 2000. The decrease in software revenue during the three months ended November 30, 2001 was primarily due to economic uncertainty and a related decline in information technology spending, including software. Despite the weakening economic conditions during fiscal 2002, software revenue during the nine months ended November 30, 2001 increased over the nine-month comparable period. This increase was primarily due to increased market acceptance for our software products and solutions and the acquisition of Talus.

We had 24 and 81 significant software license transactions during the three and nine months ended November 30, 2001, respectively, compared to 30 and 78 during the comparable prior year periods. The average size of our significant software transactions was \$843,000 and \$1.2 million for the three months ended November 30, 2001 and 2000, respectively, and \$1.1 million for both nine month periods ended November 30, 2001 and 2000, respectively. Significant software license transactions are those with a value of \$100,000 or greater recognized within the quarter.

The following table summarizes the number of software transactions of \$1.0 million or greater:

	Three months ended		Nine months ended	
	November 30, 2001	2000	November 30, 2001	2000
All software transactions equal to or greater than \$1.0 million	9	14	25	33
Software transactions equal to or greater than \$2.5 million	1	3	8	8
Software transactions equal to or greater than \$6.0 million	0	1	2	1

We believe the reduction in software transactions of \$1.0 million or greater and average selling price during the three months ended November 30, 2001 is primarily the result of companies becoming more cautious and deliberate regarding commitments to large capital expenditures due to the global economic slowdown. See *Forward Looking Statements* and *Factors That May Effect Future Results*.

Services. Services revenue increased 34.1%, or \$7.0 million, and 68.3%, or \$33.5 million, for the three and nine months ended November 30, 2001, respectively, as compared to the same periods in 2000. The increase in services revenue during the three and nine months ended November 30, 2001 was primarily due to an increased number of software transactions and related implementations over the past several quarters through May 31, 2001, an increased customer base desiring training, consulting and implementation services and the Talus acquisition. Services revenue tends to track software license transactions in prior periods.

Support. Support revenue increased 39.5%, or \$5.4 million, and 39.7%, or \$15.6 million, for the three and nine months ended November 30, 2001, respectively, as compared to the same periods in 2000. The increase in support revenue during the three and nine months ended November 30, 2001 was due to the increase in the number of clients that have licensed our software and entered into annual support arrangements. Support revenue tends to track software license transactions in prior periods. In the past, we have experienced a high rate of renewed annual support contracts. There can be no assurance that this renewal rate will continue.

International Revenue. We market and sell our software and services internationally primarily in Europe, Asia, Canada and Latin America. Revenue outside of the United States was 30.8% and 43.9% of total revenue, or \$21.2 million and \$30.7 million, during the three months ended November 30, 2001 and 2000, respectively, and 28.1% and 30.3% of total revenue, or \$64.4 million and \$54.2 million, during the nine months ended November 30, 2001 and 2000, respectively. The decrease in international revenue for the three-month period was primarily attributable to the effect of the global economic slowdown on us beginning in the quarter ended August 31, 2001. The increase in this revenue for the nine months ended November 30, 2001 resulted from our efforts to expand our presence and selling efforts outside of the United States. We believe increasing international revenue is important to growth in both revenue and profitability and may lower our overall exposure to unfavorable economic conditions in specific regions.

Operating Expenses:

General. In accordance with Statement of Financial Accounting Standards No. 86 (SFAS 86), *Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed*, software development costs are expensed as incurred until technological feasibility has been established, at which time such costs are capitalized until the product is available for general release to clients. Software development costs are amortized at the greater of the amount computed using either: (a) the straight-line method over the estimated economic life of the product, commencing with the date the product is first available for general release; or (b) the ratio that current gross revenue bears to the total current and anticipated future gross revenue. Generally, an economic life of two years is assigned to capitalized software development costs.

A summary of capitalized software development costs and related amortization is shown below (in thousands):

	Three months ended November 30,		Nine months ended November 30,	
	2001	2000	2001	2000
Capitalized software development costs	\$ 2,484	\$ 2,229	\$ 7,711	\$ 6,760
Amortization of capitalized software	(2,568)	(2,322)	(8,522)	(6,867)
Net expense	\$ (84)	\$ (93)	\$ (811)	\$ (107)

Cost of Software. Cost of software consists primarily of amortization of capitalized software development costs and royalty fees associated with third-party software either embedded in our software or resold by us. The following table sets forth amortization of capitalized software development costs and other costs of license fees for the three and nine months ended November 30, 2001 and 2000 (in thousands):

	Three months ended November 30,		Nine months ended November 30,	
	2001	2000	2001	2000
Amortization of capitalized software	\$ 2,568	\$ 2,322	\$ 8,522	\$ 6,867
<i>Percentage of software revenue</i>	11.6%	6.5%	9.2%	7.6%
Other costs of software	2,182	1,985	6,326	6,097
<i>Percentage of software revenue</i>	9.8%	5.5%	6.9%	6.8%
Total cost of software	\$ 4,750	\$ 4,307	\$ 14,848	\$ 12,964
<i>Percentage of software revenue</i>	21.4%	12.0%	16.1%	14.4%

The increase in cost of software during the three and nine months ended November 30, 2001 compared to the same periods in 2000 was primarily a result of increased amortization of capitalized software. The increase in other costs of software as a percentage of software revenue resulted from the mix of software sold and related impact on royalties paid to third parties.

Amortization of Acquired Technology. In connection with our acquisitions of the CSD division of Partminer and SpaceWorks intellectual property during fiscal 2002, and Talus and STG Holdings, Inc. (the STG Acquisition) during fiscal 2001, and certain previous acquisitions, we acquired developed technology that we offer as part of our integrated solutions. Acquired technology is amortized over periods ranging from four to six years.

Cost of Services and Support. Cost of services and support primarily includes personnel and third party contractor costs. Cost of services and support increased 66.2%, or \$9.4 million, and 81.6%, or \$32.0 million, during the three and nine months ended November 30, 2001, respectively, as compared to the same periods in 2000. The increase in cost of services and support was primarily attributable to adding the personnel necessary to support the growth in services and support revenue and installed customer base and the Talus acquisition.

Sales and Marketing. Sales and marketing expense consists primarily of personnel costs, sales commissions, promotional events such as trade shows and technical conferences, advertising and public relations programs. Sales and marketing expense decreased 12.4%, or \$3.8 million, and increased 15.4%, or \$12.2 million, during the three and nine months ended November 30, 2001, respectively, as compared to the same periods in 2000. The decrease during the three months ended November 30, 2001 was primarily due to lower sales commissions resulting from decreased software sales and a decrease in promotional spending, advertising and public relations spending compared to the same period in 2000. The increase during the nine months ended November 30, 2001 was primarily due to an increase in the number of direct sales representatives and sales management and increasing the overall sales, marketing and business development employees to 414 at November 30, 2001 compared to 348 at November 30, 2000, as well as an increase in promotional spending, advertising and public relations spending.

Edgar Filing: TORONTO DOMINION BANK - Form 424B2

Product Development. Product development expenses include expenses associated with the development of new software products, enhancements of existing products and quality assurance activities. Such costs are primarily from personnel and third party contractors.

The following table sets forth product development costs for the three and nine months ended November 30, 2001 and 2000 (in thousands):

	Three months ended November 30,		Nine months ended November 30,	
	2001	2000	2001	2000
Gross product development costs	\$ 19,716	\$ 11,193	\$ 61,704	\$ 31,939
<i>Percentage of total revenue</i>	28.7%	16.0%	26.9%	17.9%
Less: Capitalized software development costs	2,484	2,229	7,711	6,760
<i>Percentage of total revenue</i>	3.6%	3.2%	3.4%	3.8%
Product development costs, as reported	\$ 17,232	\$ 8,964	\$ 53,993	\$ 25,179
<i>Percentage of total revenue</i>	25.1%	12.8%	23.5%	14.1%

Gross product development costs increased 76.2%, or \$8.5 million, and 93.2%, or \$29.8 million, during the three and nine months ended November 30, 2001, respectively, compared to the same periods in 2000. The increase was due to:

Increasing the number of product development employees to 385 at November 30, 2001 compared to 276 at November 30, 2000, an increase of 39.5%;

Acquisitions during the first six months of fiscal 2002 and fourth quarter of fiscal 2001;

Increased usage of outside contractors; and

Increased number of product development initiatives.

General and Administrative. General and administrative expenses include personnel and other costs of our legal, finance, accounting, human resources, facilities and information systems functions. General and administrative expenses increased 6.7%, or \$0.4 million, and 30.0%, or \$4.9 million, during the three and nine months ended November 30, 2001, respectively, as compared to the same periods in 2000. The increase during the three and nine months ended November 30, 2001 was due primarily to an increase of personnel to support our growth.

Amortization of Intangibles. Our acquisitions of the CSD division of Partminer and One Release assets during fiscal 2002 and Talus and STG Holdings, Inc. (STG) during fiscal year 2001 and certain previous acquisitions were accounted for under the purchase method of accounting. As a result, we recorded goodwill and other intangible assets that represent the excess of the purchase price paid over the fair value of the net tangible assets acquired. Goodwill and other intangible assets (other than acquired technology) are amortized over periods ranging from two to seven years.

Non-Cash Stock Compensation Expense (Benefit). We recognized non-cash stock compensation expense (benefit) of \$1.3 million and \$(4.2) million, and \$(6.1) million and \$14.6 million, during the three and nine months ended November 30, 2001 and 2000, respectively, associated with stock options that were repriced in January 1999, net of unvested stock options assumed in the Talus acquisition. These amounts are included as a separate component of stockholders' equity and are amortized by charges to operations in accordance with FASB Interpretation No. 44 (FIN 44) *Accounting for Certain Transactions Involving Stock Compensation*.

Repriced Options:

In January 1999, we repriced certain employee stock options, other than those held by executive officers or directors. This resulted in approximately 3.0 million options being repriced and the four-year vesting period starting over. Under FIN 44, repriced options are subject to variable plan accounting, which requires compensation cost or benefit to be recorded each period based on changes in the Company's stock price until the repriced options are exercised, forfeited or expire. This resulted in a benefit of \$0 and \$8.0 million during the three and nine months ended November 30, 2001. The

initial fair value of the stock used to measure the ongoing stock compensation charge or benefit was \$22.19 based on the closing price of our common stock on June 30, 2000. Since our stock price at the beginning and end of the three months ended November 30, 2001 was below \$22.19, no charge or benefit was recorded during the quarter. As of November 30, 2001, 1.0 million repriced options were still outstanding with a remaining vesting period of approximately 15 months. In future periods, we will record additional charges or benefits related to the repriced stock options still outstanding based on the change in our common stock price compared to the last reporting period. If our stock price at the beginning and end of any reporting period is below \$22.19, no charge or benefit will be recorded.

Unvested Stock Options -Talus Acquisition:

As part of the Talus acquisition, we assumed all outstanding options to purchase shares of Talus common stock, which were converted into our stock options. Options to purchase approximately 631,000 shares of our common stock were unvested at the acquisition date. FIN 44 requires the acquiring company to measure the intrinsic value of unvested stock options assumed at the acquisition date in a purchase business combination and record a compensation charge over the remaining vesting period of those options to the extent those options remain outstanding. This resulted in a charge of \$1.3 million and \$3.7 million during the three and nine months ended November 30, 2001, respectively.

Restructuring costs. During our second and third quarters of our current fiscal year, the Company adopted two restructuring plans. In connection with the Company's decision to implement these plans, we incurred an expense of \$4.2 million and \$6.6 million in the three and nine months ended November 30, 2001, respectively. The costs were primarily attributable to remaining lease obligations, severance and related benefits and employee relocation costs incurred on or prior to November 30, 2001. See note 7 Restructuring in the Notes to Condensed Consolidated Financial Statements.

IRI settlement. The IRI settlement charge of \$3.1 million in the three and nine month periods ended November 30, 2001 represents the amount in excess of a liability accrued in prior years for the resolution of a dispute between the Company and Information Resources, Inc. (IRI). See note 3 Commitments and Contingencies in the Notes to Condensed Consolidated Financial Statements.

Other (Expense) Income, Net:

Other (expense) income, net, includes interest income from cash equivalents and marketable securities, interest expense from borrowings, foreign currency exchange gains or losses and other gains or losses. Other expense was \$(12.3) million during the three months ended November 30, 2001 compared to other income of \$306,000 in the prior year period, and was \$(12.4) million during the nine months ended November 30, 2001 compared to \$1.0 million in the prior year period. This change relates primarily to the Company recording an impairment loss of approximately \$10.2 million relating to an other-than temporary decline in the fair value of its equity investment in Converge (see note 6 Investments in Businesses in the Notes to Condensed Consolidated Financial Statements), and higher interest expense as a result of the issuance of \$250.0 million of convertible debt during the quarter ended November 30, 2000, offset by higher interest income in fiscal 2002 periods as a result of higher average invested cash and marketable securities.

(Benefit from) Provision for Income Taxes:

We recorded an income tax benefit of \$10.4 million and \$19.9 million during the three and nine months ended November 30, 2001, respectively. The effective tax rate differed from the U.S statutory rate primarily due to non-deductible goodwill along with non-cash stock compensation expense (benefit) and impairment loss on the Converge Investment that did not result in an income tax benefit or expense for financial reporting purposes. Excluding the effect of amortization of intangibles and developed technology, non-cash stock compensation expense (benefit), the Converge Investment impairment, the IRI settlement and restructuring costs, our effective tax rate was approximately 37.9% and 35.7% for the three and nine months ended November 30, 2001, respectively.

As of February 28, 2001, we had net operating loss carryforwards (NOLs) for federal, state and foreign tax purposes of \$211.0 million, in aggregate. These carryforwards expire in various years between 2002 and 2021. We recorded deferred tax asset valuation allowances against NOLs where it is more likely than not that we will not be able to utilize these future tax benefits.

Edgar Filing: TORONTO DOMINION BANK - Form 424B2

As of November 30, 2001, we had net deferred tax assets of \$14.9 million. Realization of our net deferred tax assets is dependent upon the Company having sufficient taxable income in future periods to utilize our net operating loss carryforwards before they expire from 2002 to 2021. Continuing losses for tax purposes combined with a reduction in our anticipated taxable income in future periods could cause a portion of our net operating loss carryforwards to expire with a corresponding loss of the related deferred tax asset. Management believes that an appropriate valuation allowance was recorded at November 30, 2001 based upon the Company's estimates. Management will continue to monitor its estimates of future profitability based on evolving business conditions.

Net Loss:

We reported a net loss of \$45.0 million and net income of \$9.4 million, and a net loss of \$90.1 million and \$11.4 million, for the three and nine months ended November 30, 2001 and 2000, respectively. The increased net loss in the three and nine months ended November 30, 2001 compared to the same periods a year ago was primarily due to amortization of intangibles directly attributable to our acquisitions over the past year, the Converge Investment impairment, the IRI settlement, restructuring costs and an increased operating loss (excluding non-cash charges), offset by the effect of non-cash stock compensation expense (benefit). Excluding the impact of amortization of intangibles and acquired technology, non-cash stock compensation expense (benefit), the Converge Investment impairment, the IRI settlement, restructuring costs and the related tax effects, we would have reported a net loss of \$7.6 million for the three months ended November 30, 2001 compared to net income of \$3.7 million for the comparable period in the prior year, and a net loss of \$16.1 million for the nine months ended November 30, 2001 compared to net income of \$4.3 million for the comparable period in the prior year.

Liquidity and Capital Resources:

Our cash, cash equivalents and marketable securities in the aggregate decreased \$76.5 million during the nine months ended November 30, 2001 to \$223.8 million. Working capital decreased \$68.3 million to \$232.4 million at November 30, 2001. The decrease in working capital was primarily the result of cash payments for the CSD Acquisition, SpaceWorks Transaction, the Converge Investment and two semi-annual interest payments on our convertible debt, as well as losses from operations and severance and lease payments related to our restructuring plans.

Cash flows used by operating activities was \$(25.6) million and \$(1.1) million for the nine months ended November 30, 2001 and 2000, respectively. Changes in assets and liabilities used working capital of \$(5.9) million during the nine months ended November 30, 2001 compared to a use of working capital of \$(16.6) million during the nine months ended November 30, 2000, or an improvement of \$10.7 million. This improvement reflects changes in the Company's year over year revenue growth trends for the comparable nine months and sequential quarterly decline in revenues during the three months ended August 31, 2001 and November 30, 2001, resulting in a decline of receivables, deferred revenue and accrued compensation (commission and bonus) during fiscal 2002 compared to significant increases in fiscal 2001. The decreased use in working capital provided was offset by a decline in profits from operations, before non-cash charges, of \$38.6 million. Days sales outstanding (DSO) in accounts receivable increased to 103 days as of November 30, 2001 from 92 days as of November 30, 2000. The increase in DSO's from the comparable reporting period was caused by a higher percentage of quarterly software license transactions closing during the final weeks of the three month period ended November 30, 2001 compared to the prior year.

Cash provided by (used in) investing activities was \$30.8 million and \$(10.8) million during the nine months ended November 30, 2001 and 2000, respectively. Investing activities consist primarily of the sales and purchases of marketable securities, purchases of property and equipment, purchases and capitalization of software and acquisitions and investments in businesses. Sales of marketable securities, net of purchases, was \$90.3 million during the nine months ended November 30, 2001. Total purchases of property, equipment and software, including capitalized software, were \$19.0 million during the nine months ended November 30, 2001. We expect purchases of property and equipment to increase in fiscal 2002 and 2003 as we build out our new leased corporate headquarters space. Acquisitions and investments in businesses, net of cash acquired, of \$40.8 million, in aggregate, during the nine months ended November 30, 2001, relate primarily to the CSD Acquisition, SpaceWorks Transaction and the Converge Investment.

Cash provided by financing activities was \$8.3 million and \$245.6 million during the nine months ended November 30, 2001 and 2000, respectively. Cash provided by financing activities during the nine months ended November 30, 2001 consisted primarily of proceeds from the exercise of stock options and employee stock plan purchases. Cash provided by financing activities during the nine months ended November 30, 2000 consisted primarily of net proceeds from the issuance

Edgar Filing: TORONTO DOMINION BANK - Form 424B2

of \$250.0 million in convertible subordinated notes in October and November 2000, as well as proceeds from the exercise of stock options and employee stock plan purchases. We had no balance outstanding under our line of credit at November 30, 2001.

As of November 30, 2001, we had \$250.0 million in 5% convertible subordinated notes outstanding (the Notes). The Notes bear interest at 5.0% per annum, which is payable semi-annually. The Notes mature in November 2007 and are convertible into approximately 5.7 million shares of our common stock at a conversion price of \$44.06 per share, subject to adjustment under certain conditions. On or after November 7, 2003, we may redeem the Notes in whole, or from time to time, in part, at our option. Redemption can be made on at least 30 days' notice if the trading price of our common stock for 20 trading days in a period of 30 consecutive days ending on the day prior to the mailing of notice of redemption exceeds 120% of the conversion price of the Notes. The redemption price, expressed as a percentage of the principal amount, is:

<u>Redemption Period</u>	<u>Redemption Price</u>
November 7, 2003 through October 31, 2004	103%
November 1, 2004 through October 31, 2005	102%
November 1, 2005 through October 31, 2006	101%
November 1, 2006 through maturity	100%

We have a one-year unsecured revolving credit facility with a commercial bank for \$20.0 million. The current agreement has been extended and is scheduled to expire on January 31, 2002. Management expects the facility to be renewed by January 31, 2002. Under its terms, we may request cash advances, letters of credit or both. We may make borrowings under the facility for short-term working capital purposes or for acquisitions. Acquisition-related borrowings are limited to \$7.5 million per acquisition.

In December 2000, we entered into a ten-year lease agreement for a new headquarters facility in Gaithersburg, MD for approximately 210,000 square feet to replace expiring leases in our existing Maryland facilities. This lease was amended in June 2001 to add approximately 70,000 square feet. We expect to incur approximately \$9.0 million in capital expenditures for leasehold improvements in the new space, which we began to incur during the three months ended August 31, 2001. We expect to move into our new headquarters space during the second calendar quarter of 2002. We will also procure approximately \$8.0 million of furniture and telecommunications equipment for the new space under capital lease agreements.

On January 16, 2001, we acquired STG. We may be required to make additional contingent payments to the former stockholders of STG of up to \$27.9 million during fiscal 2003 if certain revenue-based performance criteria are met during the 21-month period ending October 31, 2002. The additional contingent payments, if any, would be payable in cash or, in limited circumstances, in common stock at our sole election.

In the future, we may pursue acquisitions of complementary businesses and technologies. In addition, we may make strategic investments in businesses and enter into joint ventures that complement our existing business. Any future acquisition or investment may result in a decrease to our liquidity and working capital to the extent we pay with cash.

We believe that our existing cash, cash equivalents and marketable securities, available borrowings under our credit facility and our anticipated cash flows from operations in future periods will be sufficient to satisfy our existing liquidity and capital requirements for the foreseeable future.

Factors that May Affect Future Results:

In addition to the other information in this Form 10-Q, the following factors should be considered in evaluating us and our business. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties, that we do not presently know or that we currently deem immaterial, may also materially impair our business, results of operations and financial condition.

Risks Related to Our Business

THE TERRORIST ATTACKS THAT TOOK PLACE IN THE UNITED STATES ON SEPTEMBER 11, 2001 WERE UNPRECEDENTED EVENTS THAT HAVE CREATED MANY ECONOMIC AND POLITICAL UNCERTAINTIES, SOME OF WHICH MAY HARM OUR BUSINESS AND PROSPECTS AND OUR ABILITY IN GENERAL TO CONDUCT BUSINESS IN THE ORDINARY COURSE.

The terrorist attacks that took place in the United States on September 11, 2001, and thereafter in the United States and elsewhere in the world have adversely impacted many businesses, including the Company, in multiple ways. The national and global responses to these terrorist attacks, some of which are still being formulated, may materially adversely affect us in ways we cannot predict at present. Some of the possible material adverse impacts to our business include, but are not limited to:

the reduced ability to do business in the ordinary course as it is customarily conducted, resulting from a variety of factors, including changes or disruptions in movement and sourcing of materials, goods and components or the possible interruption in the flow of information or monies;

a lengthening of our sales cycles and implementations, which might result from a number of factors, including among others changes in security measures for passenger air travel and reductions in available commercial flights which may make it more difficult for our sales force to schedule face-to-face meetings with prospects and to negotiate and consummate transactions;

increased credit and business risk for customers in industries that were severely impacted by the attacks, including passenger airlines and other travel and hospitality industries; and

possible reductions, delays or postponements, if any, in capital expenditures as a result of changes in priorities and approval processes. **AS A RESULT OF SIGNIFICANT CHANGES IN OUR MANAGEMENT, PERSONNEL AND PRODUCTS, YOU MAY HAVE DIFFICULTY EVALUATING OUR PROSPECTS BASED ON OUR SIGNIFICANT LOSSES IN RECENT FISCAL YEARS.**

We experienced operational difficulties in fiscal 1999 and the first half of fiscal 2000. Problems with our direct sales operation and intense competition, among other factors, contributed to net losses in fiscal 1999 and fiscal 2000 and a decline in revenue in fiscal 2000. Since late in our second quarter of fiscal 2002, we have again experienced a decline in revenue, due to weakening economic conditions and the affects resulting from the terrorist attacks of September 11, 2001. Since April 1999, we hired a new executive management team, enhanced our supply chain optimization products and services, expanded the scope of our product and service offerings to include supplier relationship management, and pricing and revenue optimization and improved our direct sales organization. Our ability to continue to achieve operational improvements and improve our financial performance will be subject to a number of risks and uncertainties, including the following:

weakening economic conditions which adversely impacted our operating performance during the quarters ended August 31, and November 30, 2001;

slower growth in the markets for SRM, SCM, and PRO solutions;

our ability to introduce new software products and services to respond to technological and client needs;

our ability to manage through difficult economic and political environments;

our ability to hire, integrate and deploy our direct sales force effectively;

our ability to expand our distribution capability through indirect sales channels;

our ability to respond to competitive developments and pricing; and

our dependence on our current executive officers and key employees.

If we fail to successfully address these risks and uncertainties, our business could be harmed and we could continue to incur significant losses.

WE HAVE RECENTLY EXPERIENCED SIGNIFICANT LOSSES. OUR FUTURE RESULTS WILL BE ADVERSELY AFFECTED BY SEVERAL TYPES OF NON-CASH CHARGES. IF WE DO NOT ACHIEVE OR MAINTAIN PROFITABILITY IN THE FUTURE, OUR STOCK PRICE MAY DECLINE.

We have recently incurred significant losses, including net losses of \$90.1 million for the nine months ended November 30, 2001, \$28.1 million in fiscal 2001, \$8.9 million in fiscal 2000 and \$96.1 million in fiscal 1999. We will incur non-cash charges in the future related to the amortization of intangible assets, including acquired technology and non-cash stock compensation expenses associated with our acquisition of Talus Solutions, Inc. (Talus). We will also incur non-cash charges related to the amortization of intangible assets, including acquired technology, relating to the acquisition of STG Holdings, Inc., and certain assets of One Release LLC, PartMiner Inc.'s CSD business and SpaceWorks Inc. In addition, we have incurred and may in the future incur non-cash stock compensation charges related to our stock option repricing. During the quarter ended November 30, 2001, we announced that we were required to write off our investment in Converge, Inc., which resulted in a pre-tax charge of \$10.2 million. We may also incur other non-cash charges in future periods related to impairments of long-lived assets. We cannot assure you that our revenue will grow or that we will achieve profitability in the future. Our ability to increase revenue and achieve profitability will be affected by the other risks and uncertainties described in this section. Our failure to achieve profitability could cause our stock price to decline, and our ability to finance our operations could be impaired.

OUR OPERATING RESULTS FLUCTUATE, AND IF WE FAIL TO MEET THE EXPECTATIONS OF THE INVESTMENT COMMUNITY IN ANY PERIOD, OUR STOCK PRICE COULD SUFFER FURTHER SIGNIFICANT DECLINES.

Our revenue and operating results are difficult to predict, and we believe that period-to-period comparisons of our operating results will not necessarily be indicative of future performance. The factors that may cause fluctuations of our quarterly operating results include the following:

the size, timing and contractual terms of licenses and sales of our products and services;

customer financial constraints and credit-worthiness;

the potentially long and unpredictable sales cycle for our products;

technical difficulties in our software that could delay the introduction of new products or increase their costs;

introductions of new products or new versions of existing products by us or our competitors;

delay or deferral of customer purchases and implementations of our solutions due to weakening economic conditions which adversely impacted our operating performance during the quarters ended August 31, and November 30, 2001;

increased economic uncertainty and political instability following the terrorist attacks which began in the United States on September 11, 2001;

changes in prices or the pricing models for our products and services or those of our competitors;

changes in the mix of our software services and support revenue;

changes in the mix of software products we sell and related impact on third-party royalty payments;

changes in the mix of sales channels through which our products and services are sold; and

changes in rules relating to revenue recognition or in interpretations of those rules.

Due to fluctuations from quarter to quarter, our operating results may not meet the expectations of securities analysts or investors, as was the case for the quarter ended August 31, 2001. If this occurs, the price of our common stock could suffer further significant declines.

VARIATIONS IN THE TIME IT TAKES US TO LICENSE OUR SOFTWARE MAY CAUSE FLUCTUATIONS IN OUR OPERATING RESULTS.

The time it takes to license our software to prospective clients varies substantially, but typically has ranged historically between four and twelve months. Variations in the length of our sales cycles could cause our revenue to fluctuate widely from period to period. Because we typically recognize a substantial portion of our software revenue in the last month of a quarter, any delay in the license of our products could cause significant variations in our revenue from quarter to quarter. These delays have occurred on a number of occasions in the past, including, most recently, in our quarters ended August 31, and November 30, 2001. Furthermore, these fluctuations could cause our operating results to suffer in some future periods because our operating expenses are relatively fixed over the short term and we devote significant time and resources to prospective clients. The length of our sales cycle depends on a number of factors, including the following:

the complexities of the SRM, SCM and PRO problems our solutions address;

the breadth of the solution required by the client, including the technical, organizational and geographic scope of the license;

the evaluation and approval process employed by the client;

the sales channel through which the solution is sold;

the economic conditions in the United States and abroad;

increased economic uncertainty and political instability following the terrorist attacks which began in the United States on September 11, 2001; and

any other delays arising from factors beyond our control.

THE SIZE AND SCOPE OF OUR CONTRACTS WITH CLIENTS ARE INCREASING, WHICH MAY CAUSE FLUCTUATIONS IN OUR OPERATING RESULTS.

Our clients and prospective clients are seeking to solve increasingly complex SRM, SCM and PRO problems. Further, we are focused on providing more comprehensive solutions for our clients, as opposed to only licensing software. As the complexity of the problems our clients seek to solve increases, the size and scope of our contracts with clients increase. As a result, our operating results could fluctuate due to the following factors:

the complexities of the contracting process of our clients;

contractual terms may vary widely, which may result in differing methods of accounting for revenue from each contract;

losses of, or delays in concluding larger contracts could have a proportionately greater effect on our revenue for a particular period; and

the sales cycles related to larger contracts may be longer and subject to greater delays.

Any of these factors could cause our revenue to decline or fluctuate significantly in any quarter and could cause a decline in our stock price.

WE HAVE EXPERIENCED DIFFICULTIES INTEGRATING ACQUISITIONS IN THE PAST AND MAY EXPERIENCE PROBLEMS WITH FUTURE ACQUISITIONS THAT COULD MATERIALLY HARM OUR BUSINESS.

Acquisitions involve the integration of companies that have previously operated independently. In connection with any acquisition, there can be no assurance that we will:

- effectively integrate employees, operations, products and systems;
 - realize the expected benefits of the transaction;
 - retain key employees;
 - effectively develop and protect key technologies and proprietary know-how;
 - avoid conflicts with our clients and business partners that have commercial relationships or compete with the acquired company;
 - avoid unanticipated operational difficulties or expenditures or both; and
- effectively operate our existing business lines, given the significant diversion of resources and management attention required to successfully integrate acquisitions, including the acquisition of Talus in December 2000.

We experienced significant difficulties with the integration of the products and operations of ProMIRA Software, Inc. (ProMIRA) and TYECIN Systems, Inc. (TYECIN), which we acquired in fiscal 1998 and 1999, respectively. These difficulties included problems integrating the prior ProMIRA sales forces and the delayed releases of the in-process technology acquired as part of the transaction. In addition, as a result of the poor financial performance we experienced in fiscal 1999, the technology acquired in conjunction with the TYECIN acquisition was not integrated into our solutions and, therefore, revenue generated from this technology has been nominal. Similar difficulties with future acquisitions could materially and adversely affect our business, results of operations and financial condition.

WE MAY ENCOUNTER PROBLEMS EFFECTIVELY INTEGRATING TALUS.

On December 21, 2000, we completed the acquisition of Talus, a privately-held company that provided PRO products and services. This acquisition was substantially larger than all of our prior acquisitions, not all of which have been successful. In addition to the risks described above in connection with acquisitions generally, the ultimate success of our acquisition of Talus is dependent on factors which include the following:

- our ability to complete future releases of our PRO solutions;
 - our ability to protect and maintain Talus intellectual property rights;
 - our ability to successfully integrate Talus technologies;
 - our ability to retain and motivate Talus employees;
 - market acceptance of the products Talus has commercially developed to date;
 - our ability to fulfill our strategic plan for the acquisition of Talus by integrating our SRM and SCM capabilities and products with Talus PRO products;
 - market acceptance of EPO solutions;
 - our ability, together with Talus, to cross-sell products and services into our respective markets; and
- the outcome of disputes and litigation which have arisen in the ordinary course of business.

OUR ACQUISITION OF TALUS WILL ADVERSELY AFFECT OUR COMBINED FINANCIAL RESULTS.

We have incurred and will continue to incur substantial dilution to our earnings per share in accordance with

generally accepted accounting principles for the foreseeable future as a result of the Talus Acquisition. In connection with the acquisition, we will amortize approximately \$22.8 million of deferred compensation related to unvested stock options over four years. Further, we expect to incur an amortization charge of approximately \$82 million related to goodwill and other intangible assets during our fiscal year ending February 28, 2002.

WE DEPEND ON SALES OF OUR SRM, SCM AND PRO SOLUTIONS, AND OUR BUSINESS WILL BE MATERIALLY AND ADVERSELY AFFECTED IF THE MARKET FOR OUR PRODUCTS DOES NOT CONTINUE TO GROW.

Substantially all of our software revenue, service revenue and support revenue have arisen from, or are related directly to, our SRM, SCM and PRO solutions. We expect to continue to be dependent upon these solutions in the future, and any factor adversely affecting the solutions or the markets for SRM, SCM and PRO solutions, in general, would materially and adversely affect our ability to generate revenue. While we believe the markets for SRM, SCM and PRO solutions will continue to expand, they may grow more slowly than in the past. If the markets for our solutions do not grow as rapidly as we expect, revenue growth, operating margins, or both, could be adversely affected.

COMPANIES ARE RE-EVALUATING THEIR SUPPLIER AND CLIENT RELATIONSHIPS AND SOME ARE ADJUSTING THEIR SERVICE LEVELS AND OTHER SUPPLY CHAIN MANAGEMENT SETTINGS AND LEVELS IN A MANNER THAT MAY HAVE AN ADVERSE AFFECT ON OUR ABILITY TO SELL OUR SRM AND SCM SOLUTIONS.

Since September 11, 2001, companies are re-evaluating the nature of their relationships with suppliers and clients and some are adjusting their service levels and other supply chain management settings and levels to address risks arising out of the terrorists attacks and the resulting increased economic and political uncertainties, in ways that may adversely affect the benefits historically achieved through use of our solutions, which could have a material adverse affect on our ability to market and sell our SRM and SCM solutions.

OUR MARKETS ARE VERY COMPETITIVE, AND WE MAY NOT BE ABLE TO EFFECTIVELY COMPETE.

The markets for our solutions are very competitive. The intensity of competition in our markets has significantly increased, and we expect it to increase in the future. Our current and potential competitors may make acquisitions of other competitors and may establish cooperative relationships among themselves or with third parties. Further, our current or prospective clients and partners may become competitors in the future. Increased competition could result in price reductions, lower gross margins, longer sales cycles and the loss of market share. Each of these developments could materially and adversely affect our growth and operating performance.

MANY OF OUR CURRENT AND POTENTIAL COMPETITORS HAVE SIGNIFICANTLY GREATER RESOURCES THAN WE DO AND, THEREFORE, WE MAY BE AT A DISADVANTAGE IN COMPETING WITH THEM.

We directly compete with other application software vendors including: Adexa, Inc., Aspen Technology, Inc., The Descartes Systems Group Inc., i2 Technologies, Inc., Logility, Inc., PROS Revenue Management, Retek, Inc., Sabre, Inc., SAP AG, SynQuest and YieldStar Technology. Some eMarketplace software companies that do not currently offer directly competitive products or solutions, such as Ariba, Inc. and Commerce One, may begin to compete directly with us. In addition, some ERP companies such as Invensys plc (which acquired Baan Company N.V.), J.D. Edwards & Company, Oracle Corporation and PeopleSoft, Inc. have acquired or developed and are developing supply chain planning, pricing/revenue optimization or SCM, SRM and PRO solutions. Some of our current and potential competitors, particularly the ERP vendors, have significantly greater financial, marketing, technical and other competitive resources than us, as well as greater name recognition and a larger installed base of clients. In addition, many of our competitors have well-established relationships with our current and potential clients and have extensive knowledge of our industry. As a result, they may be able to adapt more quickly to new or emerging technologies and changes in client requirements or to devote greater resources to the development, promotion and sale of their products than we can. Any of these factors could materially impair our ability to compete and adversely affect our revenue growth and operating performance.

IF THE DEVELOPMENT OF OUR PRODUCTS AND SERVICES FAILS TO KEEP PACE WITH OUR INDUSTRY'S RAPIDLY EVOLVING TECHNOLOGY, OUR FUTURE RESULTS MAY BE MATERIALLY AND

ADVERSELY AFFECTED.

The markets for SRM, SCM and PRO solutions are subject to rapid technological change, changing client needs, frequent new product introductions and evolving industry standards that may render existing products and services obsolete. Our growth and future operating results will depend, in part, upon our ability to enhance existing applications and develop and introduce new applications or capabilities that:

meet or exceed technological advances in the marketplace;

meet changing client requirements;

comply with changing industry standards;

achieve market acceptance;

integrate third-party software effectively; and

respond to competitive offerings.

Our product development and testing efforts have required, and are expected to continue to require, substantial investments. We may not possess sufficient resources to continue to make the necessary investments in technology. In addition, we may not successfully identify new software opportunities or develop and bring new software to market in a timely and efficient manner. If we are unable, for technological or other reasons, to develop and introduce new and enhanced software in a timely manner, we may lose existing clients and fail to attract new clients, which may adversely affect our performance.

DEFECTS IN OUR SOFTWARE OR PROBLEMS IN THE IMPLEMENTATION OF OUR SOFTWARE COULD LEAD TO CLAIMS FOR DAMAGES BY OUR CLIENTS, LOSS OF REVENUE OR DELAYS IN THE MARKET ACCEPTANCE OF OUR SOLUTIONS.

Our software is complex and is frequently integrated with a wide variety of third-party software. We may license software that contains undetected errors or failures when new software is first introduced or as new versions are released. We may not be able to discover errors in our software until our customers install and use a given product or until the volume of services that a product provides increases. These problems may result in claims for damages suffered by our clients, a loss of, or delays in, the market acceptance of our solutions, client dissatisfaction and potentially lost revenue during the period required to correct these errors.

WE ARE DEPENDENT ON THIRD-PARTY SOFTWARE THAT WE INCORPORATE INTO AND INCLUDE WITH OUR PRODUCTS AND SOLUTIONS, AND IMPAIRED RELATIONS WITH THESE THIRD PARTIES, DEFECTS IN THIRD-PARTY SOFTWARE OR THE INABILITY TO ENHANCE THEIR SOFTWARE OVER TIME COULD HARM OUR BUSINESS.

We incorporate and include third-party software into and with our products and solutions. We are likely to incorporate and include additional third-party software into and with our products and solutions as we expand our product offerings. The operation of our products would be impaired if errors occur in the third-party software that we utilize. It may be more difficult for us to correct any defects in third-party software because the software is not within our control. Accordingly, our business could be adversely affected in the event of any errors in this software. There can be no assurance that these third parties will continue to invest the appropriate levels of resources in their products and services to maintain and enhance the software capabilities.

Furthermore, it may be difficult for us to replace any third-party software if a vendor seeks to terminate our license to the software or ability to license the software to others. Any impairment in our relationship with these third parties could adversely impact our business, results of operations and financial condition.

WE ARE SUBSTANTIALLY DEPENDENT ON THIRD PARTIES TO INTEGRATE OUR SOFTWARE WITH OTHER SOFTWARE PRODUCTS AND PLATFORMS.

We depend on companies such as Peregrine Systems, Inc., Vignette Corporation, and webMethods, Inc. to integrate our software with software and platforms developed by third parties. If these companies are unable to develop or maintain software that effectively integrates our software and is free from errors, our ability to license our products and provide solutions could be impaired. Further, we rely on these companies to maintain relationships with the companies that provide the external software that is vital to the functioning of our products and solutions. The loss of any company that we use to integrate our software products could adversely affect our business, results of operations and financial condition.

OUR EFFORTS TO DEVELOP RELATIONSHIPS WITH VENDORS SUCH AS SOFTWARE COMPANIES, CONSULTING FIRMS, RESELLERS AND OTHERS TO IMPLEMENT AND PROMOTE OUR SOFTWARE PRODUCTS MAY FAIL.

We are developing, maintaining and enhancing significant working relationships with complementary vendors, such as software companies, consulting firms, resellers and others, that we believe can play important roles in marketing our products and solutions. We are currently investing, and intend to continue to invest, significant resources to develop and enhance these relationships, which could adversely affect our operating margins. We may be unable to develop relationships with organizations that will be able to market our products effectively. Our arrangements with these organizations are not exclusive and, in many cases, may be terminated by either party without cause. Many of the organizations with which we are developing or maintaining marketing relationships have commercial relationships with our competitors. Therefore, there can be no assurance that any organization will continue its involvement with us and our products. The loss of relationships with important organizations could materially and adversely affect our business, results of operations and financial condition.

WE HAVE ONLY RECENTLY ENTERED INTO CONTRACTS WITH GOVERNMENTAL AGENCIES. THESE CONTRACTS OFTEN INVOLVE LONG PURCHASE CYCLES AND COMPETITIVE PROCUREMENT PROCESSES.

We have recently begun providing our solutions to government agencies and expect that a significant portion of our future revenue may be derived from government agency clients. Obtaining government contracts may involve long purchase cycles, competitive bidding, qualification requirements, congressional appropriations, delays in funding, budgetary constraints and extensive specification development and price negotiations. In order to facilitate the sales of our commercial software and services to the federal government we hold a Government Services Administration Federal Supply Services Schedule for Information Technology (IT) and Management Organizational and Business Improvement Services (MOBIS). Each government agency maintains its own rules and regulations with which we must comply and which can vary significantly among agencies. Government agencies also often retain a significant portion of fees payable upon completion of a project and collection of such fees may be delayed for several months. Accordingly, our revenue could decline as a result of these government procurement processes. In addition, it is possible that, in the future, some of our government contracts may be fixed price contracts which may prevent us from recovering costs incurred in excess of our budgeted costs. Fixed price contracts may require us to estimate the total project cost based on preliminary projections of the project's requirements. The financial viability of any given project depends in large part on our ability to estimate such costs accurately and to complete the project on a timely basis. In the event our actual costs exceed the fixed contract cost, we will not be able to recover the excess costs. If we fail to properly anticipate costs on fixed price contracts, our profit margins will decrease. Some government contracts are also subject to termination or re-negotiation at the convenience of the government, which could result in a large decline in revenue in any given quarter. Multi-year contracts are contingent on overall budget approval by Congress and may be terminated due to lack of funds.

INCREASED SALES THROUGH INDIRECT CHANNELS MAY ADVERSELY AFFECT OUR OPERATING PERFORMANCE.

Even if our marketing efforts through indirect channels are successful and result in increased sales, our average selling prices and operating margins could be adversely affected because of the lower unit prices that we receive when selling through indirect channels.

IF WE FAIL TO FIELD AN EFFECTIVE SALES ORGANIZATION, OUR ABILITY TO GROW WILL BE LIMITED.

We have recently reduced our sales force as a result of weakening economic conditions. In order to grow our revenue, our existing sales force will have to be more productive and we will have to expand our sales force in future periods.

Our past efforts to expand our sales organization have required significant resources. New sales personnel require training and may take a long time to achieve full productivity. There is no assurance that we can attract and retain qualified sales people at levels sufficient to support our growth. Any failure to adequately sell our products could limit our growth and adversely affect our financial performance.

THE LIMITED ABILITY OF LEGAL PROTECTIONS TO SAFEGUARD OUR INTELLECTUAL PROPERTY RIGHTS COULD IMPAIR OUR ABILITY TO COMPETE EFFECTIVELY.

Our success and ability to compete are substantially dependent on our internally developed technologies and trademarks, which we protect through a combination of confidentiality procedures, contractual provisions, patent, copyright, trademark and trade secret laws. Despite our efforts to protect our proprietary rights, unauthorized parties may copy aspects of our products or obtain and use information that we regard as proprietary. Policing unauthorized use of our products is difficult and, although we are unable to determine the extent to which piracy of our software products exists, we expect software piracy to be a problem. In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as the laws of the United States. Furthermore, our competitors may independently develop technology similar to ours.

OUR PRODUCTS MAY INFRINGE UPON THE INTELLECTUAL PROPERTY RIGHTS OF OTHERS, WHICH MAY CAUSE US TO INCUR UNEXPECTED COSTS OR PREVENT US FROM SELLING OUR PRODUCTS.

The number of intellectual property claims in our industry may increase as the number of competing products grows and the functionality of products in different industry segments overlaps. In recent years, there has been a tendency by software companies to file substantially increasing numbers of patent applications, including those for business methods and processes. We have no way of knowing what patent applications third parties have filed until the application is filed or until a patent is issued. Patent applications are often published within 18 months of filing but it can take as long as three years or more for a patent to be granted after an application has been filed. Although we are not aware that any of our products infringe upon the proprietary rights of third parties, there can be no assurance that third parties will not claim infringement by us with respect to current or future products. Any of these claims, with or without merit, could be time-consuming to address, result in costly litigation, cause product shipment delays or require us to enter into royalty or license agreements. These royalty or license agreements might not be available on terms acceptable to us or at all, which could materially and adversely affect our business.

OUR INTERNATIONAL OPERATIONS POSE RISKS FOR OUR BUSINESS AND FINANCIAL CONDITION.

We currently conduct operations in a number of countries around the world. These operations require significant management attention and financial resources and subject us to risks inherent in doing business internationally, such as:

- regulatory requirements;
- difficulties in staffing and managing foreign operations;
- longer collection cycles;
- foreign currency risk;
- legal uncertainties regarding liability, ownership and protection of intellectual property;
- tariffs and other trade barriers;
- seasonal reductions in business activities;
- potentially adverse tax consequences; and

increased economic and political instability following the terrorist attacks in the United States on September 11, 2001.

Any of the above factors could adversely affect the success of our international operations. One or more of these factors could have a material adverse effect on our business and operating results.

IF WE LOSE OUR KEY PERSONNEL, THE SUCCESS AND GROWTH OF OUR BUSINESS MAY SUFFER.

Our success depends significantly on the continued service of our executive officers. We do not have fixed-term employment agreements with any of our executive officers, and we do not maintain key person life insurance on our executive officers. The loss of services of any of our officers for any reason could have a material adverse effect on our business, operating results, financial condition and cash flows.

THE FAILURE TO HIRE AND RETAIN QUALIFIED PERSONNEL WOULD HARM OUR BUSINESS.

We believe that our success also will depend significantly on our ability to attract, integrate, motivate and retain additional highly skilled technical, managerial, sales, marketing and services personnel. Competition for skilled personnel is intense, and there can be no assurance that we will be successful in attracting, motivating and retaining the personnel required to grow and operate profitably. In addition, the cost of hiring and retaining skilled employees is high, and this reduces our profitability. Failure to attract and retain highly skilled personnel could materially and adversely affect our business. An important component of our employee compensation is stock options. A decline in our stock price could adversely affect our ability to attract and retain employees, as it has in the past.

WE HAVE RECENTLY EXPERIENCED SIGNIFICANT CHANGES IN OUR SENIOR MANAGEMENT TEAM AND THERE IS NO ASSURANCE THE TEAM WILL WORK TOGETHER EFFECTIVELY.

Commencing in the first quarter of fiscal 2000, we have completely changed our senior management team. Gregory J. Owens, our Chief Executive Officer, joined us in April 1999. With one exception, all of our other present executive officers joined us after Mr. Owens. Our success depends on the ability of our management team to work together effectively. Our business, revenue and financial condition will be materially and adversely affected if our senior management team does not manage our company effectively or if we are unable to retain our senior management.

EXPENSES ARISING FROM OUR STOCK OPTION REPRICING MAY HAVE A MATERIAL ADVERSE IMPACT ON FUTURE PERFORMANCE.

In response to the poor performance of our stock price between May 1998 and January 1999, we offered to reprice employee stock options, other than those held by our executive officers or directors, effective January 29, 1999, to bolster employee retention. As a result of our offer, options to acquire approximately 3.0 million shares were repriced, of which options to purchase a total of approximately 1,045,350 shares are currently outstanding as of November 30, 2001. In addition, the four-year vesting period of the repriced options started over. The recently adopted FASB Interpretation No. 44 of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, requires us to record compensation expense or benefit associated with the change in the market price of these options. The changes in our common stock market price since the FASB-mandated measurement date of July 1, 2000 resulted in a non-cash stock benefit of \$0 million and \$8.0 million during the three and nine-month periods ended November 30, 2001, respectively, and an expense of \$11.1 million being recorded for the year ended February 28, 2001. In each future quarter, we will record the additional expense or benefit related to the repriced stock options still outstanding, to the extent that our stock price is greater than \$22.19, based on the change in our common stock price as compared to the measurement date. As a result, the repricing may continue to have a material adverse impact on reported financial results and could therefore negatively affect our stock price.

WE MAY BE SUBJECT TO FUTURE LIABILITY CLAIMS, AND OUR COMPANY'S AND PRODUCTS' REPUTATION MAY SUFFER.

Many of our implementations involve projects that are critical to the operations of our clients' businesses and provide benefits that may be difficult to quantify. Any failure in a client's system could result in a claim for substantial damages against us, regardless of our responsibility for the failure. We have entered into and plan to continue to enter into agreements with software vendors, consulting firms, resellers and others whereby they market our solutions. If these vendors fail to meet their clients' expectations or cause failures in their clients' systems, the reputation of our company and products could be materially and adversely affected even if our software products perform in accordance with their functional specifications.

RISKS RELATED TO OUR INDUSTRY

LACK OF GROWTH OR DECLINE IN INTERNET USAGE COULD BE DETRIMENTAL TO OUR FUTURE OPERATING RESULTS.

The growth of the Internet has increased demand for SRM, SCM and PRO solutions, as well as created markets for new and enhanced product offerings. Therefore, our future sales and profits are substantially dependent upon the Internet as a viable commercial medium. The continued success of the Internet as a viable commercial medium may be adversely affected for a number of reasons, including: :

potentially inadequate development of network infrastructure or delayed development of enabling technologies and performance improvements;

delays in the development or adoption of new standards and protocols required to handle increased levels of Internet activity;

concerns that may develop among businesses and consumers about accessibility, security, reliability, cost, ease of use and quality of service;

increased taxation and governmental regulation; or

changes in, or insufficient availability of, communications services to support the Internet, resulting in slower Internet user response times.

The occurrence of any of these factors could require us to modify our technology and our business strategy. Any such modifications could require us to expend significant amounts of resources. In the event that the Internet does not remain a viable commercial medium, our business, financial condition and results of operations could be materially and adversely affected.

NEW LAWS OR REGULATIONS AFFECTING THE INTERNET OR COMMERCE IN GENERAL COULD REDUCE OUR REVENUE AND ADVERSELY AFFECT OUR GROWTH.

Congress and other domestic and foreign governmental authorities have adopted and are considering legislation affecting the use of the Internet, including laws relating to the use of the Internet for commerce and distribution. The adoption or interpretation of laws regulating the Internet, or of existing laws governing such things as consumer protection, libel, property rights and personal privacy, could hamper the growth of the Internet and its use as a communications and commercial medium. If this occurs, companies may decide not to use our products or services, and our business, operating results and financial condition could suffer.

RISKS RELATED TO THE NOTES

OUR INDEBTEDNESS COULD ADVERSELY AFFECT OUR FINANCIAL CONDITION.

In November 2000, we completed a convertible debt offering of \$250.0 million in 5% subordinated convertible notes that are due November 2007. Our indebtedness could have important consequences for investors. For example, it could:

increase our vulnerability to general adverse economic and industry conditions;

limit our ability to obtain additional financing;

require the dedication of a substantial portion of our cash flows from operations to the payment of principal of, and interest on, our indebtedness, thereby reducing the availability of capital to fund our growth strategy, working capital, capital expenditures, acquisitions and other general corporate purposes;

limit our flexibility in planning for, or reacting to, changes in our business and the industry; and

place us at a competitive disadvantage relative to our competitors with less debt.

Although we have no present plans to do so, we may incur substantial additional debt in the future. Neither the terms of our credit facility nor the terms of these Notes fully prohibit us from doing so. If a significant amount of new debt is added to our current levels, the related risks described above could intensify.

WE MAY HAVE INSUFFICIENT CASH FLOW TO MEET OUR DEBT SERVICE OBLIGATIONS.

We will be required to generate cash sufficient to pay all amounts due on the Notes and to conduct our business operations. We have net losses, and we may not be able to cover our anticipated debt service obligations. This may materially hinder our ability to make principal and interest payments on the Notes. Our ability to meet our future debt service obligations will be dependent upon our future performance, which will be subject to financial, business and other factors affecting our operations, many of which are beyond our control.

RISKS RELATED TO THE SALE OF OUR COMMON STOCK

SCHEDULED SALES OF SIGNIFICANT AMOUNTS OF OUR COMMON STOCK BY OUR EXECUTIVE OFFICERS MAY CAUSE OUR STOCK PRICE TO DECLINE.

Certain of our executive officers have entered into pre-established trading plans pursuant to which they sold a total of approximately 515,000 shares of our common stock in January 2001, approximately 253,000 shares in April 2001, and approximately 318,000 shares in the three months ended August 31, 2001. (Several of these executive officers have terminated their plans.) Our other executive officers who have established trading plans are scheduled to sell up to approximately 70,000 shares per quarter, subject to the terms of their trading plans, which terms include price floors below which no shares or a reduced amount of shares will be sold. The quarterly sales will continue until the trading plans are modified or terminated. Certain of our other executive officers and directors may establish similar plans to sell shares on a quarterly basis. The sale of these shares may cause the market price of our stock to decline.

OUR CHARTER AND BYLAWS AND DELAWARE LAW CONTAIN PROVISIONS THAT COULD DISCOURAGE A TAKEOVER EVEN IF BENEFICIAL TO STOCKHOLDERS.

Our charter and our bylaws, in conjunction with Delaware law, contain provisions that could make it more difficult for a third party to obtain control of us even if doing so would be beneficial to stockholders. For example, our bylaws provide for a classified board of directors and allow our board of directors to expand its size and fill any vacancies without stockholder approval. Furthermore, our board has the authority to issue preferred stock and to designate the voting rights, dividend rate and privileges of the preferred stock all of which may be greater than the rights of common stockholders. .

OUR STOCK PRICE HAS BEEN AND IS LIKELY TO CONTINUE TO BE VOLATILE.

The trading price of our common stock has been and is likely to be highly volatile. Our stock price could be subject to wide fluctuations in response to a variety of factors, including the following:

- actual or anticipated variations in quarterly operating results;
- weakening economic conditions;
- increased economic and political uncertainty following the terrorist attacks in the United States on September 11, 2001;
- announcements of technological innovations;
- new products or services offered by us or our competitors;
- changes in financial estimates by securities analysts;
- conditions or trends in the market for EPO, SRM, SCM and PRO solutions;
- changes in the performance and/or market valuations of our current and potential competitors and the software industry in general;
- our announcement of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- adoption of industry standards and the inclusion of our technology in, or compatibility of our technology with, such standards;

adverse or unfavorable publicity regarding us or our products;

adverse or unfavorable publicity regarding our competitors, including their products and implementation efforts;

additions or departures of key personnel;

our sales of additional equity securities; and

other events or factors that may be beyond our control.

In addition, the stock markets in general, The Nasdaq National Market and the equity markets for software companies in particular, have recently experienced extraordinary price and volume volatility and a significant cumulative decline in recent months. Such volatility and decline have adversely affected the stock prices for many companies irrespective of or disproportionately to the operating performance of these companies. These broad market and industry factors may materially and adversely further affect the market price of our common stock, regardless of our actual operating performance. .

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Risk. Revenue outside of the United States was 30.8% and 28.1% during the three and nine months ended November 30, 2001, respectively, and 30.7%, 40.1% and 33.9% in fiscal 2001, 2000 and 1999, respectively. International sales usually are made by our foreign subsidiaries in the local currencies and the expenses incurred by foreign subsidiaries are denominated in the local currencies.

Interest Rate Risk. Our marketable securities and certain cash equivalents are subject to interest rate risk. We manage this risk by maintaining an investment portfolio of available-for-sale instruments with high credit quality and relatively short average maturities. These instruments include, but are not limited to, commercial paper, money-market instruments, bank time deposits and taxable and tax-advantaged variable rate and fixed rate obligations of corporations, municipalities and national, state and local government agencies, in accordance with an investment policy approved by our Board of Directors. These instruments are denominated in U.S. dollars. The fair market value of marketable securities held at November 30, 2001 was \$15.0 million and at February 28, 2001 was \$103.9 million.

We also hold cash balances in accounts with commercial banks in the United States and foreign countries. These cash balances represent operating balances only and are invested in short-term time deposits of the local bank. Such operating cash balances held at banks outside the United States are denominated in the local currency.

The United States Federal Reserve Board influences the general market rates of interest. The Federal Reserve Board has decreased the discount rate to 1.75% recently. This action has led to a general market decline in interest rates.

The weighted average yield on interest-bearing investments held as of November 30, 2001 was approximately 2.9%. Based on our investment holdings at November 30, 2001, a 100 basis point decline in the average yield would reduce our annual interest income by \$2.2 million.

PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS.

We are involved from time to time in disputes (including those previously reported) and other litigation in the ordinary course of business. We do not believe that the outcome of any pending disputes or litigation will have a material adverse effect on our business, operating results, financial condition and cash flows. However, the ultimate outcome of these matters, as with litigation generally, is inherently uncertain and it is possible that some of these matters may be resolved adversely to us. The adverse resolution of any one or more of these matters could have a material adverse effect on our business, operating results, financial condition and cash flows.

The Company has previously reported its legal proceedings with Information Resources, Inc. (IRI) arising from the acquisition of certain assets from IRI in March 1997. IRI 's claims involving revenue streams was submitted to arbitration. IRI sought a total of \$15.9 million in damages. The Company contended that the conditions to these amounts becoming due have never been satisfied and that no amounts were due to IRI, because, among other reasons, of a failure of consideration in the overall transaction.

In December 2001, the Company and IRI settled their dispute. The Company has agreed to pay to IRI an aggregate of approximately \$8.6 million in various installments on or before September 2002. The payment obligation has two components. The first component requires the Company to make cash payments totaling approximately \$4.7 million in installments to IRI, the last of which shall be made on or before April 2002. In addition, the Company has agreed to issue shares of its common stock to IRI in payment of the remaining \$3.9 million to be paid to IRI, under certain circumstances, or pay cash. The number of shares to be issued shall be determined by dividing \$3.9 million by the closing price of our common stock reported by Nasdaq National Market System on the day a registration statement relating to the shares becomes effective. We have the right to pay all or a part of such remaining amount in cash in lieu of shares. In addition, IRI has the right, under certain circumstances in the future, to require the Company to pay cash in lieu of all or a portion of the shares.

As part of the settlement, we agreed to prepare and file with the Securities and Exchange Commission (the SEC), a registration statement on Form S-3 under the Securities Act of 1933 relating to the issuance of our shares to IRI. We further agreed to deliver the shares promptly after the SEC had declared the registration statement effective.

The Company has previously reported that Grocery Logistics Limited has filed a claim against the Company and Manugistics U.K. Limited alleging that the implementation of software failed to meet the requirements of its contract for the supply of software, support, maintenance and training services. The claim alleges damages in the range of approximately \$6.5 to \$11.0 million. A trial date has been set for April 9, 2002, and is estimated to take five weeks.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits

None.

(b) Reports on Form 8-K

There were no current reports on Form 8-K filed during the quarter ended November 30, 2001.

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 January 11, 2002.

MANUGISTICS GROUP, INC.

(Registrant)

Date: January 11, 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)

34