MANUGISTICS GROUP INC
Form 10-K
May 25, 2001

1

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

FORM 10-K

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended February 28, 2001 OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________
Commission File Number 0-22154

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

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

2115 East Jefferson Street, Rockville, Maryland 20852
(Address of principal executive offices) (Zip code)
(301) 984-5000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $.002 par value per share
(Title of Class)
Name of each exchange on which registered: None

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

Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

As of April 30, 2001, the aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately $1.8 billion. As of that date, the number of shares outstanding of the Registrant's common stock was approximately 67.2 million, based on information provided by the Registrant's transfer agent.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our definitive Proxy Statement relating to the 2001 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K. We anticipate that our Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended February 28, 2001.

2

PART I

Item 1. BUSINESS.

The disclosures set forth in this report are qualified by the sections captioned "Forward-Looking Statements" and "Factors That May Affect Future Results" in Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations", of this report, and other cautionary statements set forth elsewhere in this report.

Overview:

We are a leading global provider of Enterprise Profit Optimization(TM) (EPO) solutions, which we believe is a new and important category of solutions for enterprise management. We are also a leading provider of solutions for supply chain management (SCM), pricing and revenue optimization (PRO) and electronic marketplaces (eMarketplaces). Our solutions help companies lower operating costs, 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 (supply chain management) and how they are sold (pricing and revenue optimization). EPO solutions provide additional benefits by combining the proven cost-reduction power of supply chain management solutions and the revenue-enhancing capacity of pricing and revenue optimization solutions.

We help our clients monitor and streamline their own core internal operational processes involving the design, purchase, manufacture, storage, transportation, pricing, marketing and selling of their goods and services. Our solutions also help our clients integrate their own internal processes with those of their customers and suppliers to assist in providing collaboration and efficiencies across extended eMarketplaces. In addition, our solutions help our clients improve customer service and the allocation of resources by providing information and forecasts that allow them to make more effective operational decisions. We also provide strategic consulting and implementation services to our clients as part of our solutions.

Increasing global competition, shortening product life cycles and developing eMarketplace initiatives 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 agriculture, apparel, automotive, chemical, consumer durables, consumer packaged goods, electronics & high technology, energy, food & beverage, government, logistics, metals, pharmaceuticals, pulp & paper, retail, services and transport, travel & hospitality. Our customer base of approximately 1,100 clients includes large, multinational enterprises such as 3Com; Cisco Systems Inc.; Coca-Cola Bottling Co. Consolidated; Emerson Electric Co.; Ford Motor Company; Fuji Photo Film, USA; Harley-Davidson, Inc.; Levi Strauss & Co.; Marriott; Texas Instruments; The Limited; and Unilever Home & Personal Care, USA; as well as mid-sized enterprises and emerging eMarketplaces.

The Company was incorporated in Delaware in 1986. Our fiscal year end is February 28th or 29th. We completed our initial public offering of common stock in 1993 and completed a secondary offering of common stock in 1997. We have invested significant resources to develop new software, to enhance existing software and to acquire additional software products and solutions through acquisitions.

A summary of the our acquisitions over the past five years follows:

Acquired Company	Date	Solution
STG Holdings, Inc.	January, 2001	Advanced factory planning, scheduling and sim
Talus Solutions, Inc.	December, 2000	Pricing and revenue optimization software
TYECIN Systems, Inc.	June, 1998	Supply chain planning and simulation software
ProMIRA Software, Inc.	February, 1998	Supply chain planning software for complex in technology, electronics, telecommunication
Synchronology Group Ltd.	June, 1997	Manufacturing, planning and scheduling servic
Avyx, Inc.	May, 1996	Manufacturing scheduling software

During fiscal 1999 and the first half of fiscal 2000, we experienced operational difficulties resulting primarily from poor sales force execution, increased competition and other factors. In response to our operational difficulties, we decided to restructure our business, which included reducing operating costs, hiring a new executive management team and aligning the direct sales force by vertical market. For fiscal 2001, we reported revenue of $268.0 million or a 76.0% increase from fiscal 2000.

Fiscal 2001 Developments

Acquisition of STG Holdings, Inc.:

On January 16, 2001, we acquired STG Holdings, Inc., a Delaware corporation ("STG") based in London, England for approximately $6.9 million. STG is a leading developer of advanced strategic, tactical and operational planning, scheduling and simulation software for single factory and multi-factory enterprises. This acquisition was accounted for as a purchase transaction.

The purchase price consisted of cash payments of approximately $1.5 million, the issuance of 159,822 shares of our common stock valued at approximately $4.5 million to certain STG stockholders and transaction costs of approximately $0.9 million.

We also agreed to pay up to $27.9 million in additional consideration, if certain revenue-based performance requirements are met during the 21-month period to end October 31, 2002. This additional consideration, if any, would be payable in cash or shares of our common stock.

Acquisition of Talus Solutions, Inc.:

On December 21, 2000, we acquired Talus Solutions, Inc. ("Talus"), a Delaware corporation, in a stock-for-stock merger transaction. Talus, headquartered in Atlanta, Georgia, was a leading provider of PRO software products and services.

The purchase price of approximately $402.0 million consisted of the issuance of approximately 7.0 million shares of the Company's common stock with a fair value of approximately $340.0 million, the assumption of stock options and warrants with a fair value of approximately $58.5 million and acquisition-related costs of $3.5 million. The acquisition-related costs consist primarily of investment banking and legal fees.

Of the approximate 7.0 million shares of our common stock issued in connection with the acquisition of Talus, approximately 6.0 million shares were delivered to our exchange agent for direct transfer to the former Talus stockholders following closing and approximately 1.0 million shares were delivered to our escrow agent, to secure potential indemnification claims we may have. To the extent that the escrowed shares are not subject to indemnification claims, the escrowed shares will be released from escrow in two installments, on October 31, 2001 and on July 2, 2002.

In addition, approximately 1.4 million shares have been reserved for issuance upon exercise of Talus stock options and warrants assumed by us in connection with the Talus acquisition.

Convertible Debt Offering:

In October and November 2000, the Company issued $250.0 million of 5% convertible subordinated notes due 2007 (the "Notes"). Interest will be paid semi-annually. The Notes are convertible into a total of approximately 5.7 million shares of our common stock at an initial conversion price of $44.06 per share, subject to adjustment under certain conditions, at any time through maturity, unless previously redeemed or repurchased. At any time on or after November 7, 2003, the Company 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 or 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, will be as follows:

Redemption Period	Redemption Price
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%

-3-

4

We are using the net proceeds from the issuance of the Notes for general corporate purposes, including capital expenditures, research and development and acquisitions of businesses, products and technologies that complement or expand our business.

Industry Background:

An effective supply chain management and pricing and revenue optimization strategy can make companies more competitive and profitable. In addition, we believe that companies must combine their optimized supply chains with effective eMarketplace strategies in order to respond to increased global competition, to differentiate themselves from their competitors and to increase their share of their markets. We combine our traditional supply chain management and our new pricing and revenue optimization strengths with our innovative eMarketplace solutions to enable effective communication and collaboration in real time among global trading partners. Once implemented, our solutions can provide our clients with greater access to information, clearer visibility of what is taking place in their sales and supply channels and a consolidated view of client requirements, ultimately enabling the optimization of the extended supply and demand network.

Clients are using our solutions to share information within their companies and among their trading partners in their supply chains. The sharing of information enables our clients to coordinate more effectively with their trading partners, which helps our clients meet or exceed the rapidly changing requirements of their customers. Our solutions encompass the supply chain needs of enterprises and trading networks and address the business processes that enable responsive and intelligent decision-making. These processes include design, buy, make, store, move, price, market and sell. Our solutions are focused on managing decisions, events and plans and have the flexibility to adapt to the different forms a trading network may take. In addition, our solutions allow companies to use the Internet as a medium for business collaboration and to monitor, measure and improve their business processes over time.

Strategy:

Our objective is to continue to be a leading global provider of SCM, PRO, EPO and eMarketplace solutions for enterprises and for trading networks. Our strategy to achieve our objective includes the following elements:

EXPAND OUR SOLUTIONS - We believe that we have significant experience and expertise, enhanced by our relationships with clients, industry experts and third-party alliances that will work to our advantage as we develop and expand our solutions. We feel that we have first mover advantage in the emerging market for EPO, which we believe, will be a large and important market. We believe that there is a significant opportunity to apply PRO to manufacturing and non-service industries. In the past, PRO has been used primarily in service and reservation-based industries. We intend to extend the capabilities and scope of our SCM and our eMarketplace solutions to help solve a broader range of business challenges and to improve processes within and among companies in trading networks.

PROVIDE ADVANCED TECHNOLOGICAL INNOVATION - Using our extensive experience and domain expertise, plus our commitment of substantial resources to research and development, we develop advanced technological software solutions and offer them to our clients. In addition, we will consider tactical and strategic acquisitions of other companies and technologies to shorten the time it takes us to bring solutions to market, further differentiate ourselves from our competitors and to enhance or expand our existing offerings. See "-- Product Development."

DEVELOP STRATEGIC ALLIANCES AND NEW BUSINESS RELATIONSHIPS - We focus our resources on the development and enhancement of our core competencies and combine them with the competencies of third parties, such as leading consulting firms and technology providers, that provide advanced capabilities to complement our core focus areas. This strategy permits us to offer our clients industry-leading solutions that can better meet their needs. We continue to expand and enhance our current solutions and our ability to implement them through these alliances.

EXPAND CURRENT VERTICAL MARKETS AND EXPLORE NEW ONES - We continue to expand our presence and focus on markets in sectors such as aerospace, agriculture, apparel, automotive, chemical, consumer durables, consumer packaged goods, electronics & high technology, financial services, energy, food & beverage, government, industrial products, logistics, metals, pharmaceuticals, pulp & paper, retail, services, telecommunications and transport, travel & hospitality. We also evaluate opportunities outside of our current vertical markets as we expand the penetration of our SCM, PRO, EPO and eMarketplace solutions.

Products:

Our products are grouped in four categories: Manugistics NetWORKS intelligent engines, Manugistics NetWORKS collaborative applications, Manugistics WebConnect integration platform and Manugistics NetWORKS Marketplace platform.

The Manugistics NetWORKS family of products is designed to coordinate, optimize, measure and analyze across each of the key business processes - design, buy, make, store, move, price, market and sell.

Manugistics NetWORKS includes the core optimization technologies and algorithms of our SCM and PRO solutions, which incorporate many years of research and development in advanced mathematical modeling. The NetWORKS intelligent engines are designed to facilitate strategic, tactical and operational decision-making. Strategic decisions typically consider a time-frame of quarters to years. Tactical decisions typically consider a time-frame of weeks to months. Operational decisions typically consider a time-frame of minutes to days. Descriptions of the NetWORKS intelligent engines follow:

NetWORKS COMMIT(TM) - NetWORKS Commit(TM) helps enable reliable, real-time commitments for delivery of products by simultaneously performing checks on the availability of resources, including inventory, production, materials, manufacturing scheduling, distribution and transportation and then immediately allocating appropriate resources needed to meet customer requests.

NetWORKS DEMAND(TM) - NetWORKS Demand(TM) forecasts future customer demand with a high degree of accuracy, alerting a company to potential supply problems and finding patterns of demand that traditional forecasting solutions do not detect.

NetWORKS FULFILLMENT(TM) - NetWORKS Fulfillment(TM) matches time-phased storage and flow of supply to demand, enabling companies to minimize inventory and reduce logistics costs while maximizing customer service.

NetWORKS MASTER PLANNING(TM) - NetWORKS Master Planning(TM) orchestrates global, multi-site supply plans by allocating constrained resources such as resource capacity, availability of raw materials, inflow and outflow (throughput) of facilities, transportation and availability of components and labor to improve customer service and increase profit margins.

NetWORKS PRECISION PRICING(TM) - NetWORKS Precision Pricing(TM) predicts the responses of customer segments to a company's products and prices. Based on the predicted customer response, the solution determines the optimal list price for each product in each customer segment to enhance profit, increase market share, or achieve other strategic goals.

NetWORKS PROCUREMENT(TM) - NetWORKS Procurement(TM) connects clients to suppliers in real time to enable the client to share forecast projections and materials requirements with suppliers, to request updates on outstanding orders and to request and automatically select supplier bids based upon pre-defined business rules.

NetWORKS PROMOTIONS(TM) - NetWORKS Promotions(TM) predicts the impact of proposed sales promotions using historical data and statistically-derived market response models and recommends the appropriate promotion to meet business objectives and enhance profit while considering product costs, cross-product cannibalization, buy-forward dilution and cross-channel dilution.

NetWORKS REVENUE OPTIMIZATION APPLICATIONS - Manugistics revenue optimization applications include NetWORKS Airline Revenue Optimizer(TM), NetWORKS Cargo Revenue Optimizer(TM), NetWORKS Hospitality Revenue Optimizer(TM) and NetWORKS Lease/Rent Optimizer(TM). These applications are specifically designed for the transport, travel, hospitality and multi-family housing industries. Our products are designed to optimize revenues and enhance profits considering product perishability and capacity utilization.

NetWORKS SCHEDULING(TM) - NetWORKS Scheduling(TM) provides advanced single site and multi-site production planning, detailed scheduling, production sequencing and real-time communication with the plant floor based upon business objectives and production goals.

NetWORKS SOURCING(TM) - NetWORKS Sourcing(TM) helps reduce expenses by going beyond simple, catalog-based procurement to complex procurement of direct materials. It streamlines the procurement of direct materials by using integrated, strategic sourcing while taking advantage of the Internet to provide the collaboration tools required for an effective eMarketplace.

NetWORKS STRATEGY(TM) - NetWORKS Strategy(TM) enables enterprises and extended trading networks to design supply chain networks. By modeling end-to-end trading partner relationships, this product helps its users determine the most profitable supply chain strategy, including the optimal choice of trading partners, optimal inventory levels, optimal lane volumes and appropriate seasonal pre-builds and product mix. It also helps determine optimal production, storage and distribution locations.

NetWORKS SUPPLY(TM) - NetWORKS Supply(TM) provides tactical functionality in supply planning. It helps facilitate the effective management of the flow of material among trading partners on complex bills of material, while simultaneously providing intelligent substitution and configuration of materials that are in short supply or unavailable.

NetWORKS TARGET PRICING(TM) - NetWORKS Target Pricing(TM) systematically integrates market information, cost information, customer information and strategic goals to forecast the most profitable price quotation. In arriving at a pricing recommendation, the solution uses advanced statistical methods to balance the probability of winning a deal with its total contribution to profit.

NetWORKS TRANSPORT(TM) - NetWORKS Transport(TM) is designed to simultaneously optimize transportation plans and execute all inbound, outbound and intercompany transportation moves, including freight payment, tracking and reporting. With a competitive advantage in multi-point to multi-point transportation planning, NetWORKS Transport helps enable the sharing of optimized transportation plans with carriers and manufacturers via the internet.

NetWORKS VMI(TM) - NetWORKS VMI(TM) (Vendor Managed Inventory) enables clients and their trading partners to have visibility into demand to improve the flow of products, eliminate inefficiencies and lower costs. NetWORKS VMI creates a demand forecast based on consumption, compares the forecast to inventory on hand and in transit, develops requirements for inventory at the customer's sites and recommends shipments.

STATGRAPHICS(TM) - STATGRAPHICS(TM) contains a comprehensive set of statistical tools to control, manage and improve the quality of production processes in manufacturing companies. STATGRAPHICS uses statistical quality control and a design of experiments to implement quality management in individual locations throughout an enterprise or manufacturing plant.

Our collaborative applications provide collaboration and communication that extend our intelligent engines into business processes that are created in concert with trading partners. These proven products enable businesses to expand their supply chains into true eMarketplace trading networks. Descriptions of our collaborative applications follow:

NetWORKS COLLABORATE(TM)- NetWORKS Collaborate(TM) is a comprehensive tool that enables clients to collaboratively plan, monitor and measure their trading relationships. NetWORKS Collaborate is a business-to-business, eCommerce application that ensures the creation and maintenance of joint business plans with trading partners, monitors the execution of those plans and measures their success.

NetWORKS MONITOR(TM) - NetWORKS Monitor(TM) allows clients to monitor and manage their pre-defined critical planning and execution information and it provides robust technology for alerting all appropriate trading partners when problems occur. NetWORKS Monitor provides a web-based portal for all information about problems (called exceptions) across the entire trading network, enables role-based security for interaction with that data and provides recommendations and automatic steps for resolving those exceptions.

NetWORKS ONEview(TM) - NetWORKS ONEview(TM) is based on industry-standard online analytical processing (OLAP) technology that enables operational monitoring, performance measurement, business process design and the setting of network policy. Its multi-dimensional analyses increase the speed, accuracy and efficiency of knowledge discovery and facilitate proactive decision-making by providing analyses that are specific to business processes and that are based on data from other Manugistics applications, enterprise resource planning systems, financial systems, customer relationship management systems and point-of-sale data providers.

NetWORKS VISIBILITY(TM) - NetWORKS Visibility(TM), from one central web-based portal, provides real-time and historical views of critical information on the supply pipeline and the status of orders. Using role-based security, trading partners can view orders and actions relevant to their responsibilities within the trading network.

WebConnect INTEGRATION PLATFORM - Our WebConnect integration platform uses leading-edge enterprise application integration (EAI) technology and provides pre-built connectors to common enterprise systems such as J.D. Edwards & Company, Oracle Corporation and SAP AG. WebConnect provides automated data

transformation and mapping between Manugistics and other systems along with graphical integration tools that allow users to easily update and maintain these integrations. WebConnect also coordinates business processes and messaging among disparate systems and provides coordination and messaging for integration with external trading partners and heterogeneous trading network environments.

NetWORKS MARKETPLACE(TM) PLATFORM - NetWORKS Marketplace is an advanced, configurable marketplace platform for integrated supply chains and eMarketplace trading networks. NetWORKS Marketplace helps facilitate sustainable, real-time trading environments and addresses key eMarketplace requirements to enable critical collaboration activities with trading partners. Since it is designed to enable recurring trade between many buyers and sellers, NetWORKS Marketplace helps clients develop and benefit from complex, online business relationships. NetWORKS Marketplace supports a variety of transaction capabilities, such as auctions, negotiated eCommerce, dynamic pricing, procurement, track and trace and order and pipeline visibility. In addition, it provides the underlying foundation for these transactions, with capabilities such as content aggregation, profile management and personalization, real-time alerts, integration for financial clearinghouse functions and many-to-many data and functional security. The open architecture of NetWORKS Marketplace enables a modular eMarketplace platform that can be configured to fit each client's existing technology and to integrate with other technology providers.

We are continuing to develop more fully integrated EPO products that utilize the capabilities of our SCM and PRO suite of products. We expect our first integrated EPO products to be commercially released during our second quarter of fiscal 2002.

Consulting Services:

A key element of our business strategy is to provide clients with comprehensive solutions for their internal and external supply chains and their pricing and revenue optimization needs, by combining our products with professional services. When implementing our solutions, clients typically make many changes to their business processes and overall operations, including their planning and pricing functions. To assist clients in making these changes, we offer a wide range of services. These services include supply chain, pricing and revenue and eMarketplace strategic consulting to help our clients maximize their competitive advantage. Our services also include business operations consulting, change management consulting and end-user and system administrator education and training. These services help clients redesign their operations to take advantage of our solutions.

These services are generally provided separately from our software products in our software license agreements and are provided primarily on a time and materials basis. Our consulting services group consisted of 377 employees as of February 28, 2001.

Client Support:

Our comprehensive solutions include on-going global support to clients. Most of our clients enter into annual agreements for support. Support includes product revisions and enhancements and access to a hotline and an electronic bulletin board. Our client support operation also collects information that we use to assist us in developing products and in identifying market demand. As of February 28, 2001, our client support group consisted of 59 employees.

Product Development:

We direct our efforts in product development to new products, enhancements of the capabilities in existing products, expansion of our eMarketplace capabilities, enhancement of our products for use in different countries and development of products tailored to the specific requirements of particular industries and diverse languages. To date, most of our products, including product documentation, have been developed by our internal staff and occasionally supplemented by acquisitions and complementary business relationships.

In developing new products or enhancements, we work closely with current and prospective clients, as well as with other industry leaders, to make sure that our products address the needs of clients. We believe that this collaboration will lead to improved software and will result in superior products and solutions that are likely to be in greater demand in the market. We maintain committees of users, developers and marketers of our products, who, among other things, define and rank issues associated with products and discuss priorities and directions for their enhancement.

For new applications and major enhancements, we also conduct a launch program, which allows clients to review design specifications and prototypes and to participate in product testing. We have also established channels

for client feedback, which include periodic surveys and focus groups. In addition, our product development staff works closely with our marketing, sales, support and services groups to develop products that meet the needs of our current and prospective clients. As of February 28, 2001, our product development staff consisted of 423 employees.

Since our inception, we have made substantial investments in product development. We believe that getting products to market quickly, without compromising quality, is critical to the success of these products. We continue to make the expenditures for product development that we believe are necessary for rapidly delivering new product features and functions.

Sales and Marketing:

Our sales operation for North and South America is headquartered at our offices in Rockville, MD and includes field offices in Atlanta, GA; Wayne, PA; Itasca, IL; Irving, TX; Denver, CO; Mountain View, CA; San Mateo, CA; Ottawa, Canada; Mexico City, Mexico; and Sao Paulo, Brazil. Our direct sales organization focuses on licensing SCM, PRO, EPO and eMarketplace solutions to large, multi-national enterprises, as well as to mid-sized enterprises with a variety of supply chain, pricing and eMarketplace issues.

We market our solutions in regions outside of North and South America, primarily through foreign subsidiaries. Our British, German, French, Belgian, Dutch and Swedish subsidiaries, located in Bracknell, England; Ratingen, Germany; Paris, France; Brussels, Belgium; Utrecht, The Netherlands; and Stockholm, Sweden, respectively, provide direct sales, services and support primarily to clients located in continental Europe and the United Kingdom. We have established subsidiaries in Tokyo, Japan; Singapore; and Sydney, Australia; and additional sales offices in Milan, Italy and Taipei, Taiwan to license and support our solutions in those regions. We adapt our solutions for use in international markets by addressing different languages, different standards of weights and measures and other operational considerations. In fiscal 2001, approximately 31% of our total revenue came from sales made to clients outside the United States.

We also use indirect sales channels to market our solutions - complementary software vendors, third-party alliances and distributorships. See "-- Alliances." Using these channels, we seek to increase the market penetration of our solutions through joint marketing and sales activities. These relationships enhance our sales resources in target markets and expand our expertise in bringing optimization solutions to prospects and clients. We also license our STATGRAPHICS product in the U.S. and in other countries through independent distributors, national resellers and local dealers.

We support our sales activities by conducting a variety of marketing programs, including an annual industry supply chain and eMarketplace event and client "steering committees." We also participate in industry conferences such as those organized by the American Production and Inventory Control Specialists (APICS) organization, Supply Chain World, Retail Systems and Auto-Tech and in numerous pricing and revenue optimization shows, such as HITEC and PPS. In addition, we participate in solution demonstration seminars and client conferences hosted by complementary software vendors. We also conduct lead-generation programs including advertising, direct mail, public relations, seminars, telemarketing and ongoing client communication programs.

As of February 28, 2001, we had 190 employees engaged in sales activities, 50 employees engaged in marketing activities and 167 employees engaged in business development consulting activities.

Alliances:

We have established business alliances with leading software companies, consulting firms, resellers and other complementary vendors. We have recently established alliances with Agile Software Corporation and Microsoft Corporation and have agreements with a number of other prominent software companies such as BEA Systems, Inc.; Extricity, Inc. (recently acquired by Peregrine Systems, Inc.); Manhattan Associates; Moai Technologies, Inc.; NetVendor Inc.; Siebel Systems, Inc.; Vastera, Inc.; Vignette Corporation; Xelus and webMethods, Inc. To support these joint efforts, we will continue to enhance our WebConnect framework to integrate our solutions with the software applications of the companies named above and with other vendors of ERP systems, warehouse management systems, manufacturing execution systems, customer relationship management systems, configuration systems and other related applications.

We continue to develop relationships with leading consulting firms in order to complement our own marketing efforts. We have formal relationships with many multi-national and major regional consulting firms including Accenture, Cap Gemini Ernst & Young, IBM Consulting, KPMG Consulting and others. In addition to

participating in formal programs, we cooperate with other professional services firms informally on a client-by-client basis.

Clients:

Our SCM, PRO and eMarketplace software solutions have been licensed by organizations in industries such as agriculture, apparel, automotive, chemical, consumer durables, consumer packaged goods, electronics & high technology, energy, food & beverage, government, logistics, metals, pharmaceuticals, pulp & paper, retail, services, and transport, travel & hospitality. We have licensed various combinations of our software products to clients worldwide. Here is a sample of some of our clients who have either licensed software products from us or our distributors, or purchased support, consulting, or other services or both. See "-- Sales and Marketing."

Aerospace	Consumer Packaged Goods
Boeing	Eveready Battery
	Revlon

Apparel
Levi Strauss & Co.
Oxford Industries, Inc.
The Limited

Automotive
Deere & Co.
Ford Motor Company
Harley-Davidson, Inc.

Chemicals, Petrochemicals and Process
BP Amoco plc
Fuji Photo Film, USA
Rohm & Haas

eMarketplaces
eConnections
Elemica
GlobalNetXchange

Food & Beverage
Coca-Cola Bottling Co. Consolidated
Great Atlantic & Pacific Tea Company
Nabisco, Inc.
Ocean Spray
Safeway
Starbucks Corporation
Sweetheart Holdings
Unilever Home & Personal Care, USA

Electronics & High Technology
3Com Corporation
Analog Devices
Cisco Systems, Inc.
Compaq Computer Corporation
Emerson Electric Co.
Hewlett Packard
IBM
Lexmark
Philips Lighting B.V.
Texas Instruments Incorporated

Transport, Travel & Hospitality
Marriott
Princess Cruises
United Airlines

Retail Drug/Mass Merchandise/Specialty Retail
Canadian Tire Corp., Ltd.
Grupo Elektra
Kmart
Rite Aid
Spalding Sports
Target (Dayton Hudson Corporation)
Gebr. Heinemann KG
Toys R Us

We generally provide our software products to clients under non-exclusive, non-transferable license agreements. To protect our intellectual property rights we generally do not sell or transfer title of our products to our clients. Under our current standard license agreement, licensed software may be used solely for the client's internal operations. We are expanding our products and services to provide solutions to emerging eMarketplaces, including engaging in joint development efforts and providing generally non-exclusive software licenses to enable trading exchanges.

Competition:

The markets for our solutions are highly competitive. Other application software vendors offer products that compete directly with some of our products. These include companies targeting mainframe or mid-range clients and certain professional services organizations, including such vendors as Adexa (which is being acquired by

FreeMarkets); Aspen Technology; The Descartes Systems Group, Inc.; i2 Technologies; Logility; Micros Systems, Inc.; PROS Revenue Management; Sabre Inc.; SynQuest; and YieldStar Technology. In addition, certain ERP vendors, certain of which are substantially larger than we are, have acquired or developed supply chain planning software companies, products, or functionality or have announced intentions to develop and sell supply chain planning solutions. Such vendors include J.D. Edwards & Company; Oracle Corporation; PeopleSoft, Inc.; and SAP AG.

The principal competitive factors in the markets in which we compete include product functionality and quality, domain expertise, product suite integration and product-related services such as customer support and implementation services. Other factors important to clients and prospects include customer service and satisfaction, the ability to provide client references, compliance with industry standards and requirements, the ability of the solution to generate business benefits, vendor reputation, rapid return on investment and, in international markets, availability in foreign languages. We believe that our principal competitive advantages are our comprehensive, integrated solutions, our list of referenceable clients, the ability of our solutions to generate business benefits for clients, our substantial investment in product development, our rapid implementations and returns on investment, our client support services and our extensive knowledge of supply chain management, pricing and revenue optimization and eMarketplace solutions.

License and support agreements and pricing:

License fees consist principally of fees generated from licenses of our software products. In consideration of the payment of license fees, we generally grant nonexclusive, nontransferable, perpetual licenses, which are primarily business unit- and user-specific. License fee arrangements vary depending upon the type of software product being licensed and the computer environment. License fees are based primarily on which products are licensed, the complexity of the client's problem and the number of users and locations. The amount of license fees may reach tens of millions of dollars for supply chain, pricing and revenue and eMarketplace initiatives that are large in scope.

Clients may obtain support for an annual fee, depending on the level of support and the size of the license fee. The support fee is generally billed annually and is subject to changes in support list prices. We also provide pre-installation assistance, systems administration, training and hosting of our software applications and other product-related services, generally on a time and materials basis. This allows our clients to determine the level of support or services appropriate for their needs.

Proprietary rights and licenses:

We regard our software as proprietary and rely on a combination of trade secret, patent, copyright and trademark laws, license agreements, confidentiality agreements with our employees and nondisclosure and other contractual requirements imposed on our clients, consulting partners and others to help protect proprietary rights in our products. We distribute our supply chain management, pricing and revenue optimization and eMarketplace software under software license agreements, which typically grant clients nonexclusive, nontransferable licenses to our products and have perpetual terms unless terminated for breach. Under such typical license agreements, we retain all rights to market our products.

Use of the licensed software is usually restricted to clients' internal operations and to designated users. In sales to virtual service providers, the licensed software is restricted to clients' internal operations of designated users and the processing of defined customers' client data. Use is subject to terms and conditions that prohibit unauthorized reproduction or transfer of the software. We also seek to protect the source code of our software as a trade secret and as an unpublished, copyrighted work.

Employees:

As of February 28, 2001, we had 1,451 full-time regular employees. None of our employees are represented by a labor union. We have experienced no work stoppages and believe that our employee relations are generally good.

Item 2. PROPERTIES.

Our principal sales, marketing, product development, support and administrative facilities are located in Rockville, MD, where we lease approximately 122,000 square feet of office space under a lease agreement which

expires on April 30, 2002. We lease approximately 52,000 square feet of additional office space in Rockville, MD, under a lease agreement that expires on July 31, 2002. The leases for these facilities do not allow for expansion which we expect to need in the future. The Company has leased approximately 210,000 square feet for its new headquarters in Gaithersburg, MD. We expect to move into our new headquarters space during the second calendar quarter of 2002. The new lease agreement is for an initial term of 10 years and includes an option for the Company to lease additional space if needed. We are currently under negotiations to lease approximately 72,000 additional square feet.

In addition, we lease office space for our 38 sales, service and product development offices located in North America, South America, Europe and Asia/Pacific.

Item 3. LEGAL PROCEEDINGS.

We are involved from time to time in disputes (including those described below) 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.

We will not continue to report on disputes or proceedings which we do not believe will have a material adverse effect on us, with the exception of the proceedings involving Information Resources, Inc. ("IRI").

We have reported that, on March 7, 1997, we, as part of the acquisition of certain assets of IRI, entered into several agreements with IRI, including a Data Marketing and Guaranteed Revenue Agreement ("Agreement") and an Asset Purchase Agreement ("Purchase Agreement"). The Agreement set forth the obligations of the parties with regard to revenues to be paid to IRI from the sale by us of specified products provided by IRI. Under the terms of the Agreement, we guaranteed revenue to IRI in a total amount of $16.5 million over a period of years following execution of the Agreement by way of three separate revenue streams.

We made an initial payment of approximately $500,000 to IRI. In addition, as part of our commitment, we agreed to guarantee revenues to IRI in a total amount of $12.0 million over an initial three-year period beginning no later than November 1, 1997 ("First Revenue Stream"). We asserted that our ability to market the IRI products had been impaired, which, under the terms of the Agreement, obligates the parties to restructure the payments and/or modify the obligations with regard to the First Revenue Stream. IRI responded, disagreeing that an impairment existed and, in the alternative, that any impairment was corrected.

The parties discussed their disagreement over the impairment issue until IRI filed a complaint in the Circuit Court of Cook County, IL on January 15,

1999. The complaint alleged breach of the Agreement and initially sought damages of approximately $12.0 million for our failure to make guaranteed payments. The complaint also alleged a breach of a separate Non-Competition and Non-Solicitation Agreement executed at the same time as the Agreement and sought damages in an amount in excess of $100,000. We filed a Motion to Stay Proceedings and Compel Arbitration, which was granted as to the claim under the Agreement and denied as to the claim under the Non-Competition and Non-Solicitation Agreement. Arbitration proceedings have commenced under the auspices of the American Arbitration Association.

In the arbitration, IRI seeks a total of approximately $15.9 million in damages. The amount now sought by IRI includes amounts which it claims are due under a second revenue stream under the Agreement, triggered by the resolution of IRI's lawsuit with Think Systems Corporation. The second revenue stream represents a total guaranteed revenue of $1.75 million for the first and second year following the Think Systems settlement and $2.25 million for the third year following the settlement. We contend that the conditions to these amounts becoming due under the second revenue stream have not been satisfied and that no amounts are due to IRI, because, among other reasons, of a failure of consideration in the overall transaction. The arbitration is currently scheduled to begin in early November. Discovery will be completed during the summer. Disposition of the Cook County action awaits resolution of the arbitration.

The Company and Manugistics U.K. Limited have been named as defendants in a claim filed by Grocery Logistics Limited in the High Court of Justice, Queen's Bench Division, Technology & Construction Court, No. HT-00-384, on October 19, 2000. The lawsuit arose from a dispute which the Company had previously announced. The claim seeks damages of an amount between approximately $6.7 million and $10.5 million, plus interest, arising out of a contract for the supply of software, support, maintenance, consulting and training services. The claimant alleges that the implementation of the software was a failure because it did not meet the requirements of the contract. The Company filed an answer in which it denied the allegations. The Company believes that its defense is meritorious.

Discovery has commenced and the trial is currently scheduled for January 15, 2002. The Company's insurance carriers have accepted coverage under a reservation of rights.

On November 29, 2000, the Company filed a lawsuit against VirtualFund.com, Inc., in the United States District Court for the District of Maryland alleging that VirtualFund.com, Inc. is in anticipatory breach of its obligations under a software license agreement among the Company and VirtualFund.com, Inc. and its affiliates. The Company seeks at least $4.5 million in damages. VirtualFund.com, Inc. has counterclaimed that the contract is invalid and seeks return of $2.5 million in license fees and other unspecified damages. The court's current scheduling order provides that discovery shall be completed on August 6, 2001.

In September 2000, one of our clients submitted to us a notice claiming damages relating to a software implementation project. The client has requested a price adjustment in the amount of $3.5 million, but has informally lowered its request to $1.3 million. The client's claim arises from the performance of our subcontractor on the project. We believe that the subcontractor has full responsibility for our client's claim and have so notified that company. The Company's insurance carrier has accepted coverage within the terms and conditions of the policy.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

Item 4A. EXECUTIVE OFFICERS OF THE REGISTRANT.

The name, age and position held by each of the executive officers of Manugistics Group, Inc. and Manugistics, Inc., its principal operating subsidiary, are as follows:

Name	Age	Position
Gregory J. Owens..................	41	Chairman and Chief Executive Officer
Richard F. Bergmann................	45	President
Terrence A. Austin.................	38	Executive Vice President, Electronics and High
Gregory C. Cudahy..................	37	Executive Vice President, Pricing and Revenue
Raghavan Rajaji....................	54	Executive Vice President and Chief Financial O
Andrew J. Hogenson.................	37	Senior Vice President, Product Development
Jeffrey L. Holmes..................	51	Senior Vice President, Government and Public S
James J. Jeter.....................	42	Senior Vice President, Global Marketing
Dr. Robert L. Phillips.............	46	Senior Vice President, Chief Technology Office
Thomas C. Ryan, Jr.................	39	Senior Vice President, Americas Sales
Timothy T. Smith...................	37	Senior Vice President, General Counsel and Sec

Mr. Owens has served as Chief Executive Officer since joining Manugistics in April 1999 and as Chairman of the Board of Directors since February 2001. Mr. Owens also served as President of the Company from April 1999 through November 2000. From 1993 to 1999, Mr. Owens served as the Global Managing Partner for the Accenture (formerly known as Andersen Consulting) Supply Chain Practice.

Mr. Bergmann has served as President since December 2000. From June 1999 through November 2000, Mr. Bergmann served as the Executive Vice President, Global Sales and Services. From September 1990 to June 1999, he was a partner in the Accenture Supply Chain Strategy Group.

Mr. Austin has served as Executive Vice President, Electronics and High Technology since June 1999. From August 1997 to June 1999, he was head of Accenture Electronics and High Technology Sector of its Global Supply Chain Practice and from October 1989 to June 1997, Mr. Austin served as an Associate Partner with Accenture's Global Supply Chain Practice.

Mr. Cudahy joined Manugistics as Executive Vice President, Pricing and Revenue Management in October 2000. From September 1999 through October 2000, Mr. Cudahy served as Partner-in-Charge of Accenture's North America Supply Chain Management practice. He previously served as Associate Partner in the same department from September 1996 through August 1999 and as Senior Manager from June 1995 through August 1996.

Mr. Rajaji has served as Executive Vice President and Chief Financial Officer since December 1999. From September 1995 to December 1999, he served as Senior Vice President, Chief Financial Officer and Treasurer at BancTec, Inc.

Mr. Hogenson has served as our Senior Vice President, Product Development since October 2000. From October 1999 through October 2000, Mr. Hogenson served as our Vice President, Transportation, Products and Solutions. From March 1997 to October 1999, he served as Senior Manager, and from 1995 to March 1997, Mr. Hogenson served as a Manager, of Accenture Strategy Practice Group.

Mr. Holmes has served as Senior Vice President, Government and Public Sector (formerly Government Solutions and Alliances) since September 1999. From April to September 1999, he served as Senior Vice President, North American Sales Operations. From October 1998 to April 1999, he served as Vice President, Industry Solutions. From January 1997 to October 1998, he served as Vice President, Consumer Products Industry. He joined us in October 1996 as Director of Marketing, Consumer Products. From 1995 to October 1996, Mr. Holmes served as Logistics and Commercial Director for Mars Incorporated.

Mr. Jeter has served as Senior Vice President, Global Marketing since August 1999. From July 1998 to August 1999, he served as Vice President and Managing Director of European Operations for Iomega Corporation, a provider of personal storage solutions for digital information. From December 1997 to July 1998, Mr. Jeter served as Vice President, Managing Director of Iomega's Asia Pacific operation. From July 1997 to December 1997, Mr. Jeter served as Vice President, Worldwide Marketing at Iomega. From April 1997 to July 1997, Mr. Jeter served as Senior Director, New Business Development at Iomega. From October 1991 to April 1997 he served as Director of Product Marketing of the new products and technology division for Duracell, Inc.

Dr. Phillips has served as Senior Vice President, Chief Technology Officer since December 2000. Prior to joining Manugistics, he served as the Chief Technology Officer for Talus Solutions, Inc. (Talus) from May 1998 to December 2000 and Chief Executive Officer (CEO) of Talus from November 1997 to May 1998. Dr. Phillips served as CEO of Decision Focus Incorporated (DFI), a predecessor to Talus, from 1995 to 1997.

Mr. Ryan has served as Senior Vice President, Americas Sales since March 2001 and as Senior Vice President, North America Sales for the PRO solutions from December 2000 to March 2001. Prior to joining Manugistics, Mr. Ryan held the position of Senior Vice President, North America Sales at Talus from July 2000 to December 2000. Mr. Ryan was Vice President, North America Regional Sales at Cadence Software from July 1991 through June 2000.

Mr. Smith has served as Senior Vice President, General Counsel and Secretary since January 2000. He served as Vice President and General Counsel for automobile importer Land Rover North America, Inc. from June 1998 to December 1999. He was Associate Corporate Counsel for retail holding company Dart Group Corporation from May 1995 to May 1998.

There are no family relationships among any of the executive officers or directors of Manugistics Group, Inc. Executive officers of Manugistics Group, Inc. are elected by the Board of Directors (the "Board") on an annual basis and serve at the discretion of the Board.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Our common stock, $.002 par value per share, trades on The Nasdaq Stock Market under the symbol "MANU". The following table sets forth the high and low sales prices in dollars per share for the respective quarterly periods over the last two fiscal years, as reported in published financial sources. These prices reflect inter-dealer prices, without retail markup, markdown or commission and may not necessarily represent actual transactions. Prices have been restated to give effect to the Company's two-for-one stock split, effective December 7, 2000.

Fiscal 2001	High	Low
First Quarter (ended May 31, 2000)	35.13	12.53
Second Quarter (ended August 31, 2000)	46.66	11.25
Third Quarter (ended November 30, 2000)	66.06	30.88
Fourth Quarter (ended February 28, 2001)	64.38	26.94

Fiscal 2000	High	Low
First Quarter (ended May 31, 1999)	5.63	2.63
Second Quarter (ended August 31, 1999)	8.00	4.34
Third Quarter (ended November 30, 1999)	8.94	4.53
Fourth Quarter (ended February 29, 2000)	29.06	8.50

As of April 17, 2001, there were approximately 363 stockholders of record of our common stock, according to information provided by our transfer agent.

We have never declared or paid any cash dividends on our common stock and do not intend to do so in the foreseeable future. It is our present intention to retain any future earnings to provide funds for the operation and expansion of our business. In addition, we have a one-year unsecured revolving credit facility with a commercial bank that is scheduled to expire on September 30, 2001. However, as in prior years, we will seek to renew this credit facility upon expiration. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" and Note 5 to the Consolidated Financial Statements. During the term of the credit facility, we are subject to a covenant not to declare or pay cash dividends to holders of our common stock. Future payment of cash dividends, if any, will be at the discretion of the Board and will be dependent upon our financial condition, results of operations, capital requirements and such other factors as the Board may deem relevant and will be subject to the covenants contained in any outstanding credit facility.

Recent Sale of Unregistered Securities:

Acquisition of STG. As previously reported by the Company, the Company acquired (the "Purchase") STG, pursuant to a certain Stock Purchase Agreement dated as of December 22, 2000, by and among the Company, STG and certain other persons (the "Purchase Agreement"). The Purchase Agreement was privately negotiated among the parties thereto. In connection with the Purchase, which became effective as of January 16, 2001, the Company issued to the nine holders of STG capital stock (the "STG Shareholders") consideration valued at approximately $6.9 million, consisting of cash payments of approximately $1.5 million, the issuance of an aggregate of 159,822 shares of the Company's Common Stock (the "Shares") valued at approximately $4.5 million and transaction costs of approximately $0.9 million. The Company also agreed to pay up to $27.9 million in additional consideration (the "Additional Consideration"), if certain revenue-based performance requirements are met during the 21-month period ended October 31, 2002. The Additional Consideration, if any, would be payable in cash or in the form of shares of our common stock under limited circumstances. The Additional Consideration would be allocated among certain of the former STG shareholders and the holders of options and warrants exercisable for shares of STG's capital stock

outstanding at the time of the Purchase as agreed upon by the affected parties. Additional Consideration paid, if any, will be recorded as goodwill and amortized over the remaining life of the asset.

The Shares were not registered under the Securities Act of 1933, as amended (the "Securities Act"), in reliance upon Section 4 (2) of the Securities Act and Regulation S under the Securities Act. The Purchase Agreement and a related Registration Rights Agreement imposed certain restrictions on the resale or other transfer of the Shares necessary for the availability of the Section 4 (2) exemption and the safe harbor afforded by Regulation S. No underwriters were involved in connection with the issuance and sale of the Shares under the Purchase Agreement. In accordance with the terms of the Registration Rights Agreement, on February 5, 2001, the Company filed a registration statement on Form S-3 under the Securities Act to register the Shares for resale by the former STG shareholders. The registration statement was declared effective in March 2001. If we issue additional shares of our common stock as Additional Consideration, we are obligated to register them for resale on a Form S-3.

Talus Warrants. On December 21, 2000, the Company acquired Talus in a stock for stock merger (the "Merger"), pursuant to a certain Agreement and Plan of Merger dated as of September 21, 2000, by and among the Company, Manu Acquisition Corp., a wholly owned subsidiary of the Company, Talus and certain other persons (the "Merger Agreement"). Under the terms of the Merger Agreement, the Company assumed the then outstanding warrants held by three Talus warrantholders to purchase shares of the capital stock of Talus. Under the terms of the Merger Agreement, these warrants were converted into warrants to acquire a total of up to 65,000 shares of our common stock at prices ranging from $0.07 to $16.08 per share. One of these warrants was converted into a warrant to acquire 13,987 shares (the "Warrant Shares") of common stock of the Company for an exercise price of $.0676 per share pursuant to the terms of the Merger Agreement. On February 28, 2001, the holder of this warrant exercised the warrant in full. Pursuant to the exercise of the warrant, the warrantholder paid to the Company the aggregate exercise price of $945 by surrendering 31 shares issuable under the warrant, pursuant to the terms of the warrant, and the Company issued 13,956 shares of the Company's common stock to the warrantholder.

Neither the warrants nor the Warrant Shares were registered under the Securities Act of 1933, as amended (the "Securities Act") in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act. The exercised warrant imposed certain restrictions on the resale or other transfer of the Warrant Shares necessary for the availability of the Section 4(2) exemption. No underwriters were involved in connection with the issuance and sale of the warrants or the Warrant Shares.

16

Item 6. SELECTED FINANCIAL DATA.

Selected consolidated financial data with respect to us for each of the five fiscal years in the period ended February 28, 2001 is set forth below. This data should be read in conjunction with our Consolidated Financial Statements and related notes thereto for the corresponding periods, which are contained in Part IV of this Annual Report on Form 10-K.

		Fiscal Year Ended	
	2001	2000	19
		(in thousands, ex	
STATEMENT OF OPERATIONS DATA:			
Revenue:			
Software	$ 139,316	$ 60,421	$ 73
Services	73,333	46,516	65
Support	55,315	45,496	38
Total revenue	267,964	152,433	177
Operating expenses(3):			
Cost of software	19,146	11,811	11
Cost of services and support	59,149	43,783	50
Sales and marketing	115,610	61,439	103
Product development	40,830	29,150	49
General and administrative	22,925	15,837	19
Amortization of intangibles	16,204	2,437	2
Purchased research and development and acquisition-related expenses (1)	9,724	--	3
Restructuring (benefit) expense (2)	--	(1,506)	33
Non-cash stock compensation expense(3)	12,801	--	
Total operating expenses	296,389	162,951	273
(Loss) income from operations	(28,425)	(10,518)	(95
Other income - net	2,899	1,389	2
(Loss) income before income taxes	(25,526)	(9,129)	(93
Provision (benefit) for income taxes	2,552	(184)	2

Net (loss) income	$ (28,078)	$ (8,945)	$ (96
Basic (loss) income per share	$ (0.48)	$ (0.16)	$ (
Diluted (loss) income per share	$ (0.48)	$ (0.16)	$ (
BALANCE SHEET DATA:			
Cash, cash equivalents and marketable securities(4)	$ 300,308	$ 51,547	$ 43
Working capital(4)	300,668	36,831	31
Goodwill and other intangible assets(5)	394,178	7,317	9
Total assets(4) (5)	847,261	151,907	172
Long-term debt (4)	250,133	283	
Total stockholders' equity (5)	470,321	86,718	85

(1) During fiscal 2001, we incurred non-recurring charges to operations relating to the write-off of purchased research and development, which had not yet reached technological feasibility and had no alternative future use. The charge consists of $8.6 million related to the acquisition of Talus Solutions, Inc. and $1.1 million related to the acquisition of STG Holdings, Inc., which were both accounted for under the purchase method of accounting. During fiscal 1999, we incurred a non-recurring charge to operations totaling $3.1 million for certain acquisition-related expenses in connection with the business combination involving TYECIN Systems, Inc ("TYECIN"), which was accounted for as a pooling of interests. During fiscal 1998 and 1997, we incurred non-recurring charges to operations totaling $47.3 million and $3.7 million, respectively, in connection with the write-off of purchased research and development which had not yet reached technological feasibility and had no alternative future. These charges relate to the acquisitions of ProMIRA Software, Inc. and AVYX, Inc., respectively, which were both accounted for under the purchase method of accounting.

(2) During fiscal 1999, we incurred charges to operations totaling $33.8 million for certain restructuring costs related to management's plan to reduce costs and improve operating efficiencies. The restructuring charge was reduced by $1.5 million during fiscal 2000 due to changes in estimates related to better than expected success in subleasing abandoned and excess office space offset by higher than expected severance costs.

-16-

17

(3) During fiscal 2001, we incurred non-cash stock compensation charges of $12.8 million primarily comprised of $11.1 million related to the repricing of stock options and $1.2 million related to the amortization of unvested stock options assumed in the acquisition of Talus. The amounts shown above for cost of services and support, sales and marketing, product development and general and administrative expense exclude non-cash stock compensation expense as follows:

Cost of services and support	$ 4,579
Sales and marketing	3,262

Product development	3,694
General and administrative	1,266
	$12,801

(4) During fiscal 2001 we issued $250.0 million in 5% convertible subordinated notes due in November 2007.

(5) The increase in intangible assets, total assets and stockholders' equity in fiscal 2001 is primarily due to the acquisitions of Talus Solutions, Inc. and STG Holdings, Inc.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Overview:

We are a leading global provider of Enterprise Profit Optimization(TM) (EPO) solutions, which we believe is a new and important category of solutions for enterprise management. We are also a leading provider of solutions for supply chain management (SCM), pricing and revenue optimization (PRO) and electronic marketplaces (eMarketplaces). Our solutions help companies lower operating costs, 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 (supply chain management) and how they are sold (pricing and revenue optimization). EPO solutions provide additional benefits by combining the proven cost-reduction power of supply chain management solutions and the revenue-enhancing capacity of pricing and revenue optimization solutions.

We help our clients monitor and streamline their own core internal operational processes involving the design, purchase, manufacture, storage, transportation, pricing, marketing and selling of their goods and services. Our solutions also help our clients integrate their own internal processes with those of their customers and suppliers to assist in providing collaboration and efficiencies across extended eMarketplaces. In addition, our solutions help our clients improve customer service and the allocation of resources by providing information and forecasts that allow them to make more effective operational decisions. We also provide strategic consulting and implementation services to our clients as part of our solutions.

Increasing global competition, shortening product life cycles and developing eMarketplace initiatives 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 agriculture, apparel, automotive, chemical, consumer durables, consumer packaged goods, electronics & high technology, energy, food & beverage, government, logistics, metals, pharmaceuticals, pulp & paper, retail, services and transport, travel & hospitality. Our customer base of approximately 1,100 clients includes large, multinational enterprises such as 3Com; Cisco Systems Inc.; Coca-Cola Bottling Co. Consolidated; Emerson Electric Co.; Ford Motor Company; Fuji Photo Film, USA; Harley-Davidson, Inc.; Levi Strauss & Co.; Marriott; Texas Instruments; The Limited; and Unilever Home & Personal Care, USA; as well as mid-sized enterprises and emerging eMarketplaces.

Results of Operations:

The following table includes the consolidated statements of operations data for each of the years in the three-year period ended February 28, 2001 expressed as a percentage of revenue:

	Fiscal Year Ended February 28 or 29		
	2001	2000	1999
Revenue:			
Software	52.0%	39.6%	41.6%
Services	27.4%	30.5%	36.7%
Support	20.6%	29.8%	21.8%
Total revenue	100.0%	100.0%	100.0%
Operating expenses:			
Cost of software	7.2%	7.8%	6.6%
Cost of services and support	22.1%	28.7%	28.2%
Sales and marketing	43.1%	40.3%	58.0%
Product development	15.2%	19.1%	27.8%
General and administrative	8.6%	10.4%	11.2%
Amortization of intangibles	6.0%	1.6%	1.3%
Purchased research and development and acquisition-related expenses	3.6%	--	1.7%
Restructuring (benefit) expense	--	(1.0)%	19.0%
Non-cash stock compensation expense	4.8%	--	--
Total operating expenses	110.6%	106.9%	153.8%
Loss from operations	(10.6)%	(6.9)%	(53.8)%
Other income - net	1.1%	0.9%	1.3%
Loss before income taxes	(9.5)%	(6.0)%	(52.5)%
Provision (benefit) for income taxes	1.0%	(0.1)%	1.7%
Net loss	(10.5)%	(5.9)%	(54.2)%

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 as follows (in thousands):

Cost of services and support	$ 4,579
Sales and marketing	3,262

Product development	3,694
General and administrative	1,266
	$12,801

See "Non-Cash Stock Compensation Expense" for further detail.

Revenue:

General. Our revenue consists of software revenue, services revenue and support revenue. Software revenue is generally recognized upon execution of a software licensing 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 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 production, 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 increased 75.8% in fiscal 2001 and decreased by 14.2 % in fiscal 2000. The increase in fiscal 2001 revenue primarily resulted from increased demand and market acceptance for our products and services, increased selling activities resulting from a larger and more effective sales force, increased average selling price ("ASP") for our software and, to a lesser extent, the acquisitions of Talus and STG. The decrease in total revenue in fiscal 2000 resulted primarily from fielding a smaller direct sales force and a decrease in ASP during the first half of fiscal 2000 versus fiscal 1999. No individual customer accounted for 10% or more of total revenue in fiscal 2001, 2000 or 1999

Software. Software revenue increased 130.6%, or $78.9 million, in fiscal 2001 and decreased 18.1%, or $13.4 million, in fiscal 2000. Software revenue as a percentage of total revenue was 52.0% in fiscal 2001, 39.6% in fiscal 2000 and 41.6% in fiscal 1999. The increases in software revenue and software revenue as a percentage of total revenue in fiscal 2001 were primarily due to:

- increased demand and market acceptance for our software products,

- increased selling activities resulting from a larger and more effective sales force,

- increased ASP and number of completed transactions,

- expanded and enhanced product offerings, and

- the acquisition of Talus.

The number of our significant software license transactions was 114 in fiscal 2001 compared to 93 and 115 in fiscal 2000 and 1999, respectively. The average size of our significant software transactions increased to $1.2 million in fiscal 2001 compared to $0.6 million in both fiscal 2000 and 1999. Significant transactions are those with a value of over $100,000. The number of software transactions of $1.0 million or greater increased to 47 in fiscal 2001 compared to 14 and 19 in fiscal 2000 and 1999, respectively.

The decreases in software revenue and software revenue as a percentage of total revenue in fiscal 2000 were primarily due to:

- a smaller direct sales force and poor sales force productivity during the first half of 2000,

- transitioning the sales force to a vertical market focus,

- decreased number of completed transactions,

- difficulties integrating products and operations from prior acquisitions, competition,

- year 2000 concerns delaying client buying decisions and

- market awareness of our execution problem experienced in the prior year.

Services. Services revenue increased 57.7%, or $26.8 million, in fiscal 2001 and decreased 28.6%, or $18.6 million, in 2000. Services revenue as a percentage of total revenue was 27.4% in fiscal 2001, 30.5% in fiscal 2000 and 36.7% in fiscal 1999. The increase in services revenue in fiscal 2001 was due to an increased number of software transactions and related implementations, 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.

The decrease in service revenue in fiscal 2000 primarily resulted from the decrease in software revenue during fiscal 2000 and fiscal 1999, a smaller services workforce and greater utilization of systems integrators to provide these services.

Support. Support revenue increased 21.6%, or $9.8 million, in fiscal 2001 and increased 17.8 %, or $6.9 million, in 2000. Support revenue as a percentage of total revenue was 20.6% in fiscal 2001, 29.8% in fiscal 2000 and 21.8 % in fiscal 1999. The increase in support revenue in fiscal 2001 and 2000 was due to the increase in the number of clients that have licensed our software products 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 no assurance that this renewal rate will continue. See "Forward Looking Statements" and "Factors That May Effect Future Results".

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 30.7% of total revenue, or $82.3 million, in fiscal 2001; decreasing from 40.1%, or $61.1 million, in fiscal 2000 and 33.9% or $60.1 million, in fiscal 1999. The increases in this revenue resulted from our efforts to expand our presence and selling efforts outside of the United States. We believe increasing international revenue is critical to growth in both revenue and profitability and may lower our overall exposure to unfavorable economic conditions in specific regions.

Operating Expenses:

Cost of Software. Cost of software consists primarily of amortization of capitalized software development costs and royalty fees associated with third-party software included in our software. The following table sets forth amortization of capitalized software development costs and other costs of license fees for the three years in the period ended February 28, 2001 (in thousands):

	Fiscal Year Ended February 28 or 29		
	2001	2000	1999
Amortization of capitalized software	$ 9,486	$ 9,006	$ 8,704
Percentage of software revenue	6.8%	14.9%	11.8%
Other costs of software	9,660	2,805	2,957
Percentage of sotfware revenue	6.9%	4.6%	4.0%
Total cost of software	$ 19,146	$ 11,811	$11,661
Percentage of software revenue	13.7%	19.6%	15.8%

The increase in cost of software in fiscal 2001 was primarily a result of increases in royalties paid to third parties as a result of the mix of software sold and the increase in software revenue. Cost of software revenue was relatively unchanged in fiscal 2000 as compared to fiscal 1999.

Cost of Services and Support. Cost of services and support includes primarily personnel and third-party contractor costs. Cost of services and support as a percentage of related revenue was 46.0% in fiscal 2001, 47.6% in fiscal 2000 and 48.3% in fiscal 1999. Cost of services and support increased 35.1%, or $15.4 million, in fiscal 2001 and decreased 12.6%, or $6.3 million, in fiscal 2000. The increase in cost of services and support during fiscal 2001 was attributable to adding the personnel necessary to support the growth in revenue and installed customer base. The decrease in cost of services and support during fiscal 2000 was attributable to the reduction of personnel associated with restructuring activities in fiscal 1999 and the overall decline in revenue in fiscal 2000.

Sales and Marketing. Sales and marketing expense consist primarily of personnel costs, sales commissions, promotional events such as trade shows and technical conferences, advertising and public relations programs. Sales and marketing expense as a percentage of total revenue was 43.1% in fiscal 2001, 40.3% in fiscal 2000 and 58.0% in fiscal 1999. Sales and marketing expense increased 88.2%, or $54.2 million in fiscal 2001 and decreased 40.4%, or $41.6 million, in fiscal 2000. The increase in fiscal 2001 was primarily due to:

- increasing the number of direct sales representatives and sales management to 155 at February 28, 2001 compared to 91 at February

29, 2000, or an increase of 70.3%; and increasing the overall sales, marketing and business development employees to 407 at February 28, 2001 compared to 258 at February 29, 2000, or an increase of 57.8%,

- increased sales commissions due to higher software revenue, and

- increases in promotional spending, advertising and public relations spending to rebrand and reposition our solutions in the marketplace.

We expect sales and marketing expense to increase in dollars in fiscal 2002 and remain the same or decrease as a percentage of total revenue as our revenue grows. See "Forward Looking Statements" and "Factors That May Effect Future Results."

The decrease in sales and marketing expenses in fiscal 2000 was primarily a result of reductions in personnel associated with restructuring activities in fiscal 1999 and the decrease in total revenue.

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. We record product development costs net of capitalized software development costs for products that have reached technological feasibility in accordance with SFAS No. 86,

"Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed". The following table sets forth product development costs for the three fiscal years ended February 28, 2001 (in thousands):

	Fiscal Year Ended February 28 or 29		
	2001	2000	1999
Gross product development costs	$ 49,750	$ 34,585	$ 59,464
Percentage of total revenue	18.6%	22.7%	33.5%
Less: Capitalized product development costs	8,920	5,435	10,075
Percentage of total revenue	3.3%	3.6%	5.7%
Product development costs, as reported	$ 40,830	$ 29,150	$ 49,389
Percentage of total revenue	15.2%	19.1%	27.8%

Gross product development costs increased 43.9%, or $15.2 million, in fiscal 2001 and decreased 41.8%, or $24.9 million in fiscal 2000. Net product development costs increased 40.1%, or $11.7 million, in fiscal 2001 and decreased 41.0%, or $20.2 million, in fiscal 2000. The increases in fiscal 2001 were due to:

- Increasing the number of product development employees to 423 at February 28, 2001 compared to 232 at February 29, 2000, or an increase of 82.3%

- Increasing the number of product development contractors to 188 at February 28, 2001 compared to approximately 39 at February 29, 2000, or an increase of 382.1%

- Increased number of product development initiatives.

The decrease in product development expenses as a percentage of total revenue reflects our ability to leverage resources over a larger revenue base. We expect to continue to expend significant resources on product development in future periods and invest similar amounts as a percentage of revenue in future periods. See "Forward Looking Statements" and "Factors That May Effect Future Results."

The decrease in gross and net product development costs in fiscal 2000 was primarily a result of reductions in personnel associated with restructuring activities in fiscal 1999.

General and Administrative. General and administrative expenses include personnel and other costs of our legal, finance, accounting, human resources and information systems functions. General and administrative expenses increased 44.8%, or $7.1 million in fiscal 2001 and decreased 20.1%, or $4.0 million in fiscal 2000. The increase in fiscal 2001 is due to increased personnel to support our growth. The decrease in general and administrative expense as a percentage of total revenue reflects our ability to spread this expense over a larger revenue base. The decrease in general and administrative expenses in fiscal 2000 was primarily a result of reductions in personnel associated with restructuring activities in fiscal 1999.

Amortization of Intangibles. Our acquisitions of Talus and 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 are amortized over periods ranging from two to seven years. Details of our acquisitions are included in Note 11 - "Acquisitions" in the Notes to our Consolidated Financial Statements included elsewhere in this report.

Amortization of intangibles related to the acquisitions referenced above was $16.2 million, $2.4 million and $2.3 million in fiscal years 2001, 2000 and 1999, respectively. We expect to record approximately $86.0 million of amortization expense in fiscal year 2002.

Purchased Research and Development and Acquisition-Related Expenses. Our acquisitions of Talus and STG included the purchase of technology that has not yet been determined to be technologically feasible and has no alternative future use in its then-current stage of development. Accordingly, the portion of the purchase price for Talus and STG allocated to purchased research and development of $9.7 million, in aggregate, was expensed immediately in accordance with generally accepted accounting principles. In fiscal 1999, we acquired TYECIN Systems, Inc., which was accounted for as a pooling of interests. Accordingly, we recorded a non-recurring charge of $3.1 million for certain expenses related to the transaction, including accounting, legal and severance costs. Details of our acquisitions are included in Note 11 - "Acquisitions" in the Notes to our Consolidated Financial Statements included elsewhere in this report.

Restructuring Expenses (Benefits). During fiscal 1999, we announced and implemented a restructuring plan intended to reduce costs and improve profitability. The restructuring plan was required due to poor financial

performance throughout fiscal 1999 that resulted from a variety of factors. As a result of the restructuring, we recorded charges of $33.8 million in fiscal

1999. The components of the charge are as follows (in thousands):

Severance and related benefits	$ 4,094
Lease obligations and terminations	20,200
Impairment of long-lived assets	9,115
Other	366
Total	$33,775

During fiscal 2000, we reduced our previously reported restructuring charge by $1.5 million due to changes in estimates related to better than expected success in subleasing abandoned and excess office space which was offset in part by higher than expected severance costs. As of February 28, 2001, all severance obligations related to the restructuring had been paid and the remaining lease obligations were $3.4 million.

Non-Cash Stock Compensation Expense. We recognized non-cash stock compensation of $12.8 million in fiscal 2001 primarily associated with stock options that were repriced in January 1999 and 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 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 charge of $11.1 million in fiscal 2001. No adjustments were made upon initial application of FIN 44 for periods prior to July 1, 2000. The initial fair value 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. As of February 28, 2001, 1.2 million repriced options were still outstanding with a remaining vesting period of approximately two years. 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 stock options, 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 $1.2 million during fiscal 2001. As of February 28, 2001, approximately 514,000 of these options remained unvested with remaining vesting periods up to 3.75 years.

Other Income, Net:

Other 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 income increased to $2.9 million in fiscal 2001 from $1.4 million and $2.4 million in fiscal 2000 and 1999, respectively. These increases relate primarily to an increase in interest income due to higher investment levels in fiscal 2001 offset by higher interest expense, both as a result of the issuance of $250.0 million of convertible debt during the quarter ended November 30, 2000.

Provision (benefit) from income taxes

We recorded income tax expense of $2.6 million in fiscal 2001 despite our loss before income taxes, resulting in a negative effective tax rate. The effective tax rate in fiscal 2001 differed from the U.S statutory rate primarily due to non-deductible goodwill and in-process research and development along with non-cash stock compensation expense that did not result in an income tax benefit for financial reporting purposes. Excluding the

effect of amortization of intangibles, purchased research and development and non-cash stock compensation expense, our effective tax rate was approximately 39% for fiscal 2001.

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 2001 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.

Net Loss

We reported a net loss of $28.1 million, $8.9 million and $96.1 million for the period ending February 28 or 29, 2001, 2000, 1999, respectively. Our fiscal year 2001 results include operations related to the acquisitions of Talus Solutions, Inc. and STG Holdings, Inc. The increased net loss in fiscal 2001 compared to fiscal 2000 is primarily due to the write-off of purchased research and development and intangible amortization directly attributable to our acquisitions of Talus and STG and charges for non-cash stock compensation, offset by an increase in operating income, excluding these non-cash items. The decrease in net loss in fiscal 2000 compared to fiscal 1999 is due to an increase in income from operations in fiscal 2000, including a decrease in restructuring charge and acquisition-related expenses recorded in fiscal 1999. Without the impact of these non-recurring items, and the related tax effect, we would have reported net income of $8.0 million for the period ending February 28, 2001, a net loss of $8.4 million and $59.1 million for the period ending February 29, 2000,and February 28, 1999, respectively.

Liquidity and Capital Resources

Our cash, cash equivalents and marketable securities in aggregate increased $248.8 million during fiscal 2001 to $300.3 million as of February 28, 2001. Working capital increased $263.8 million to $300.7 million at February 28, 2001. The increase in cash, cash equivalents, marketable securities and working capital was primarily the result of receiving $242.2 million in net proceeds related to completing our $250.0 million convertible debt offering during the third quarter of fiscal 2001 and receiving proceeds of $20.2 million from stock option exercises during fiscal 2001.

Cash provided by (used in) operations was $15.5 million, $12.3 million and $(27.8) million in fiscal 2001, 2000 and 1999, respectively. The increase in cash provided by operations in fiscal 2001 resulted primarily from (i) revenue growth and increased profits from operations before non-cash charges of approximately $19.9 million, (ii) an increase in interest income of $5.8 million, (iii) reduction in cash paid for restructuring costs of $7.0 million offset by net increases in working capital to support our revenue growth. Excluding the effect of acquisitions, accounts receivable and deferred revenue increased $38.8 million and $9.4 million, respectively, in fiscal 2001, while days sales outstanding in accounts receivable increased to 82 days as of February 28, 2001 versus 80 days as of February 29, 2000. These increases reflect the impact of our revenue growth in fiscal 2001.

Cash (used in) provided by investing activities was $(117.3) million, $(7.2) million and $23.0 million in fiscal 2001, 2000 and 1999, respectively. Investing activities consist primarily of the sales and purchases of marketable securities, purchases of property and equipment and purchases and capitalization of software. Purchases of marketable securities, net of sales, was $92.4 million in fiscal 2001 primarily as a result of investing the proceeds from our convertible debt offering. Total purchases of property, equipment and software, including capitalized software, were $20.3 million in fiscal 2001. We expect this amount to increase in fiscal 2002 and 2003 as we support our growth and build out our new corporate headquarters space.

Cash provided by financing activities was $256.2 million, $5.0 million and $16.5 million in fiscal 2001, 2000 and 1999, respectively. Cash provided by financing activities consist primarily of proceeds from our convertible debt offering in fiscal 2001, proceeds from the exercise of stock options and employee stock plan purchases and changes in our line of credit. We had no balance outstanding under our line of credit at February 28, 2001.

As of February 28, 2001, we had $250.0 million in convertible subordinated debentures 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, subject to adjustment under certain conditions. At any time on or after November 7, 2003, the Company 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, will be as follows:

Redemption Period	Redemption Price
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 committed unsecured revolving credit facility with a commercial bank for $20.0 million. The current agreement is scheduled to expire in September 2001. 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. We expect to incur $14.0 to $15.0 million in capital expenditures for leasehold improvements and furniture for the new space. We expect to move into our new headquarters space during the second calendar quarter of 2002.

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.

We are actively pursuing 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 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-K, 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 impair our business, results of operations and financial condition.

Risks related to our business

AS RESULT OF RECENT 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 April 1999, we hired a new executive management team, enhanced our supply chain optimization and eMarketplace products and services, expanded the scope of our product and service offerings to include 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:

- slower growth in the market for supply chain management, pricing/revenue optimization and eMarketplace solutions;

- weakening economic conditions;

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

- our ability to manage our anticipated growth;

- 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 EXPERIENCED SIGNIFICANT LOSSES IN RECENT FISCAL YEARS. 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 $28.1 million for the year ended February 28, 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 and non-cash stock compensation expenses associated with our acquisition of Talus. We will also incur non-cash charges related to the amortization of intangible assets relating to our acquisition of STG Holdings Inc. In addition, we may incur non-cash stock compensation charges related to our stock option repricing as discussed in more detail in the Notes to the Financial Statements (see Note 7). We cannot assure you that our revenue will grow or that we will achieve or maintain 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 EXPECTATION OF THE INVESTMENT COMMUNITY IN ANY PERIOD, OUR STOCK PRICE COULD DECLINE SIGNIFICANTLY.

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;

- 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 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. If this occurs, the price of our common stock could decline significantly.

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

The time it takes to license our solutions to prospective clients varies substantially, but typically ranges 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. Furthermore, because our operating expenses are relatively fixed over the short term and we devote significant time and resources to prospective clients, these fluctuations could cause our operating results to suffer in some future periods. The length of our sales cycle depends on a number of factors, including the following:

- the complexities of the supply chain, pricing/revenue and eMarketplace 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; and

- any other delays arising from factors beyond our control.

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

Our clients and prospective clients are seeking to solve increasingly complex supply chain, pricing/revenue and eMarketplace 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 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, 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 have 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 provides pricing and revenue optimization products and services. This acquisition is 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 the commercial releases of our pricing and revenue optimization solutions;

- our ability to protect and maintain Talus' intellectual property rights;

- our ability to successfully market and license the products Talus has developed and is developing for commercial release;

- 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 supply chain and eMarketplace capabilities and products with Talus' pricing and revenue optimization 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 will 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 will initially incur an annual amortization charge of approximately $82 million related to goodwill and intangible assets.

WE DEPEND ON SALES OF OUR SUPPLY CHAIN MANAGEMENT, PRICING/REVENUE OPTIMIZATION AND EMARKETPLACE 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 supply chain management, pricing/revenue optimization and eMarketplace 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 supply chain management, pricing/revenue optimization and eMarketplace solutions, in general, would materially and adversely affect our ability to generate revenue. While we believe the markets for supply chain management, pricing/revenue optimization and eMarketplace 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.

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 MORE 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. (to be acquired by FreeMarkets, Inc.), Aspen Technology, Inc., The Descartes Systems Group Inc., i2 Technologies, Inc., Logility, Inc.; Micros Systems, Inc., PROS Revenue Management, Sabre, Inc., 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, PeopleSoft, Inc. and SAP AG have acquired or developed and are developing supply chain planning, pricing/revenue optimization or eMarketplace 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 supply chain management, pricing/revenue optimization and eMarketplace 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 solutions are complex and are frequently integrated with a wide variety of third-party software. We may license solutions that contain undetected errors or failures when new solutions are first introduced or as new versions are released. We may also be unable to meet client expectations in implementing our solutions. 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 inle="DISPLAY: inline; FONT-FAMILY: time

37,184,596

35,267,352

66,340,727

66,488,918

Selling expenses

(47,218
)

(53,064
)

(109,992
)

(182,752
)

General and administrative expenses

(2,855,659
)

(2,281,661
)

(6,339,574

)

(4,635,796
)

Research and development expenses

(5,775,769
)

(4,610,458
)

(10,786,688
)

(7,065,497
)

Total operating expenses

(8,678,646
)

(6,945,183
)

(17,236,254
)

(11,884,045
)

Operating income

28,505,950

28,322,169

49,104,473

54,604,873

Interest income

1,470,113

1,418,287

2,539,717

2,420,016

Interest expense	(3,374,738)	(913,643)	(6,310,724)	(1,399,043)
Foreign currency exchange gains (losses)	877,423	(708,611)	1,366,616	(717,263)
Change in fair value of warrants liability	400,007	1,528,614	420,331	1,862,319
Government grant	1,172	-	210,091	-
Change in fair value of embedded derivative liability	-	298	-	

				312
Total non-operating income (expense), net	(626,023)	1,324,945	(1,773,969)	2,166,341
Income before income taxes	27,879,927	29,647,114	47,330,504	56,771,214
Income tax expense	(7,073,314)	(6,874,387)	(12,073,036)	(13,436,079)
Net income	20,806,613	22,772,727	35,257,468	43,335,135
Earnings per common share:				
Basic				

0.32

0.36

0.55

0.68

Diluted

0.32

0.33

0.55

0.65

Net Income

20,806,613

22,772,727

35,257,468

43,335,135

Other comprehensive income (loss)

Foreign currency translation adjustment, net of nil income taxes

3,758,011

(1,946,740
)

4,639,287

(2,026,563
)

Comprehensive income

24,564,624

20,825,987

39,896,755

41,308,572

See accompanying notes to unaudited condensed consolidated financial statements.

CHINA XD PLASTICS COMPANY LIMITED AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six-Month Period Ended June 30,	
	2013	2012
	US$	US$
Cash flows from operating activities:		
Net cash provided by operating activities	38,925,612	29,360,005
Cash flows from investing activities:		
Proceeds from maturity of time deposits	56,618,325	-
Purchase of time deposits	(182,063,524)	-
Purchases of property, plant and equipment	(13,419,444)	(37,490,885)
Net cash used in investing activities	(138,864,643)	(37,490,885)
Cash flows from financing activities:		
Proceeds from bank borrowings	226,906,170	70,412,507
Repayments of bank borrowings	(146,861,566)	(54,273,011)
Release of restricted cash	1,629,354	-
Placement of restricted cash as collateral for bank borrowings	(888,846)	-
Dividends paid to redeemable Series C convertible preferred stockholders	-	(60)
Net cash provided by financing activities	80,785,112	16,139,436
Effect of foreign currency exchange rate changes on cash and cash equivalents	1,343,214	(1,263,433)
Net increase (decrease) in cash and cash equivalents	(17,810,705)	6,745,123
Cash and cash equivalents at beginning of period	83,822,602	135,482,386
Cash and cash equivalents at end of period	66,011,897	142,227,509
Supplemental disclosure of cash flow information:		
Interest paid	4,476,797	1,399,043
Income taxes paid	11,108,922	12,271,078

See accompanying notes to unaudited condensed consolidated financial statements

CHINA XD PLASTICS COMPANY LIMITED AND SUBSIDIARIES
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Basis of presentation, significant concentrations and risks

(a) Basis of presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted as permitted by rules and regulations of the United States Securities and Exchange Commission. The condensed consolidated balance sheet as of December 31, 2012 was derived from the audited consolidated financial statements of China XD Plastics Company Limited ("China XD Plastics") and subsidiaries (collectively the "Company"). The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated balance sheet of the Company as of December 31, 2012, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, included in the Company's Annual Report on Form 10-K filed with the SEC.

In the opinion of the management, all adjustments (which include normal recurring adjustments) necessary to present a fair statement of the financial position as of June 30, 2013, the results of operations for the three-month and six-month periods ended June 30, 2013 and 2012, and the cash flows for the six-month periods ended June 30, 2013 and 2012, have been made.

The preparation of consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the recoverability of the carrying amounts of property, plant and equipment, the realizability of inventories and deferred income tax assets, the useful lives of property, plant and equipment, the collectibility of accounts receivable, the probability of the redemption of redeemable Series D convertible preferred stock, the fair values of financial instruments and stock-based compensation awards, and the accruals for tax uncertainties and other contingencies. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

(b) Significant concentrations and risks

Sales concentration

The Company sells its products, substantially through approved distributors in the People's Republic of China ("PRC"). The Company's sales are highly concentrated. Sales to four and five major distributors, which individually exceeded 10% of the Company's revenues for the three-month and six-month periods ended June 30, 2013 and 2012 , are as follows:

	Three-Month Period Ended June 30,			
	2013		2012	
	US$	%	US$	%
Distributor A	62,636,042	31.0%	9,647,079	6.7%

Distributor B	37,851,945	18.7%	47,867,834	33.1%
Distributor C	29,715,013	14.7%	20,755,970	14.3%
Distributor D	27,043,818	13.4%	20,671,303	14.3%
Total	157,246,818	77.8%	98,942,186	68.4%

	Six-Month Period Ended June 30,			
	2013		2012	
	US$	%	US$	%
Distributor A	105,637,897	28.3%	18,506,579	6.9%
Distributor B	81,383,863	21.8%	88,003,676	32.9%
Distributor C	52,579,111	14.1%	40,344,851	15.1%
Distributor D	50,068,717	13.4%	39,433,344	14.7%
Distributor E	42,853,294	11.5%	23,393,157	8.7%
Total	332,522,882	89.1%	209,681,607	78.3%

The Company expects revenues from these distributors to continue to represent a substantial portion of its revenue in the future. Any factors adversely affecting the automobile industry in the PRC or the business operations of these customers will have a material effect on the Company's business, financial position and results of operations.

Purchase concentration of Raw materials and Production Equipment

The principal raw materials used for the Company's production of modified plastics products are plastic resins, such as polypropylene, ABS and nylon. The Company purchases substantially all of its raw materials through three distributors. Raw material purchases from these three suppliers, which individually exceeded 10% of the Company’s total raw material purchases, accounted for approximately 95% and 99% of the Company’s total raw material purchases for the three-month periods ended June 30, 2013 and 2012, respectively, and 97% and 99% of the Company's total raw material purchase for the six-month periods ended June 30, 2013 and 2012, respectively. Management believes that other suppliers could provide similar raw materials on comparable terms. A change in suppliers, however, could cause a delay in manufacturing and a possible loss of sales, which would adversely affect the Company's business, financial position and results of operations.

The Company has three production facilities, all of which are located in Harbin, Heilongjiang province of the PRC. The Company purchased equipment from a major equipment distributor, which accounted for nil and 99% of the Company’s total purchases for the three-month periods ended June 30, 2013 and 2012, respectively, and accounted for 35% and 99% of the Company's total equipment purchases for the six-month periods ended June 30, 2013 and 2012, respectively. A change of the supplier could cause a delay in manufacturing and a possible loss of sales, which could adversely affect the Company's business, financial position and results of operations. The majority owner of the equipment distributor is also the majority owner of a major raw material supplier that supplied approximately 18% and 26% of the Company’s total raw material purchases for the three-month periods ended June 30, 2013 and 2012, and 18% and 26% of the Company’s total raw material purchases for the six-month periods ended June 30, 2013 and 2012, respectively. In addition, the majority owner of the equipment distributor is also the majority owner of sales Distributor D presented above.

Cash concentration

Cash and cash equivalents, restricted cash and time deposits maintained at banks consist of the following:

	June 30, 2013 US$	December 31, 2012 US$
RMB denominated bank deposits with:		
Financial Institutions in the PRC	252,388,790	140,788,222
U.S. dollar denominated bank deposits with:		
Financial Institution in the U.S.	94,127	18,391
Financial Institutions in the PRC	12	7,828,156
Financial Institution in Hong Kong Special Administrative Region	546,609	11,287

The bank deposits with financial institutions in the PRC are not insured by any government authority. To limit exposure to credit risk, the Company primarily places bank deposits with large financial institutions in the PRC with acceptable credit rating.

Cash that is restricted as to withdrawal or usage is reported as restricted cash in the condensed consolidated balance sheets and is not included as cash and cash equivalents in the condensed consolidated statements of cash flows.

Short-term bank deposits that are pledged as collateral for bills payable relating to purchase of raw materials are reported as restricted cash and amounted to US$7,739,434 and US$10,914,753 as of June 30, 2013 and December 31, 2012, respectively. Upon maturity and repayment of the bills payable, which is generally within 6 months, the cash becomes available for use by the Company. Short-term bank deposits that are pledged as collateral for letter of credit relating to purchase of raw materials are reported as restricted cash and amounted to US$8,961 and US$1,225,402 as of June 30, 2013 and December 31, 2012. The cash will be available for use by the Company after 60 days since the issuance of the letter of credit. The cash flows from the pledged bank deposits, which relate to purchases of raw materials, are reported within cash flows from operating activities in the condensed consolidated statements of cash flows.

Short-term bank deposits that are pledged as collateral for short-term bank borrowings are reported as restricted cash and amounted to US$4,114,120 and US$4,775,204 as of June 30, 2013 and December 31, 2012, respectively. The cash flows from such bank deposits are reported within cash flows from financing activities in the condensed consolidated statements of cash flows.

Note 2 - Accounts receivable

Accounts receivable consist of the following:

	June 30, 2013 US$	December 31, 2012 US$
Accounts receivable	207,261,590	143,991,818
Allowance for doubtful accounts	(146,543)	(148,054)
Accounts receivable, net	207,115,047	143,843,764

As of June 30, 2013 and December 31, 2012, the accounts receivable balances also include notes receivable in the amount of US$4,249,497 and US$927,390, respectively. As of June 30, 2013 and December 31, 2012, US$120,260,952 and US$95,338,947 of accounts receivable are pledged for the short-term bank loans respectively.

There was no accrual of additional provision or write-off of accounts receivable for the three-month and six-month periods ended June 30, 2013 and 2012.

Note 3 - Inventories

Inventories consist of the following:

	June 30, 2013 US$	December 31, 2012 US$
Raw materials	36,341,023	70,672,300
Work in progress	211,325	110,964
Finished goods	65,886,847	7,479,807
Total inventories	102,439,195	78,263,071

There were no write down of inventories for the three-month and six-month periods ended June 30, 2013 and 2012.

Note 4 – Prepaid expenses and other current assets

Prepaid expenses and other current assets consist of the following:

	June 30, 2013 US$	December 31, 2012 US$
Advances to suppliers	1,771,732	4,355,607
Interest receivable	1,735,704	1,145,244
Other	2,424,303	589,381
Total prepaid expenses and other current assets	5,931,739	6,090,232

Prior to February 2013, the Company paid deposits to domestic and international suppliers for the principal raw materials ordered. The Company made advanced orders of raw materials based upon (1) the demand and supply situation in the raw materials market and (2) the forecasted demand of products. Starting from March 2013, the Company switched to 30 days credit terms for purchases from its domestic suppliers. All advances to suppliers as of June 30, 2013 are related to the purchase of raw materials, which were subsequently received by the Company in July 2013.

Interest receivable mainly represents the interests earned from the three-month or six-month time deposits, as well as from the restricted cash.

Other mainly includes value added taxes receivables, other prepaid expenses and staff advances.

Note 5 – Property, plant and equipment, net

Property, plant and equipment consist of the following:

	June 30, 2013 US$	December 31, 2012 US$
Machinery, equipment and furniture	203,965,334	193,999,396
Motor vehicles	1,561,149	1,438,596
Workshops and buildings	42,578,183	40,357,145
Construction in progress	3,644,100	10,471,463
Total property, plant and equipment	251,748,766	246,266,600
Less accumulated depreciation	(33,368,620)	(22,486,467)
Property, plant and equipment, net	218,380,146	223,780,133

For the six-month periods ended June 30, 2013 and 2012, no interest expense was capitalized as a component of the cost of construction in progress as the amount was inconsequential. Depreciation expense on property, plant and equipment was allocated to the following expense items:

	Six-Month Period Ended June 30,	
	2013 US$	2012 US$
Cost of revenues	8,943,524	4,313,127
General and administrative expenses	726,013	115,289
Research and development expenses	795,964	513,541
Total depreciation expense	10,465,501	4,941,957

Note 6 – Short-term loans

		June 30, 2013 US$	December 31, 2012 US$
Unsecured loans		133,737,413	65,970,048
Loans secured by accounts receivable		89,288,624	72,229,981
Loans secured by bank deposits		14,053,182	23,876,021
Total short-term bank loans	(a)	237,079,219	162,076,050
Interest-free loan secured by land use rights	(b)	8,146,772	-
Total short-term loans		245,225,991	162,076,050

(a) As of June 30, 2013 and December 31, 2012, the Company's short-term bank loans bear a weighted average interest rate of 6.0% and 6.1% per annum, respectively. All short-term bank loans mature and expire at various times within one year and contain no renewal terms.

As of June 30, 2013, the Company had total lines of credit with remaining terms less than 12 months of RMB1,537.1 million (US$250.5 million), of which RMB99.3 million (US$16.2 million) was unused. These lines of credit are from PRC banks in Harbin, Heilongjiang province and contain certain financial covenants such as total stockholders' equity, debt asset ratio, current ratio, contingent liability ratio and net profit. As of June 30, 2013, the Company has met these financial covenants.

(b) On April 11, 2013, the Company obtained a one-year interest-free loan in the amount of RMB50 million (equivalent to US$8 million) from a company affiliated with the People's Government of Shunqing District, Nanchong City, Sichuan Province ("Shunqing Government"). The loan was issued to support the Company's construction of a 300,000 metric ton plastics production project and affiliated R&D center and training center project in Yinghua Industrial Park, Shunqing District, Nanchong City, Sichuan Province ("Construction of Sichuan Plant"). The loan will be secured by a land use right to be granted to the Company in connection with the Project.

Note 7 - Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consist of the following:

	June 30, 2013 US$	December 31, 2012 US$
Payables for purchase of property, plant and equipment	26,952,428	30,029,901
Other	5,141,028	4,413,082
Accrued expenses and other current liabilities	32,093,456	34,442,983

Other mainly represent accrued freight expenses, non income tax payables, accrued payroll and employee benefits, accrued interest expenses, and other accrued miscellaneous operating expenses.

Note 8 – Related party transactions

The Company entered into related party transactions with Harbin Xinda High-Tech Co., Ltd. ("Xinda High-Tech"), an entity controlled by the wife of Mr. Han, the chief executive officer and controlling stockholder of the Company, Mr. Han and Mr. Han's son. The significant related party transactions are summarized as follows:

		Three-Month Period Ended June 30,		Six-Month Period Ended June 30,	
		2013 US$	2012 US$	2013 US$	2012 US$
Costs and expenses resulting from transactions with related parties:					
Rental expenses for plant and office spaces	(a)	200,218	160,354	398,270	256,089

The balances due from and to the related parties are summarized as follows:

		June 30, 2013 US$	December 31, 2012 US$
Amounts due from related parties:			
Prepaid rent expenses to Xinda High-Tech	(a)	-	219,360
Prepaid rent expenses to Mr. Han's son	(a)	8,147	-
Total		8,147	219,360
Amounts due to a related party:			
Rent payable to Xinda High-Tech	(b)	170,743	-

(a) The Company rents the following plant and office buildings in Harbin, Heilongjiang province from Xinda High-Tech:

Premise Leased	Area (M2)	Annual Rental Fee (US$)	Period of Lease
Plant and office building	20,250	668,020	

			Between May 1, 2012 and April 30, 2015
Office building	250	8,147	Between January 1, 2012 and December 31, 2013
Office building	3,394	110,601	Between May 1, 2012 and April 30, 2013
Office building	3,394	110,601	Between May 1, 2013 and April 30, 2015

The Company also rents a facility of approximately 3,134 square meters in Harbin, Heilongjiang province from Mr. Han’s son for an annual rental fee of RMB100,000 (approximately US$16,294). The period of the lease is from January 1, 2013 to December 31, 2013.

Total rental expenses paid or payable to Xinda High-Tech and Mr. Han’s son amounted to US$200,218 and US$160,354 for the three-month periods ended June 30, 2013 and 2013, and US$398,270 and US$256,089 for the six-month periods ended June 30, 2013 and 2012.

Note 9 – Income tax

The effective income tax rates for the six-month periods ended June 30, 2013 and 2012 were 25.5% and 23.7%, respectively. The effective income tax rate for the six-month period ended June 30, 2013 differs from the PRC statutory income tax rate of 25% primarily due to the increase of valuation allowance and tax rate differential for non-PRC entities.

As of and for the three-month and six-month periods ended June 30, 2013, the Company did not have any unrecognized tax benefits, and thus no interest and penalties related to unrecognized tax benefits were recorded. In addition, the Company does not expect that the amount of unrecognized tax benefits will change significantly within the next 12 months.

Note 10 - Warrants

The following is a summary of outstanding warrants as of June 30, 2013:

Warrants	Exercise Price US$	Number of Warrants Outstanding	Remaining Contractual Life Years
Series A investor warrants	4.9	1,320,696	1.42
Series A placement agent warrants	5.5	117,261	1.42
Series C placement agent warrants	7.5	166,667	0.02
Total		1,604,624	

The fair values of the warrants as of June 30, 2013 were calculated using Black-Scholes option pricing model with the following assumptions:

	Series A Investor Warrants	Series A Placement Agent Warrants	Series C Placement Agent Warrants
Volatility	35.0%	35.0%	68.2%
Expected dividends yield	0%	0%	0%
Fair value of underlying common stock (per share)	4.11	4.11	4.11
Risk-free interest rate (per annum)	0.24%	0.24%	0.04%

During the three-month and six-month period ended June 30, 2013, no warrants were exercised.

Note 11 – Stockholders' equity

The changes of each caption of stockholders' equity for the six-month period ended June 30, 2013 are as follows:

	Series B Preferred Stock		Common Stock					Accumulated	
	Number of Shares	Amount US$	Number of Shares	Amount US$	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Other Comprehensive Income	Total Stockholders' Equity
Balance as of January 1, 2013	1,000,000	100	47,563,772	4,758	(92,694)	72,583,910	177,208,492	14,658,258	264,362,824
Net income	-	-	-	-	-	-	35,257,468	-	35,257,468
Other comprehensive income	-	-	-	-	-	-	-	4,639,287	4,639,287
Vesting of unvested shares	-	-	225,000	23	-	(23)	-	-	-
Stock based compensation	-	-	-	-	-	590,038	-	-	590,038
Balance as of June 30, 2013	1,000,000	100	47,788,772	4,781	(92,694)	73,173,925	212,465,960	19,297,545	304,849,617

Note 12 – Stock based compensation

A summary of stock option activity is as follows:

	Number of Options Outstanding	Weighted Average Exercise Price US$	Weighted Average Remaining Contractual Life Years	Aggregate Intrinsic Value US$
Outstanding as of December 31, 2012	148,500	8.01		
Granted	-	-		
Exercised	-	-		
Forfeited	-	-		
Expired	-	-		
Outstanding as of June 30, 2013	148,500	8.01	7.11	-
Vested and expected to vest as of June 30, 2013	148,500	8.01	7.11	-

The Company recognized US$82,833 and US$82,833 of share-based compensation expense in general and administration expenses relating to stock options for the three-month periods ended June 30, 2013 and 2012, respectively, and US$92,625 and US$164,756 of share-based compensation expense in general and administration expenses relating to stock options for the six-month periods ended June 30, 2013 and 2012, respectively. As of June 30, 2013, there was US$18,860 of total unrecognized compensation cost relating to stock options, which is to be recognized over a period of 0.10 years.

On May 8, 2013, the board of directors approved the grant of 26,361 nonvested shares to three independent directors, all of which vest on November 8, 2013.

A summary of the nonvested shares activity is as follows

	Number of Nonvested Shares	Weighted Average Grant Date Fair Value Per share US$
Balance as of December 31, 2012	513,000	4.66
Granted	26,361	3.85
Vested	(225,000)	4.35
Outstanding as of June 30, 2013	314,361	4.81

The Company recognized US$142,856 and US$70,775 of share-based compensation expense in general and administration expenses relating to nonvested shares for the three-month periods ended June 30, 2013 and 2012, respectively, and US$497,413 and US$141,557 of share-based compensation expense in general and administration expenses relating to nonvested shares for the six-month periods ended June 30, 2013 and 2012, respectively. As of June 30, 2013, there was US$707,944 total unrecognized compensation cost relating to nonvested shares, which is to be recognized over a weighted average period of 1.69 years.

Note 13 - Earnings per share

Basic and diluted earnings per share are calculated as follows:

	Three-Month Period Ended June 30,		Six-Month Period Ended June 30,	
	2013	2012	2013	2012
	US$	US$	US$	US$
Numerator:				
Net income	20,806,613	22,772,727	35,257,468	43,335,135
Less: Dividends to Series C convertible preferred stockholders	-	(30)	-	(60)
Net income available to common stockholders	20,806,613	22,772,697	35,257,468	43,335,075
Less:				
Earnings allocated to participating Series C convertible preferred stock	-	(156)	-	(296)
Earnings allocated to participating Series D convertible preferred stock	(5,195,421)	(5,725,900)	(8,803,806)	(10,896,045)
Earnings allocated to participating nonvested shares	(93,518)	(31,433)	(183,776)	(66,139)
Net income for basic earnings per share	15,517,674	17,015,208	26,269,886	32,372,595
Changes in fair value of derivative liabilities - Series A investor warrants	-	(1,341,917)	-	(1,629,711)
Net income for dilutive earnings per share	15,517,674	15,673,291	26,269,886	30,742,884
Denominator:				
Denominator for basic earnings per share:				
Weighted average number of common stock outstanding	47,788,772	47,545,938	47,742,778	47,536,652
Series A investor warrants	-	6,725	-	44,264
Denominator for diluted earnings per share	47,788,772	47,552,663	47,742,778	47,580,916
Earnings per share:				
Basic	0.32	0.36	0.55	0.68
Diluted	0.32	0.33	0.55	0.65

The following table summarizes potentially dilutive securities excluded from the calculation of diluted earnings per share for the three-month periods and six-month periods ended June 30, 2013 and 2012 because their effects are anti-dilutive:

	Three-Month Period Ended June 30, 2013	2012	Six-Month Period Ended June 30, 2013	2012
Shares issuable upon conversion of Series D convertible preferred stock	16,000,000	16,000,000	16,000,000	16,000,000
Shares issuable upon exercise of Series A investor warrant	1,320,696	-	1,320,696	-
Shares issuable upon exercise of Series A placement agent warrant	117,261	117,261	117,261	117,261
Shares issuable upon exercise of Series C placement agent warrant	166,667	166,667	166,667	166,667
Shares issuable upon exercise of stock options	148,500	297,000	148,500	297,000

Note 14 - Commitments and contingencies

(1) Lease commitments

Future minimum lease payments under non-cancellable operating leases agreements as of June 30, 2013 were as follows.

	US$
Period from July 1, 2013 to December 31, 2013	493,084
Years ending December 31,	
2014	963,453
2015	388,499
2016	101,022
2017 and thereafter	58,929

Rental expenses incurred for operating leases of plant and equipment and office spaces were US$200,998 and US$181,791 for the three-month periods, and US$419,165 and US$297,495 for the six-month periods ended June 30, 2013 and 2012, respectively. There are no step rent provisions, escalation clauses, capital improvement funding requirements, other lease concessions or contingent rent in the lease agreements. The Company has no legal or contractual asset retirement obligations at the end of leases. The company's leases do not contain any contingent rent payments terms.

(2) Plant construction

Pursuant to the agreement with Harbin Shengtong Engineering Plastics Co. Ltd.("Harbin Shengtong"), the Company has a remaining commitment of RMB199.9 Million (equivalent to US$32.6 Million) as of June 30, 2013, for the acquisition of the land use rights and a plant consisting of five workshops and a building (the "Project") in Harbin upon completion in exchange for a total consideration of RMB463 million (approximately US$75.4 million) in cash. Harbin

Shengtong is responsible to complete the construction of the plant and workshops according to the Company's specifications. Once the Project is fully completed and accepted by the Company, Harbin Shengtong shall transfer titles of the Project to the Company. As of June 30, 2013, five workshops were completed and placed into the service by the Company. The titles of the five workshops, the building and the related land use rights are expected to be transferred to the Company once the Project is completed in the second half of 2013.

On March 8, 2013, Xinda Holding (HK) Company Limited ("Xinda Holding (HK)"), a wholly owned subsidiary of the Company, entered into an Investment Agreement with Shunqing Government, pursuant to which Xinda Holding (HK) will invest RMB1.8 billion (equivalent to US$294 million) in property, plant and equipment and approximately RMB0.6 billion (equivalent to US$98 million) in working capital, for the Construction of Sichuan Plant.

Note 15 - Subsequent events

On July 29, 2013, the Company's Board of Directors approved the grant of (i) 192,370 nonvested shares to certain executive officers and employees which vest on August 7, 2016; (ii) 674,205 nonvested shares to 16 consultants and two independent directors which vest on February 7, 2014.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

We make forward-looking statements in this report, in other materials we file with the Securities and Exchange Commission (the "SEC") or otherwise release to the public, and on our website. In addition, our senior management might make forward-looking statements orally to analysts, investors, the media and others. Statements concerning our future operations, prospects, strategies, financial condition, future economic performance (including growth and earnings) and demand for our products and services, and other statements of our plans, beliefs, or expectations, including the statements contained in this Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operation," regarding our future plans, strategies and expectations are forward-looking statements. In some cases these statements are identifiable through the use of words such as "anticipate," "believe," "estimate," "expect," "inten "plan," "project," "target," "can," "could," "may," "should," "will," "would" and similar expressions. We intend such forw statements to be covered by the safe harbor provisions contained in Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and in Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). You are cautioned not to place undue reliance on these forward-looking statements because these forward-looking statements we make are not guarantees of future performance and are subject to various assumptions, risks, and other factors that could cause actual results to differ materially from those suggested by these forward-looking statements. Thus, our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on our operations and future prospects include, but are not limited to, changes in: economic conditions generally and the automotive modified plastics market specifically, legislative or regulatory changes that affect our business, including changes in regulation, the availability of working capital, the introduction of competing products, and other risk factors described herein. These risks and uncertainties, together with the other risks described from time-to-time in reports and documents that we filed with the SEC should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Indeed, it is likely that some of our assumptions will prove to be incorrect. Our actual results and financial position will vary from those projected or implied in the forward-looking statements and the variances may be material. We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Overview

China XD Plastics Company Limited ("China XD", "we", and the "Company", and "us" or "our" shall be interpret accordingly) is one of the leading specialty chemical companies engaged in the research, development, manufacture and sale of modified plastics primarily for automotive applications in China. Through our wholly-owned operating subsidiaries in China, we develop modified plastics using our proprietary technology, manufacture and sell our products primarily for use in the fabrication of automobile parts and components. We have 263 certifications from manufacturers in the automobile industry as of June 30, 2013. We are the only company certified as a National Enterprise Technology Center in modified plastics industry in Heilongjiang province. Our Research and Development (the "R&D") team consists of 139 professionals including 16 consultants, of which two consultants are members of Chinese Academy of Engineering, and one consultant is the former chief scientist of Specialty Plastics Engineering Institute of Jilin University. As a result of the integration of our academic and technological expertise, we have a portfolio of 78 patents, one of which we have obtained the patent rights and the remaining 77 of which we have applications pending in China as of June 30, 2013.

Our products include seven categories: modified polypropylene (PP), modified engineering plastics, modified polyamides (PA), environmentally-friendly plastics, alloy plastics, polyether ether ketone (PEEK) and modified acrylonitrile butadiene styrene (ABS). The Company's products are primarily used in the production of exterior and interior trim and functional components of more than 24 automobile brands and 80 automobile models manufactured in China, including Audi, Volkswagen, BMW, GM, Mazda, Toyota, Cherry, Geely and Hafei new energy vehicles. Our research center is dedicated to the research and development of modified plastics, and benefits from its cooperation with well-known scientists from prestigious universities in China. We operate three manufacturing bases in Harbin, Heilongjiang in the PRC. As of June 30, 2013, we had approximately 390,000 metric tons of production capacity across 83 automatic production lines utilizing German twin-screw extruding systems, automatic weighing systems and Taiwan conveyer systems, including the newly launched three additional factory buildings with 30 production lines completed the trial-run in December 2012 and further expanded our annual capacity potential by approximately 135,000 metric tons and support our future growth in 2013 and beyond.

Highlights for the three months ended June 30, 2013 include:

Revenue was $202.2 million, an increase of 39.7% from $144.7 million in the second quarter of 2012
Gross profit was $37.2 million, an increase of 5.4% from $35.3 million in the second quarter of 2012
Gross profit margin was 18.4%, compared to 24.4% in the second quarter of 2012
Net income was $20.8 million, compared to $22.8 million in the second quarter of 2012
Total volume shipped was 69,915 metric tons, up 29.8% from 53,866 metric tons in the second quarter of 2012

Results of Operations

The following table sets forth, for the periods indicated, statements of income data in thousands of USD:

(in millions, except percentage)	Three Months Ended June 30,		Change	Six Months Ended June 30,		Change
	2013	2012	%	2013	2012	%
Revenues	202.2	144.7	39.7%	373.1	267.8	39.3 %
Cost of revenues	(165.0)	(109.4)	50.8%	(306.8)	(201.3)	52.4%
Gross profit	37.2	35.3	5.4%	66.3	66.5	(0.3)%
Total operating expenses	(8.7)	(6.9)	26.1%	(17.2)	(11.9)	44.5%
Operating income	28.5	28.4	0.4%	49.1	54.6	(10.1)%
Income before income taxes	27.9	29.6	(6.1)%	47.3	56.8	(16.7)%
Income tax expense	(7.1)	(6.8)	2.9%	(12.0)	(13.5)	(11.1)%
Net income	20.8	22.8	(8.8)%	35.3	43.3	(18.5)%

Three Months Ended June 30, 2013 compared to three months ended June 30, 2012

Revenues

Revenues were US$202.2 million in the second quarter ended June 30, 2013, an increase of US$57.5 million, or 39.7%, compared to US$144.7 million in the same period of last year, due to approximately 29.8% increase in sales volume and 3.3% increase in the average RMB selling price of our products. The increase of sales volume was driven by the strong demand of modified plastics in the PRC market and higher penetration of our business in our existing markets supported by our additional 30 production lines which commenced production in December 2012, as well as the marketing efforts to develop new customers, in particular those in Eastern and Southwestern China. Such increase in demand was driven by increasing demand for middle and high-end automobiles by Chinese consumers, continuing substitution of imported modified plastics by domestic suppliers, as well as the increase of plastic content on the per-vehicle-basis in China. The increase of average RMB selling price was due to the shift of product mix towards higher-end products.

The following table summarizes the breakdown of revenues by product mix in millions of US$:

(in millions, except percentage)	Revenues For the Three Months Ended June 30, 2013		2012			
	Amount	%	Amount	%	Change in Amount	Change in %
Modified Polypropylene (PP)	60.8	30.1%	71.6	49.4%	(10.8)	(15.1)%
Engineering Plastics	47.1	23.3%	25.9	17.9%	21.2	81.9%
Modified Polyamide (PA)	38.6	19.1%	12.2	8.5%	26.4	216.4%
Environment Friendly Plastics	31.5	15.6%	15.2	10.5%	16.3	107.2 %
Alloy Plastics	14.2	7.0%	12.9	8.9%	1.3	10.1%
Modified Acrylonitrile Butadiene Styrene (ABS)	9.5	4.7%	4.8	3.3%	4.7	97.9%
Sub-total	201.7	99.8%	142.6	98.5%	59.1	41.4%
After-sales Service	0.5	0.2%	2.1	1.5%	(1.6)	(76.2)%
Total Revenues	202.2	100%	144.7	100%	57.5	39.7%

The reduction of after-sales service fee was due to the discounts given to our distributors as part of our marketing strategy to further penetrate our less-developed markets, especially in East China and Southwest China.

The following table summarizes the breakdown of metric tons (MT) by product mix:

(in MTs, except percentage)	Sales Volume For the Three Months Ended June 30, 2013		2012			
	MT	%	MT	%	Change in MT	Change in %
Modified Polypropylene (PP)	30,337	43.4%	34,354	63.7%	(4,017)	(11.7)%
Engineering Plastics	9,506	13.6%	5,121	9.5%	4,385	85.6%
Modified Polyamide (PA)	7,976	11.4%	2,536	4.7%	5,440	214.5%
Environment Friendly Plastics	14,385	20.6%	6,600	12.3%	7,785	118.0%
Alloy Plastics	4,361	6.2%	3,495	6.5%	866	24.8%
Modified Acrylonitrile Butadiene Styrene (ABS)	3,350	4.8%	1,760	3.3%	1,590	90.3%

Total sales volume	69,915	100%	53,866	100%	16,049	29.8%

The Company has shifted product mix from traditional Modified Polypropylene (PP) to higher-end products such as Modified Polyamide (PA), Environmental Friendly Plastics, modified ABS, and Engineering Plastics, primarily due to (i) the increasing demand of advanced modified plastics in luxury automobile models in China, (ii) the stronger demand promoted by Chinese government for clean energy vehicles and (iii) stronger sales of higher-end cars made by automotive manufacturers from China and Germany, U.S. and Japanese joint ventures, which tend to use more and higher-end modified plastics in quantity per vehicle in China.

Gross Profit and Gross Profit Margin

	Three-Month Period Ended June 30,		Change	
(in millions, except percentage)	2013	2012	Amount	%
Gross Profit	$ 37.2	$ 35.3	$ 1.9	5.4%
Gross Profit Margin	18.4%	24.4%		(6.0)%

Gross profit was US$37.2 million in the second quarter ended June 30, 2013 compared to US$35.3 million in the same period of 2012, representing an increase of 5.4%. Our gross margin decreased to 18.4% in the second quarter ended June 30, 2013 from 24.4% during the same quarter of 2012.

16

The decrease of gross profit margin was primarily due to:

(i) The decrease of gross profit margin was primarily due to an average 6.4% discount on the listed prices for the three month period ended June 30, 2013 to distributors as part of our marketing initiatives to increase our market share in Eastern China and Southwestern China. The discount,is primarily aimed at further expanding into the Eastern China and Southwestern China market. As a result, revenues contribution from Eastern China and Southwest China grew to 29.8% and 4.8% during the three-month period ended June 30, 2013 compared to 21.5% and nil in the same period of 2012, respectively. We plan to maintain such discount rate for the rest of 2013.

(ii) The decrease of gross profit margin was also due to increase in shipping expenses to US$3.4 million in the three months ended June 30, 2013 from US$0.3 million in the three months ended June 30, 2012. We started managing logistics on our own to better serve our customers in a more timely manner and to better understand our customer demands and control our sales channel since the first quarter of 2013. Such arrangement is expected to continue in the future.

General and Administrative Expenses

	Three-Month Period Ended June 30,		Change	
(in millions, except percentage)	2013	2012	Amount	%
General and Administrative Expenses	$ 2.9	$ 2.2	$ 0.7	31.8%
as a percentage of revenues	1.4 %	1.6 %		(0.2 %)

General and administrative (G&A) expenses were US$2.9 million in the second quarter ended June 30, 2013 compared to US$2.2 million in the same period in 2012, representing an increase of 31.8%, or US$0.7 million, primarily due to the increase of professional fees and bank charges. On a percentage basis, G&A expenses in the second quarter of 2013 decreased to 1.4% of revenues from 1.6% in the second quarter of 2012.

Research and Development Expenses

	Three–Month Period Ended June 30,		Change	
(in millions, except percentage)	2013	2012	Amount	%
Research and Development Expenses	$ 5.8	$ 4.6	$ 1.2	26.1%
as a percentage of revenues	2.9%	3.2%		(0.3)%

Research and development ("R&D") expenses were US$5.8 million during the quarter ended June 30, 2013 compared with US$4.6 million during the same period in 2012, an increase of US$1.2 million, or 26.1%, reflecting increased research and development activities on new products primarily in consumption of raw materials for various experiments for automotive applications from automobile manufacturers as well as other non-automotive applications. As of June 30, 2013, the number of ongoing research and development projects was 156. The consumption of raw materials for these projects accounted for 90% of total R&D expenses for the quarter ended June 30, 2013.

We expect to complete and realize economic benefits on approximately 25% of the projects in the near term. The remaining projects are expected to be carried out for a longer period. The majority of the projects are in the field of modified plastics in automotive applications and the rest are in advanced fields such as ships, airplanes, high-speed rail and medical devices.

Operating Income

Total operating income was US$28.5 million in the quarter ended June 30, 2013 compared to US$28.4 million in the same period of 2012, representing an increase of 0.4% or US$0.1 million. This increase is primarily due to higher gross profit, partially offset by higher G&A and R&D expenses.

17

Interest Income (Expenses)

(in millions, except percentage)	Three-Month Period Ended June 30, 2013	2012	Change Amount	%
Interest Income	$ 1.5	$ 1.4	$ 0.1	7.1%
Interest Expenses	(3.4)	(0.9)	(2.5)	277.8%
Net Interest Income (Expenses)	$ (1.9)	$ 0.5	$ (2.4)	(480.0)%
as a percentage of revenues	(1.0)%	0.3%		(1.3)%

Net interest expense was US$1.9 million in the quarter ended June 30, 2013, compared to net interest income of US$0.5 million in the same period of 2012, primarily due to increase of short-term loans to meet the need of our future capacity expansion in Southwest China. The average loan balance for the three months ended June 30, 2013 was US$218.4 million as compared to US$33.0 million as of that of the prior year, leading to US$2.5 million more interest expense.

Income Taxes

(in millions, except percentage)	Three–Month Period Ended June 30, 2013	2012	Change Amount	%
Income before Income Taxes	$ 27.9	$ 29.6	$ (1.7)	(5.7)%
Income Tax Expense	(7.1)	(6.8)	(0.3)	4.4%
Effective income tax rate	25.4%	23.2%		2.2%

The effective income tax rates for the three-month periods ended June 30, 2013 and 2012 were 25.4% and 23.2%, respectively. The effective income tax rate for the three-month period ended June 30, 2013 differs from the PRC statutory income tax rate of 25% primarily due to the increase of valuation allowance against deferred income tax assets and tax rate differential for non-PRC entities.

Our PRC subsidiaries have US$252.4 million of cash and cash equivalents, restricted cash and time deposits as of June 30, 2013, which is planned to be indefinitely reinvested in the PRC. The distributions from our PRC subsidiaries are subject to the U.S. federal income tax at 34%, less any applicable foreign tax credits. Due to our policy of indefinitely reinvesting our earnings in our PRC business, we have not provided for deferred income tax liabilities on undistributed earnings of our PRC subsidiaries.

Net Income

As a result of the above factors, we had a net income of US$20.8 million in the second quarter of 2013 compared to net income of US$22.8 million in the same quarter of 2012.

Six Months Ended June 30, 2013 compared to six months ended June 30, 2012

Revenues

Revenues were US$373.1 million for the six months ended June 30, 2013, an increase of US$105.3 million, or 39.3%, compared to US$267.8 million in the same period of last year, due to approximately 31.5% increase in sales volume and 3.8% increase in the average RMB selling price of our products. The increase of sales volume was driven by the strong demand of modified plastics in the PRC market and higher penetration of our business in our existing markets supported by our additional 30 production lines which commenced production in December 2012, as well as the marketing efforts to develop new customers, in particular those in Eastern and Southwestern China. Such increase in demand was driven by increasing demand for middle and high-end automobiles by Chinese consumers, continuing substitution of imported modified plastics by domestic suppliers, as well as the increase of plastic content on the per-vehicle-basis in China. The increase of average RMB selling price was due to the shift of product mix towards higher-end products.

Product Mix

The following table summarizes the breakdown of revenues by product mix in millions of US$:

(in millions, except percentage)	Revenues For the Six Months Ended June 30, 2013		2012			
	Amount	%	Amount	%	Change in Amount	Change in %
Modified Polypropylene (PP)	118.2	31.6%	136.0	50.8%	(17.8)	(13.1)%
Engineering Plastics	86.7	23.2%	50.7	18.9 %	36.0	71.0%
Modified Polyamide (PA)	68.5	18.4%	23.2	8.7 %	45.3	195.3%
Environment Friendly Plastics	57.2	15.3%	24.8	9.3 %	32.4	130.6%
Alloy Plastics	27.1	7.3%	19.4	7.2 %	7.7	39.7%
Modified Acrylonitrile Butadiene Styrene (ABS)	14.4	3.9%	9.6	3.6 %	4.8	50.0%
Sub-total	372.1	99.7%	263.7	98.5 %	108.4	41.1%
After-sales Service	1.0	0.3%	4.1	1.5 %	(3.1)	(75.6)%
Total Revenues	373.1	100%	267.8	100 %	105.3	39.3%

The reduction of after-sales service fee was due to the discounts given to our distributors as part of our marketing strategy to further penetrate our less-developed markets, especially in East China and Southwest China.

19

The following table summarizes the breakdown of metric tons (MT) by product mix:

(in MTs, except percentage)	Sales Volume For the Six Months Ended June 30, 2013		2012			
	MT	%	MT	%	Change in MT	Change in %
Modified Polypropylene (PP)	59,210	45.2%	65,348	65.5%	(6,138)	(9.4)%
Engineering Plastics	17,651	13.5%	9,926	10.0%	7,725	77.8%
Modified Polyamide (PA)	14,344	10.9%	4,749	4.8%	9,595	202.0%
Environment Friendly Plastics	26,254	20.0%	10,750	10.7%	15,504	144.2%
Alloy Plastics	8,482	6.5%	5,388	5.4%	3,094	57.4%
Modified Acrylonitrile Butadiene Styrene (ABS)	5,120	3.9%	3,540	3.6%	1,580	44.6%
Total sales volume	131,061	100%	99,701	100%	31,360	31.5%

The Company shifted product mix from traditional Modified Polypropylene (PP) to higher-end products such as Modified Polyamide (PA) , Environmental Friendly Plastics, Engineering Plastics and alloy plastics, primarily due to (i) the increasing demand of advanced modified plastics in luxury automobile models in China, (ii) the stronger demand promoted by Chinese government for clean energy vehicles and (iii) stronger sales of higher-end cars made by automotive manufacturers from China and Germany, US and Japanese joint ventures, which tend to use more and higher-end modified plastics in quantity per vehicle in China.

Gross Profit and Gross Profit Margin

	Six Months Ended June 30, 2013	2012	Change Amount	%
(in millions, except percentage)				
Gross Profit	$ 66.3	$ 66.5	$ (0.2)	(0.3)%
Gross Profit Margin	17.8%	24.8%		(7.0)%

Gross profit was US$66.3 million for the six months ended June 30, 2013 compared to US$66.5 million in the same period of 2012, representing a decrease of 0.3%. Our gross margin decreased to 17.8% during the six months ended June 30, 2013 from 24.8% during the same period of 2012.

The decrease of gross profit margin was primarily due to:

(i) The decrease of gross profit margin was primarily due to an average 6.7% discount on the listed prices for the six month period ended June 30, 2013 to distributors as part of our marketing initiatives to increase our market share in Eastern China and Southwestern China. The discount is primarily aimed at further expanding into the Eastern

China and Southwestern China market. As a result, revenues contribution from Eastern China and Southwestern China grew to 29.8% and 2.7% during the six-month period ended June 30, 2013 compared to 20.6% and nil in the same period of 2012, respectively. We plan to maintain such discount rate for the rest of 2013.

(ii) The decrease of gross profit margin was also due to increase in shipping expenses to US$6.0 million in the six months ended June 30, 2013 from US$0.5 million in the six months ended June 30, 2012. We started managing logistics on our own to better serve our customers in a more timely manner and to better understand our customer demands and control our sales channel since the first quarter of 2013. Such arrangement is expected to continue in the future.

General and Administrative Expenses

	Six Months Ended June 30,		Change	
(in millions, except percentage)	2013	2012	Amount	%
General and Administrative Expenses	$ 6.3	$ 4.6	$ 1.7	37.0%
as a percentage of revenues	1.7%	1.7%		0.0%

General and administrative (G&A) expenses were US$6.3 million for the six months ended June 30, 2013 compared to US$4.6 million in the same period in 2012, representing an increase of 37.0%, or US$1.7 million. This increase is primarily due to the increase of professional fees, bank charges and share-based compensation. On a percentage basis, G&A expenses for the six months ended June 30, 2013 remained at 1.7% of revenues with the same period of 2012.

Research and Development Expenses

	Six Months Ended June 30,		Change	
(in millions, except percentage)	2013	2012	Amount	%
Research and Development Expenses	$ 10.8	$ 7.1	$ 3.7	52.1%
as a percentage of revenues	2.9%	2.6%		0.3%

Research and development (“R&D”) expenses were US$ 10.8 million for the six months ended June 30, 2013 compared with US$7.1 million during the same period in 2012, an increase of US$ 3.7 million, or 52.1%, reflecting increased R&D activities on new products in order to obtain product certifications for automotive applications from automobile manufacturers as well as other non-automotive applications.

As of June 30, 2013, the number of ongoing research and development projects is 156. We expect to complete and to realize economic benefits on approximately 25% of the projects in the near term. The remaining projects are expected to be carried out for a longer period. The majority of the projects are in the field of modified plastics in automotive applications and the rest are in advanced fields such as ships, airplanes, high-speed rail, medical devices, etc.

Operating Income

Total operating income was US$49.1million for the six months ended June 30, 2013 compared to US$54.6 million in the same period of 2012, representing a decrease of 10.1% or US$5.5 million. This decrease is primarily due to lower gross profit, and higher general and administrative expenses and research and development expenses.

Interest Income (Expenses)

	Six Months Ended June 30,		Change	
(in millions, except percentage)	2013	2012	Amount	%
Interest Income	$ 2.5	$ 2.4	$ 0.1	4.2%
Interest Expenses	(6.3)	(1.4)	(4.9)	350.0%
Net Interest Income (Expenses)	$ (3.8)	$ 1.0	$ (4.8)	(480)%
as a percentage of revenues	(1.0)%	0.4%		(1.4)%

Net interest expense was US$3.8 million for the six-month period ended June 30, 2013, compared to net interest income of US$1.0 million in the same period of 2012, primarily due to increase of short-term loans to meet the need of our future capacity expansion in Southwest China. The average loan balance for the six months ended June 30, 2013 was US$203.7 million as compared to US$39.3 million as of that of the prior year, leading to US$4.9 million more interest expense.

21

Income Taxes

(in millions, except percentage)	Six Months Ended June 30, 2013	2012	Change Amount	%
Income before Income Taxes	$ 47.3	$ 56.8	$ (9.5)	(16.7)%
Income Tax Expense	(12.0)	(13.5)	1.5	(11.1)%
Effective income tax rate	25.5%	23.7%		1.8%

The effective income tax rates for the six-month periods ended June 30, 2013 and 2012 were 25.5% and 23.7%, respectively. The effective income tax rate for the six-month period ended June 30, 2013 differs from the PRC statutory income tax rate of 25% primarily due to the increase of valuation allowance against deferred income tax assets and tax rate differential for non-PRC entities.

Net Income

As a result of the above factors, we had a net income of US$35.3 million for the six months ended June 30, 2013 compared to net income of US$43.3 million in the same period of 2012.

Selected Balance Sheet Data as of June 30, 2013 and December 31, 2012:

(in millions, except percentage)	June 30, 2013	December 31, 2012	Change Amount	%
Cash and cash equivalents	66.0	83.8	(17.8)	(21.2)%
Restricted cash	11.9	16.9	(5.0)	(29.6)%
Time deposits	175.2	48.0	127.2	265.0%
Accounts receivable, net of allowance for doubtful accounts	207.1	143.8	63.3	44.0%
Inventories	102.4	78.3	24.1	30.8%
Property, plant and equipment, net	218.4	223.8	(5.4)	(2.4)%
Total assets	799.8	611.6	188.2	30.8%
Short-term bank loans	245.2	162.1	83.1	51.3%
Accounts payable	74.4	7.1	67.3	947.9%
Bills payable	14.3	15.8	(1.5)	(9.5)%
Income tax payable	9.0	8.5	0.5	5.9%
Accrued expenses and other current liabilities	32.0	34.4	(2.4)	(7.0)%
Redeemable Series D convertible preferred stock	97.6	97.6	-	-
Stockholders' equity	304.8	264.4	40.4	15.3%

Our financial condition continues to improve as measured by an increase of 15.3% in shareholders’ equity as of June 30, 2013 compared to December 31, 2012. Time deposits increased by 265.0%. We generally put our cash deposits with Chinese local banks to generate interests. Accounts receivable increased by 44.0% as a result of increase in revenues and increase in turnover days from 56 days for the twelve-month period ended December 31, 2012 to 83 days for the six-month period ended June 30, 2013. Inventory increased by 30.8% due to the anticipation of the increase of customer demand in the following quarters. Short-term bank loans increased by 51.3% due to the need to support our future capacity expansion in Southwest China. Accounts payable increased by 947.9% due to the 30 days payment terms renegotiated with our domestic raw material suppliers, a shift from prepayment to suppliers in the past, in order to strengthen our working capital.

LIQUIDITY AND CAPITAL RESOURCES

Historically, our primary uses of cash have been to finance working capital needs and capital expenditures for new production lines. We have financed these requirements primarily from cash generated from operations, short-term bank borrowings, and the issuance of our convertible preferred stocks and other equity financings. As of June 30, 2013 and December 31, 2012, we had US$66.0 million and US$83.8 million, respectively, in cash and cash equivalents, which were primarily deposited with banks in China (including Hong Kong). As of June 30, 2013, we had US$245.2 million outstanding short-term loans, including US$133.7 million unsecured loans, US$89.3 million loans secured by accounts receivable, and US$14.1 million loans secured by time deposits, and US$8.1 interest-free loan secured by the land use rights. These loans bear a weighted average interest rate of 6.0% per annum and have terms of no longer than one year and do not contain any renewal terms. We have historically been able to make repayments when due. In addition, we obtained lines of credit from below banks.

A summary of lines of credit as of June 30, 2013 is as below:

(in millions)		June 30, 2013		
		Lines of Credit, Obtained		Remaining Available
Name of Financial Institution	Date of Approval	RMB	USD	USD
Bank of Communications	January 5, 2013	150.0	24.4	0.0
Bank of Longjiang, Heilongjiang	March 14, 2013	300.0	48.9	0.0
Bank of China	March 14, 2013	200.0	32.6	5.1
HSBC	June 28, 2013	92.1	15.0	1.8
China Guangfa Bank	May 20, 2013	60.0	9.8	0.0
Industrial and Commercial Bank of China Limited	October 11, 2012	300.0	48.9	0.3
Agriculture Bank of China	December 7, 2012	200.0	32.6	0.0
China Construction Bank	December 19, 2012	135.0	22.0	9.0
China CITIC Bank	June 9, 2013	100.0	16.3	0.0
Total		1,537.1	250.5	16.2

We have historically been able to make repayments when due. In addition, as of June 30, 2013, we have contractual obligations to pay (i) lease commitments in the amount of US$2.0 million, including US$0.5 million due in 2013; (ii) plant construction in our Harbin facilities in the amount of US$32.6 million which are due in 2013.

On March 8, 2013, Xinda Holding (HK) Company Limited ("Xinda Holding (HK)"), a wholly owned subsidiary of the Company, entered into an Investment Agreement with Shunqing Government, pursuant to which Xinda Holding (HK) will invest RMB1.8 billion (equivalent to US$294 million) in property, plant and equipment and approximately RMB0.6 billion (equivalent to US$98 million) in working capital, for the Construction of Sichuan Plant.

We expect that we will be able to meet our needs to fund operations, capital expenditures and other commitments in the next 12 months primarily with our cash and cash equivalents, operating cash flows and bank borrowings.

We may, however, require additional cash resources due to changes in business conditions or other future developments. If these sources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity or equity-linked securities could result in additional dilution to stockholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financial covenants that would restrict operations. Financing may not be available in amounts or on terms acceptable to us, or at all.

The following table sets forth a summary of our cash flows for the periods indicated.

	Six-Month Period Ended June 30,	
(in millions US$)	2013	2012
Net cash provided by operating activities	38.9	29.4
Net cash used in investing activities	(138.9)	(37.5)
Net cash provided by financing activities	80.8	16.1
Effect of foreign currency exchange rate changes on cash and cash equivalents	1.4	(1.3)
Net increase (decrease) in cash and cash equivalents	(17.8)	6.7
Cash and cash equivalents at the beginning of period	83.8	135.5
Cash and cash equivalents at the end of period	66.0	142.2

Operating Activities

Net cash provided by operating activities increased to US$38.9 million for the six-month period ended June 30, 2013 from US$29.4 million for the six-month period ended June 30, 2012, primarily due to (i) the increase of approximately US$73.7 million in cash collected from our customers for the six-month period ended June 30, 2013 resulting from increasing sales during the period, and (ii) the decrease of US$1.1 million in income tax expenditures partially offset by the increase of approximately US$65.3 million in cash operating expenditures, including raw material purchases, rental and personnel costs for the six-month period ended June 30, 2013.

Investing Activities

Net cash used in the investing activities was US$138.9 million for the six-month period ended June 30, 2013 as compared to US$37.5 million for the same period of last year, mainly due to the increase of US$182.1 million purchase of time deposits, partially offset by (i) the decrease of US$24.1 million purchase of property, plant and equipment in order to expand the production capacity and (ii) the increase of US$56.6 million proceeds from maturity of time deposits.

Financing Activities

Net cash provided by the financing activities was US$80.8 million for the six-month period ended June 30, 2013, as compared to US$16.1 million for the same period of last year, primarily as a result of the increase of US$156.6 million borrowings of short-term bank loans from local banks and the release of restricted cash of US$1.6 million, which was offset by the increase of US$92.6 million repayments of bank borrowings and the increase of US$0.9 million placement of restricted cash as collateral for bank borrowings for the six-month period ended June 30, 2013.

As of June 30, 2013, our cash balance was US$66.0 million, compared to US$83.8 million at December 31, 2012.

Accounts Receivables Days Sales Outstanding (DSO) has increased from 30 days for the six-month period ended June 30, 2012 to 83 days for the six-month period ended June 30, 2013 as a result of overall China economic slowdown and its impact to our industry. It takes longer to collect from our customers. We believe that our DSO is below industry average
Industry Standard Customer and Supplier Payment Terms (days) as below:

	Six-month period ended June 30, 2013	Year ended December 31, 2012
Customer Payment Term	Payment in advance/up to 90 days	Payment in advance/up to 90 days
Supplier Payment Term	Payment in advance/up to 30 days	Payment in advance/up to 30 days

Inventory turnover days increased from 46 days for the six months ended June 30, 2012 to 53 days for the six months ended June 30, 2013, due to inventory buildup in anticipation of increasing demand from our customers in the following quarters.

Based on past performance and current expectations, we believe our cash and cash equivalents provided by operating activities and financing activities will satisfy our working capital needs, capital expenditures and other liquidity requirements associated with our operations for at least the next 12 months.

The majority of the Company's revenues and expenses were denominated primarily in Renminbi ("RMB"), the currency of the People's Republic of China. There is no assurance that exchange rates between the RMB and the U.S. Dollar will remain stable. The Company does not engage in currency hedging. Inflation has not had a material impact on the Company's business.

COMMITMENTS AND CONTINGENCIES

Contractual Obligations

Our contractual obligations as of June 30, 2013 are as follows:

Contractual obligations	Total	Payment due less than 1 year	1 – 3 years	3-5 years	More than 5 years
Lease commitments	2,004,987	974,810	1,021,758	8,419	-
Purchase of land use rights and construction in progress	32,578,504	32,578,504	-	-	-
Total	34,583,491	33,553,314	1,021,758	8,419	-

On March 8, 2013, Xinda Holding (HK) Company Limited ("Xinda Holding (HK)"), a wholly owned subsidiary of the Company, entered into an Investment Agreement with Shunqing Government, pursuant to which Xinda Holding (HK) will invest RMB1.8 billion (equivalent to US$294 million) in property, plant and equipment and approximately RMB0.6 billion (equivalent to US$98 million) in working capital, for the Construction of Sichuan Plant.

Legal Proceedings

None.

Off-Balance Sheet Arrangements

We have not engaged in any off-balance sheet transactions.

Item 3. Quantitative and Qualitative Disclosures about Market Risks

Interest Rate Risk

We are exposed to interest rate risk primarily with respect to our short-term bank loans. Although the interest rates, which are based on the banks' prime rates with respect to our short-term loans are fixed for the terms of the loans, increase in interest rates will increase the cost of new borrowings and our interest expense.

A hypothetical 1.0% increase in the annual interest rates for all of our credit facilities under which we had outstanding borrowings as of June 30, 2013 would decrease income before income taxes by approximately $2.45 million for the six-month period ended June 30, 2013. Management monitors the banks' prime rates in conjunction with our cash requirements to determine the appropriate level of debt balances relative to other sources of funds. We have not entered into any hedging transactions in an effort to reduce our exposure to interest rate risk.

Foreign Currency Exchange Rates

All of our revenues are collected in and substantially all of our expenses are paid in RMB. We face foreign currency rate translation risks when our results are translated to U.S. dollars.

The RMB was relatively stable against the U.S. dollar at approximately 8.28 RMB to the $1.00 U.S. dollar until July 21, 2005 when the Chinese currency regime was altered resulting in a 2.1% revaluation versus the U.S. dollar. From July 21, 2005 to June 30, 2010, the RMB exchange rate was no longer linked to the U.S. dollar but rather to a basket of currencies with a 0.3% margin of fluctuation resulting in further appreciation of the RMB against the U.S. dollar. Since June 30, 2009, the exchange rate had remained stable at 6.8307 RMB to 1.00 U.S. dollar until June 30, 2010 when the Chinese Central Bank allowed a further appreciation of the RMB by 0.43% to 6.798 RMB to 1.00 U.S. dollar. On June 30, 2013, the RMB traded at 6.1374 RMB to 1.00 U.S. dollar.

There remains international pressure on the Chinese government to adopt an even more flexible currency policy and the exchange rate of RMB is subject to changes in China’s government policies which are, to a large extent, dependent on the economic and political development both internationally and locally and the demand and supply of RMB in the domestic market. There can be no assurance that such exchange rate will continue to remain stable in the future amongst the volatility of currencies, globalization and the unstable economies in recent years. Since (i) our revenues and net income of our PRC operating entities are denominated in RMB, and (ii) the payment of dividends, if any, will be in U.S. dollars, any decrease in the value of RMB against U.S. dollars would adversely affect the value of the shares and dividends payable to shareholders, in U.S. dollars.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

The Company’s management has evaluated, under the supervision and with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operations of the Company’s disclosure controls and procedures (as defined in Securities Exchange Act Rule 13a-15(e)), as of the end of the period covered by this report. Based on that evaluation, the Company’s Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective because of weaknesses in our internal control over financial reporting as disclosed in our Annual Report on Form 10-K for the fiscal year ended December

31, 2012.

Notwithstanding management's assessment that our internal control over financial reporting was ineffective as of December 31, 2012 due to two material weaknesses as identified in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, we believe that our unaudited consolidated financial statements included in this Quarterly Report present fairly our financial position, results of operations and cash flows for the fiscal period ended June 30, 2013 in all material respects.

(b) Changes in internal controls.

During the six months ended June 30, 2013, our efforts to improve our internal controls include (i) adding new procedures to address the weaknesses disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 and (ii) internal training on preparation of US GAAP financial statements and compliance with SEC reporting requirements. We plan to improve on the two above-referenced weaknesses by the end of the fiscal year ended December 31, 2013.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For the six-month period ended June 30, 2013, there were no new material pending legal proceedings, other than routine litigation arising in the ordinary course of business, to which we are a party or of which our property is subject, and no material developments in the legal proceedings previously reported.

Item 1A. Risk Factors

As of the date of this filing, there have been no material changes from the risk factors disclosed in the Company's Annual Report on Form 10-K filed on March 25, 2013. We operate in a changing environment that involves numerous known and unknown risks and uncertainties that could materially affect our operations. The risks, uncertainties and other factors set forth in our Annual Report on Form 10-K may cause our actual results, performances and achievements to be materially different from those expressed or implied by our forward-looking statements. If any of these risks or events occurs, our business, financial condition or results of operations may be adversely affected.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Exhibits

Exhibit No.	Document Description
31.1	Certification of the Chief Executive Officer pursuant to Rule 13A-14(A)/15D-14(A) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Rule 13A-14(A)/15D-14(A) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. 1350 (Section 906 of the Sarbanes-Oxley Act of 2002).
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. 1350 (Section 906 of the Sarbanes-Oxley Act of 2002).
101	Interactive Data Files Pursuant to Rule 405 of Regulation S-T.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

China XD Plastics Company Limited

Date: August 12, 2013	By:	/s/ Jie Han Name: Jie Han Title: Chief Executive Officer (Principal Executive Officer)
Date: August 12, 2013	By:	/s/ Taylor Zhang Name: Taylor Zhang Title: Chief Financial Officer

Exhibit Index

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