

MANHATTAN ASSOCIATES INC

Form 10-Q

July 31, 2009

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

**[Mark One]**

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2009**

**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: 0-23999**

**MANHATTAN ASSOCIATES, INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Georgia**

(State or Other Jurisdiction of Incorporation or  
Organization)

**58-2373424**

(I.R.S. Employer Identification No.)

**2300 Windy Ridge Parkway, Suite 1000**

**Atlanta, Georgia**

(Address of Principal Executive Offices)

**30339**

(Zip Code)

**Registrant's Telephone Number, Including Area Code: (770) 955-7070**

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☒

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

Large accelerated filer <input checked="" type="radio"/>	Accelerated filer <input type="radio"/>	Non-accelerated filer <input type="radio"/>	Smaller reporting company <input type="radio"/>
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(Do not check if a smaller reporting company)

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

The number of shares of the Registrant's class of capital stock outstanding as of July 29, 2009, the latest practicable date, is as follows: 22,509,449 shares of common stock, \$0.01 par value per share.



**MANHATTAN ASSOCIATES, INC.**  
**FORM 10-Q**  
**Quarter Ended June 30, 2009**  
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**PART I**  
**FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(in thousands, except share and per share data)**

	<b>June 30, 2009 (unaudited)</b>	<b>December 31, 2008</b>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 87,968	\$ 85,739
Accounts receivable, net of allowance of \$5,220 and \$5,566 in 2009 and 2008, respectively	39,405	63,896
Deferred income taxes	6,734	6,667
Income tax receivable	843	
Prepaid expenses and other current assets	4,800	6,979
Total current assets	139,750	163,281
Property and equipment, net	18,525	21,721
Long-term investments	2,801	2,967
Acquisition-related intangible assets, net	4,955	6,438
Goodwill, net	62,276	62,276
Deferred income taxes	10,526	10,932
Other assets	2,519	2,606
Total assets	\$ 241,352	\$ 270,221

**LIABILITIES AND SHAREHOLDERS' EQUITY**

Current liabilities:		
Accounts payable	\$ 6,394	\$ 8,480
Accrued compensation and benefits	11,115	17,429
Accrued and other liabilities	15,334	16,188
Deferred revenue	32,626	32,984
Income taxes payable		2,365
Total current liabilities	65,469	77,446
Other non-current liabilities	12,935	12,936
Shareholders' equity:		
Preferred stock, no par value; 20,000,000 shares authorized, no shares issued or outstanding in 2009 or 2008		

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Common stock, \$.01 par value; 100,000,000 shares authorized; 22,500,285 and 23,581,109

shares issued and outstanding at June 30, 2009 and December 31, 2008,

respectively	225	234
Additional paid-in capital		
Retained earnings	165,530	182,882
Accumulated other comprehensive loss	(2,807)	(3,277)
Total shareholders' equity	162,948	179,839
Total liabilities and shareholders' equity	\$ 241,352	\$ 270,221

*See accompanying Notes to Condensed Consolidated Financial Statements.*

**Table of Contents****Item 1. Financial Statements** (continued)**MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(in thousands, except per share amounts)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(unaudited)</b>		<b>(unaudited)</b>	
Revenue:				
Software license	<b>\$ 4,126</b>	\$ 19,365	<b>\$ 9,048</b>	\$ 37,677
Services	<b>49,422</b>	62,289	<b>100,265</b>	122,126
Hardware and other	<b>4,861</b>	8,836	<b>9,921</b>	19,011
Total revenue	<b>58,409</b>	90,490	<b>119,234</b>	178,814
Costs and Expenses:				
Cost of license	<b>1,035</b>	1,641	<b>2,459</b>	2,785
Cost of services	<b>21,319</b>	29,856	<b>44,476</b>	61,136
Cost of hardware and other	<b>4,177</b>	7,317	<b>8,298</b>	15,583
Research and development	<b>9,188</b>	11,711	<b>19,415</b>	24,365
Sales and marketing	<b>9,026</b>	14,676	<b>19,105</b>	28,248
General and administrative	<b>7,251</b>	8,867	<b>15,213</b>	17,938
Depreciation and amortization	<b>3,010</b>	3,158	<b>6,175</b>	6,406
Restructuring charge	<b>3,829</b>		<b>3,892</b>	
Total costs and expenses	<b>58,835</b>	77,226	<b>119,033</b>	156,461
Operating (loss) income	<b>(426)</b>	13,264	<b>201</b>	22,353
Other (expense) income, net	<b>(404)</b>	650	<b>(637)</b>	2,951
(Loss) income before income taxes	<b>(830)</b>	13,914	<b>(436)</b>	25,304
Income tax (benefit) provision	<b>(274)</b>	4,835	<b>(142)</b>	8,793
Net (loss) income	<b>\$ (556)</b>	\$ 9,079	<b>\$ (294)</b>	\$ 16,511
Basic (loss) earnings per share	<b>\$ (0.02)</b>	\$ 0.37	<b>\$ (0.01)</b>	\$ 0.68
Diluted (loss) earnings per share	<b>\$ (0.02)</b>	\$ 0.37	<b>\$ (0.01)</b>	\$ 0.66
Weighted average number of shares:				
Basic	<b>22,391</b>	24,259	<b>22,687</b>	24,341
Diluted	<b>22,391</b>	24,826	<b>22,687</b>	24,833

*See accompanying Notes to Condensed Consolidated Financial Statements.*

**Table of Contents****Item 1. Financial Statements** (continued)

**MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)

	<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
	<b>(unaudited)</b>	
<b>Operating activities:</b>		
Net (loss) income	\$ (294)	\$ 16,511
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	6,175	6,406
Stock compensation	4,018	4,337
Loss on disposal of equipment	12	32
Tax (deficiency) benefit of stock awards exercised/vested	(1,088)	119
Excess tax benefits from stock based compensation	(9)	(76)
Deferred income taxes	386	
Unrealized foreign currency loss (gain)	723	(1,292)
Changes in operating assets and liabilities:		
Accounts receivable, net	25,082	(3,840)
Other assets	2,342	1,126
Accounts payable, accrued and other liabilities	(9,872)	(193)
Income taxes	(2,944)	1,791
Deferred revenue	(986)	2,196
Net cash provided by operating activities	23,545	27,117
<b>Investing activities:</b>		
Purchase of property and equipment	(1,360)	(5,560)
Net maturities of investments	80	21,533
Net cash (used in) provided by investing activities	(1,280)	15,973
<b>Financing activities:</b>		
Purchase of common stock	(20,540)	(12,351)
Excess tax benefits from stock based compensation	9	76
Proceeds from issuance of common stock from options exercised	544	2,187
Net cash used in financing activities	(19,987)	(10,088)
Foreign currency impact on cash	(49)	(749)
Net change in cash and cash equivalents	2,229	32,253

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Cash and cash equivalents at beginning of period	<b>85,739</b>	44,675
Cash and cash equivalents at end of period	<b>\$ 87,968</b>	\$ 76,928

*See accompanying Notes to Condensed Consolidated Financial Statements.*

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**MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2009**  
**(unaudited)**

**1. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements of Manhattan Associates, Inc. and its subsidiaries (the Company) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required for complete financial statements. In the opinion of management, these condensed consolidated financial statements contain all normal recurring adjustments considered necessary for a fair presentation of the Company's financial position at June 30, 2009, the results of operations for the three and six months ended June 30, 2009 and 2008 and cash flows for the six months ended June 30, 2009 and 2008. The results for the three and six months ended June 30, 2009 are not necessarily indicative of the results to be expected for the full year. These statements should be read in conjunction with the Company's audited consolidated financial statements and management's discussion and analysis included in the Company's annual report on Form 10-K for the year ended December 31, 2008.

**2. Principles of Consolidation**

The accompanying condensed consolidated financial statements include the Company's accounts and the accounts of its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

**3. Revenue Recognition**

The Company's revenue consists of revenues from the licensing and hosting of software, fees from implementation and training services (collectively, professional services), plus customer support and software enhancements, and sales of hardware and other revenues (other revenues consists of reimbursements of out-of-pocket expenses incurred in connection with its professional services). All revenue is recognized net of any related sales taxes.

The Company recognizes license revenue under Statement of Position No. 97-2, Software Revenue Recognition (SOP 97-2), as amended by Statement of Position No. 98-9, Software Revenue Recognition, With Respect to Certain Transactions (SOP 98-9), promulgated by the American Institute of Certified Public Accountants, specifically when the following criteria are met: (1) a signed contract is obtained; (2) delivery of the product has occurred; (3) the license fee is fixed or determinable; and (4) collection is probable. SOP 98-9 requires recognition of revenue using the residual method when (a) there is vendor-specific objective evidence of the fair values of all undelivered elements in a multiple-element arrangement that is not accounted for using long-term contract accounting; (b) vendor-specific objective evidence of fair value does not exist for one or more of the delivered elements in the arrangement; and (c) all revenue-recognition criteria in SOP 97-2, other than the requirement for vendor-specific objective evidence of the fair value of each delivered element of the arrangement, are satisfied. For those contracts that contain significant customization or modifications, license revenue is recognized using contract accounting.

The accounting related to license revenue recognition in the software industry is complex and affected by interpretations of the rules which are subject to change. Judgment is required in assessing the probability of collection, which is generally based on evaluation of customer-specific information, historical collection experience and economic market conditions. If market conditions decline, or if the financial condition of our customers deteriorates, the Company may be unable to determine that collectibility is probable, and the Company could be required to defer the recognition of revenue until the Company receives customer payments.

The Company's services revenue consists of fees generated from professional services and customer support and software enhancements related to the Company's software products. Fees from professional services performed by the Company are generally billed on an hourly basis, and revenue is recognized as the services are performed. Professional services are sometimes rendered under agreements in which billings are limited to

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**(unaudited)**

contractual maximums or based upon a fixed-fee for portions of or all of the engagement. Revenue related to fixed-fee based contracts is recognized on a proportional performance basis based on the hours incurred on discrete projects within an overall services arrangement. Project losses are provided for in their entirety in the period in which they become known. Revenue related to customer support services and software enhancement is generally paid in advance and recognized ratably over the term of the agreement, typically 12 months.

Hardware and other revenue is generated from the resale of a variety of hardware products, developed and manufactured by third parties, that are integrated with and complementary to the Company's software solutions. As part of a complete solution, the Company's customers periodically purchase hardware from the Company in conjunction with the licensing of software. These products include computer hardware, radio frequency terminal networks, radio frequency identification ( RFID ) chip readers, bar code printers and scanners and other peripherals. Hardware revenue is recognized upon shipment to the customer when title passes. The Company generally purchases hardware from the Company's vendors only after receiving an order from a customer. As a result, the Company does not maintain significant hardware inventory.

In accordance with the Financial Accounting Standard Board's ( FASB's ) Emerging Issues Task Force ( EITF ) Issue No. 01-14, Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred ( EITF No. 01-14 ), the Company recognizes amounts associated with reimbursements from customers for out-of-pocket expenses as revenue. Such amounts have been classified to hardware and other revenue. The total amount of expense reimbursement recorded to revenue was \$1.9 million and \$3.8 million for the three and six months ended June 30, 2009, respectively and \$3.4 million and \$6.4 million for the three and six months ended June 30, 2008, respectively.

**4. Investments**

Statement of Financial Accounting Standards ( SFAS ) No. 157, Fair Value Measurements ( SFAS No. 157 ) establishes a fair value hierarchy disclosure framework that prioritizes and ranks the level of market price observability used in measuring assets and liabilities at fair value. Market price observability is impacted by a number of factors, including the type of asset or liability and their characteristics. This hierarchy prioritizes the inputs into three broad levels as follows:

Level 1 Quoted prices in active markets for identical instruments.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The Company's investments in marketable securities consist principally of debt instruments of state and local government agencies and U.S. corporate commercial paper. These investments are categorized as available-for-sale securities and recorded at fair market value, as defined by SFAS No. 157. Investments with maturities of 90 days or less from the date of purchase are classified as cash equivalents; investments with maturities of greater than 90 days from the date of purchase but less than one year are generally classified as short-term investments; and investments with maturities of greater than one year from the date of purchase are generally classified as long-term investments. Unrealized holding gains and losses are reflected as a net amount in a separate component of shareholders' equity until realized. For the purposes of computing realized gains and losses, cost is determined on a specific identification basis.

The Company's long-term investments consist of corporate or U.S. government debt instruments with maturities between one year and five years. At June 30, 2009, the Company's cash balance was \$30.8 million and the Company's cash equivalent and investments balance totaled \$60.0 million. \$88.0 million of its total cash and investments is liquid. The remaining investments totaling \$2.8 million are invested in auction rate securities with original maturities greater than one year. Previously, auctions were held for these securities that reset their yield



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**(unaudited)**

every 7 to 35 days. During 2008 and the first half of 2009 however, auctions for these securities failed to attract sufficient buyers, resulting in the Company continuing to hold these securities. Accordingly, the Company began classifying these securities as long-term investments in marketable securities in the consolidated balance sheet due to uncertainty surrounding the timing of a market recovery. In determining the fair values of auction rate securities, the Company considered the credit worthiness of the counterparty, estimates of interest rates, expected holding periods, and the timing and value of expected future cash flows. The Company uses quoted prices from active markets which are classified at level 1 as a highest level observable input in the disclosure hierarchy framework as defined by SFAS No. 157 for all other available-for-sale securities. The \$2.8 million of auction rate securities held by the Company at June 30, 2009 were issued by state or regional educational loan authorities and are collateralized by federally insured student loans. These investments have high credit ratings, and the Company intends and has the ability to hold these securities until maturity or until redeemed. However, due to liquidity concerns rather than creditworthiness, the Company has recorded an unrealized loss of \$0.2 million as of June 30, 2009 for the temporary decline in the fair value of these investments. The unrealized loss is included as a separate component of shareholders' equity and in total comprehensive income. The Company will continue to evaluate the fair value of its investments in auction rate securities each reporting period for a potential other-than-temporary impairment.

The following table set forth the assets and liabilities carried at fair value measured on a recurring basis at June 30, 2009 (in thousands):

	<b>Fair Value Measurements at June 30, 2009 Using</b>			
	<b>Quoted Prices (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total</b>
Available-for-sale securities	\$ 57,204	\$	\$ 2,801	\$ 60,005
Total investments	\$ 57,204	\$	\$ 2,801	\$ 60,005

**5. Stock-Based Compensation**

During the three months ended June 30, 2009 and 2008, the Company granted options to purchase 20,050 shares and 32,600 shares of common stock, respectively. The Company recorded stock option expense of \$1.0 million and \$1.4 million during the three months ended June 30, 2009 and 2008, respectively. During the six months ended June 30, 2009 and 2008, the Company granted options to purchase 573,075 shares and 621,336 shares of common stock, respectively. The Company recorded stock option expense of \$2.4 million and \$2.7 million during the six months ended June 30, 2009 and 2008, respectively.

A summary of changes in outstanding options for the six months ended June 30, 2009 is as follows:

	<b>Number of Shares</b>
<b>Outstanding at December 31, 2008</b>	6,010,909
Granted	573,075
Exercised	(63,025)
Forfeited and expired	(702,848)
<b>Outstanding at June 30, 2009</b>	<b>5,818,111</b>

The Company also granted 6,681 and 10,864 shares of restricted stock during the three months ended June 30, 2009 and 2008, respectively. The Company recorded restricted stock expense of \$0.7 million and \$0.9 million during the three months ended June 30, 2009 and 2008, respectively. The Company granted 189,252 and 198,571 shares of restricted stock during the six months ended June 30, 2009 and 2008, respectively. The Company

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**MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES**  
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recorded restricted stock expense of \$1.6 million and \$1.7 million during the six months ended June 30, 2009 and 2008, respectively.

A summary of changes in unvested shares of restricted stock for the six month ended June 30, 2009 is as follows:

	<b>Number of Shares</b>
<b>Outstanding at December 31, 2008</b>	353,085
Granted	189,252
Vested	(99,958)
Forfeited and expired	(43,780)
<b>Outstanding at June 30, 2009</b>	<b>398,599</b>

**6. Income Taxes**

The Company's effective tax rate was 32.5% and 34.75% for the six months ended June 30, 2009 and 2008, respectively. The reduction in the effective tax rate is principally due to the mix of foreign profits to U.S. profits and a tax benefit associated with a foreign exchange loss on the repatriation of cash from a foreign subsidiary.

The Company adopted the provisions of FASB Interpretation No 48, Accounting for Uncertainty in Income Taxes (FIN 48), on January 1, 2007. For the six month period ended June 30, 2009, there were no material changes to unrecognized tax benefits. Further, there were no material changes to interest and penalties for the six month period. There has been no change to the Company's policy that recognizes potential accrued interest and penalties to unrecognized tax benefits within its global operations in income tax expense.

The Company conducts business globally and, as a result, files income tax returns in the United States Federal jurisdiction and in many state and foreign jurisdictions. The Company is no longer subject to US Federal or significant state, local or non-US jurisdiction income tax examinations for the years before 2005.

**7. Comprehensive Income**

Comprehensive income includes net (loss) income, foreign currency translation adjustments and unrealized gains and losses on investments that are excluded from net income and reflected in shareholders' equity.

The following table sets forth the calculation of comprehensive income (in thousands):

	<b>For Three Months Ended June 30,</b>		<b>For Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Net (loss) income	\$ (556)	\$ 9,079	\$ (294)	\$ 16,511
Other comprehensive loss, net of tax:				
Foreign currency translation adjustment	1,268	(820)	556	(1,794)
Unrealized gain (loss) on investments	(86)	(1)	(86)	(32)
Other comprehensive income (loss)	1,182	(821)	470	(1,826)
Comprehensive income	\$ 626	\$ 8,258	\$ 176	\$ 14,685

**8. Net (Loss) Earnings Per Share**

Basic net (loss) earnings per share is computed using net (loss) income divided by the weighted average number of shares of common stock outstanding ( Weighted Shares ) for the period presented. Diluted net (loss)

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**MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES**  
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**(unaudited)**

earnings per share is computed using net (loss) income divided by the sum of Weighted Shares and common equivalent shares ( CESs ) outstanding for each period presented using the treasury stock method.

The following is a reconciliation of the net (loss) income and share amounts used in the computation of basic and diluted net (loss) earnings per common share:

	<b>For Three Months Ended June 30,</b>		<b>For Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(in thousands, except per share data)</b>			
Net (loss) income	\$ (556)	\$ 9,079	\$ (294)	\$ 16,511
<b>(Loss) earnings per share:</b>				
Basic	\$ (0.02)	\$ 0.37	\$ (0.01)	\$ 0.68
Effect of CESs				(0.02)
Diluted	\$ (0.02)	\$ 0.37	\$ (0.01)	\$ 0.66
<b>Weighted average number of shares:</b>				
Basic	<b>22,391</b>	24,259	<b>22,687</b>	24,341
Effect of CESs		567		492
Diluted	<b>22,391</b>	24,826	<b>22,687</b>	24,833

Weighted average shares issuable upon the exercise of stock options that were not included in the calculation of diluted earnings per share for the three and six months ended June 30, 2008 were 3,515,818 and 3,816,752, respectively because they were anti-dilutive. However, all outstanding options and shares of unvested restricted stock were anti-dilutive for the three and six months ended June 30, 2009 because the Company recorded a net loss in these periods.

**9. Contingencies**

From time to time, the Company may be involved in litigation relating to claims arising out of its ordinary course of business. Many of the Company's installations involve products that are critical to the operations of its clients' businesses. Any failure in a product could result in a claim for substantial damages against the Company, regardless of its responsibility for such failure. Although the Company attempts to limit contractually its liability for damages arising from product failures or negligent acts or omissions, there can be no assurance that the limitations of liability set forth in the Company's contracts will be enforceable in all instances. The Company is not presently involved in any material litigation. However, it is involved in various legal proceedings. The Company believes that any liability that may arise as a result of these proceedings will not have a material adverse effect on its financial condition, results of operations or cash flows. The Company expenses legal costs associated with loss contingencies as such legal costs are incurred.

**10. Operating Segments**

The Company operates its business in three geographical segments: the Americas (North America and Latin America), Europe, Middle East and Africa ( EMEA ) and Asia Pacific ( APAC ). The information for the periods presented below reflects these segments. All segments derive revenue from the sale and implementation of the Company's supply chain execution and planning solutions. The individual products sold by the segments are similar in nature and are all designed to help companies manage the effectiveness and efficiency of their supply chain. The Company uses the same accounting policies for each operating segment. The Chief Executive Officer and Chief Financial Officer evaluate performance based on revenue and operating results for each region.



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**MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements (continued)**  
**June 30, 2009**  
**(unaudited)**

The Americas segment charges royalty fees to the EMEA and APAC segments based on software licenses sold by those operating segments. The royalties, which totaled approximately \$0.4 million and \$1.0 million for the three months ended June 30, 2009 and 2008, respectively, and \$0.7 million and \$2.2 million for the six months ended June 30, 2009 and 2008, respectively, are included in cost of revenue in EMEA and APAC with a corresponding reduction in the Americas cost of revenue. The revenues represented below are from external customers only. The geographical-based costs consist of costs of personnel, direct sales and marketing expenses, and general and administrative costs to support the business. There are certain corporate expenses included in the Americas region that are not charged to the other segments including research and development, certain marketing and general and administrative costs that support the global organization and the amortization of acquired developed technology. Included in the Americas costs are all research and development costs including the costs associated with the Company's India operations.

The following table presents the revenues, expenses and operating (loss) income by reporting segment for the three and six months ended June 30, 2009 and 2008 (in thousands):

	For the Three Months ended June 30, 2009				For the Three Months ended June 30, 2008			
	Americas	EMEA	APAC	Total	Americas	EMEA	APAC	Total
<b>Revenue:</b>								
License	\$ 2,352	\$ 1,071	\$ 703	\$ 4,126	\$ 15,252	\$ 2,448	\$ 1,665	\$ 19,365
Services	40,386	6,553	2,483	49,422	50,166	9,120	3,003	62,289
Hardware and other	4,634	194	33	4,861	8,133	393	310	8,836
Total revenue	47,372	7,818	3,219	58,409	73,551	11,961	4,978	90,490
<b>Costs and Expenses:</b>								
Cost of revenue	20,268	4,101	2,162	26,531	29,585	6,250	2,979	38,814
Operating expenses	21,961	2,278	1,226	25,465	30,380	3,340	1,534	35,254
Depreciation and amortization	2,590	295	125	3,010	2,943	156	59	3,158
Restructuring charge	2,960	20	849	3,829				
Total costs and expenses	47,779	6,694	4,362	58,835	62,908	9,746	4,572	77,226
Operating (loss) income	\$ (407)	\$ 1,124	\$ (1,143)	\$ (426)	\$ 10,643	\$ 2,215	\$ 406	\$ 13,264

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**MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements (continued)**  
**June 30, 2009**  
**(unaudited)**

	For the Six Months ended June 30, 2009				For the Six Months ended June 30, 2008			
	Americas	EMEA	APAC	Total	Americas	EMEA	APAC	Total
<b>Revenue:</b>								
License	\$ 6,178	\$ 1,516	\$ 1,354	\$ 9,048	\$ 28,679	\$ 6,019	\$ 2,979	\$ 37,677
Services	82,559	12,955	4,751	100,265	99,317	17,152	5,657	122,126
Hardware and other	9,462	377	82	9,921	17,684	818	509	19,011
Total revenue	98,199	14,848	6,187	119,234	145,680	23,989	9,145	178,814
<b>Costs and Expenses:</b>								
Cost of revenue	42,847	8,084	4,302	55,233	60,862	12,850	5,792	79,504
Operating expenses	46,909	4,444	2,380	53,733	61,147	6,542	2,862	70,551
Depreciation and amortization	5,571	438	166	6,175	5,963	327	116	6,406
Restructuring charge	3,019	20	853	3,892				
Total costs and expenses	98,346	12,986	7,701	119,033	127,972	19,719	8,770	156,461
Operating (loss) income	\$ (147)	\$ 1,862	\$ (1,514)	\$ 201	\$ 17,708	\$ 4,270	\$ 375	\$ 22,353

The Company's services revenues, which consist of fees generated from professional services and customer support and software enhancements related to its software products, for the three and six months ended June 30, 2009 and 2008 are as follows (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
Professional services	\$ 30,767	\$ 42,866	\$ 63,112	\$ 84,584
Customer support and software enhancements	18,655	19,423	37,153	37,542
Total services revenue	\$ 49,422	\$ 62,289	\$ 100,265	\$ 122,126

License revenues related to the Company's warehouse and non-warehouse product groups for the three and six months ended June 30, 2009 and 2008 are as follows (in thousands):

	For the Three Months Ended June 30,	For the Six Months Ended June 30,
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	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Warehouse	\$ <b>2,947</b>	\$ 10,515	\$ <b>5,850</b>	\$ 19,678
Non-Warehouse	<b>1,179</b>	8,850	<b>3,198</b>	17,999
Total license revenue	\$ <b>4,126</b>	\$ 19,365	\$ <b>9,048</b>	\$ 37,677

**11. Restructuring charge**

During the quarter ended June 30, 2009, the Company committed to and initiated plans to reduce its workforce by approximately 140 positions along with other expense reduction initiatives to realign its capacity based on the revenue outlook for 2009. This action was based on continued deterioration of the global macro-economic environment in the first quarter as reflected by downward revisions by most economists of Global GDP growth rates, which resulted in lower than planned first quarter 2009 license revenue results and a revised revenue

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**MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements (continued)**  
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outlook for the remainder of 2009. As a result of this initiative, the Company recorded a pre-tax restructuring charge of \$3.8 million (\$2.6 million after-tax or \$0.12 per fully diluted share) in the second quarter of 2009. The restructuring charge primarily consists of employee severance and outplacement services. In the first quarter of 2009, the Company recorded additional employee severance expense of \$63,000 pre-tax, or \$42,000 after-tax, related to the restructuring action taken in the fourth quarter of 2008. The restructuring charge is classified in Restructuring charge in the Company's Condensed Consolidated Statements of Operations. The Company estimates that the majority of related payments will be completed by the end of 2009.

The following table summarizes the segment activity in the restructuring accrual for the three and six months ended June 30, 2009:

	Americas	EMEA	APAC	Consolidated
		(in thousands)		
Restructuring accrual balance at December 31, 2008	\$ 1,724	\$	\$ 63	\$ 1,787
Restructuring charge	3,019	20	853	3,892
Cash payments	(3,431)	(20)	(211)	(3,662)
Restructuring accrual balance at June 30, 2009	\$ 1,312	\$	\$ 705	\$ 2,017

The balance at June 30, 2009 is included in Accrued compensation and benefits and Accrual and other liabilities in the Company's Condensed Consolidated Balance Sheets. The majority of the remaining balance is expected to be paid during 2009.

## **12. New Accounting Pronouncements**

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. SFAS No. 168 replaces SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, and establishes only two levels of U.S. generally accepted accounting principles (GAAP), authoritative and nonauthoritative. The FASB Accounting Standards Codification (the Codification) will become the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP, except for rules and interpretive releases of the SEC, which are sources of authoritative GAAP for SEC registrants. All other nongrandfathered, non-SEC accounting literature not included in the Codification will become nonauthoritative. SFAS No. 168 is effective for financial statements for interim or annual reporting periods ending after September 15, 2009. The Company will begin to use the new guidelines and numbering system prescribed by the Codification when referring to GAAP in the third quarter of fiscal 2009. As the Codification is not intended to change or alter existing GAAP for public companies, it will not have any impact on the Company's consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*. SFAS No. 165 is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, SFAS 165 sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS No. 165 is effective for fiscal years and interim periods ended after June 15, 2009. The Company adopted this standard effective June 15, 2009 and has evaluated any subsequent events through the date of this filing. The adoption of SFAS 165 did not have an impact on its consolidated results of operations or consolidated financial position.



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**MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES**  
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In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*. SFAS No. 141(R) will significantly change the accounting for business combinations. Under SFAS No. 141(R), an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS No. 141(R) will change the accounting treatment for certain specific acquisition-related items including expensing acquisition-related costs as incurred and expensing restructuring costs associated with an acquired business. SFAS No. 141(R) also includes a substantial number of new disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009. The Company expects that SFAS No. 141(R) will have an impact on its accounting for future business combinations once adopted but the extent of the impact is dependent upon the number, size, and complexity of acquisitions that the Company makes in the future.

In September 2006, FASB issued SFAS No. 157, *Fair Value Measurements*, which establishes a framework for reporting fair value and expands disclosures required for fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS No. 157 does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. However, in February 2008, the FASB issued FASB Staff Position No. 157-2, *Effective Date of FASB Statement No. 157*, which delayed for one year the applicability of SFAS No. 157's fair-value measurements to non-financial assets and liabilities recognized or disclosed at fair value on a non-recurring basis. The Company partially adopted SFAS No. 157 on January 1, 2008 related to all financial assets and liabilities and non-financial assets and liabilities recognized or disclosed at fair value on a recurring basis. The Company has adopted SFAS No. 157 for non-financial assets and liabilities measured at fair value on a nonrecurring basis at January 1, 2009 and will continue to apply its provisions prospectively from January 1, 2009. The application of SFAS No. 157 for non-financial assets and liabilities did not have a significant impact on earnings nor the financial position in the first or second quarter 2009.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**  
**Forward-Looking Statements**

Certain statements contained in this filing are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including but not limited to statements related to plans for future business development activities, anticipated costs of revenues, product mix and service revenues, research and development and selling, general and administrative activities, and liquidity and capital needs and resources. When used in this report, the words expect, anticipate, intend, plan, believe, seek, estimate, and similar expressions are generally intended to identify forward-looking statements. You should not place undue reliance on these forward-looking statements, which reflect our opinions only as of the date of this quarterly report. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. For further information about these and other factors that could affect our future results, please see *Risk Factors* in Item 1A of our annual report on Form 10-K for the year ended December 31, 2008. Investors are cautioned that any forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements. The following discussion should be read in conjunction with the condensed consolidated financial statements for the three and six months ended June 30, 2009 and 2008, including the notes to those statements, included elsewhere in this quarterly report (the *Condensed Consolidated Financial Statements*). We also recommend the following discussion be read in conjunction with management's discussion and analysis and consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2008.



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References in this filing to the Company, Manhattan, Manhattan Associates, we, our, and us refer to Manhattan Associates, Inc., our predecessors, and our wholly-owned and consolidated subsidiaries.

### **Business Overview**

We are a leading developer and implementer of supply chain software solutions that help organizations optimize their supply chain operations from planning through execution. We call our portfolio of supply chain software solutions Manhattan SCOPE™ (Supply Chain Optimization from Planning through Execution). Built on a common Supply Chain Process Platform, SCOPE combines Planning and Forecasting, Inventory Optimization, Order Lifecycle Management, Transportation Lifecycle Management and Distribution Management to enable full-range supply chain optimization. Our business model is singularly focused on the development and implementation of complex supply chain software solutions that are designed to optimize supply chain effectiveness and efficiency for our customers. We have three principal sources of revenue:

- license revenue generated from the sales of our supply chain software;
- professional services derived from implementing our solutions along with customer support services and software enhancements (services), and
- hardware sales and other revenue.

We manage our business based on three geographic regions: Americas (North America and Latin America), EMEA (Europe, Middle East and Africa), and APAC (Asia Pacific). Geographic revenue is based on the location of the sale. Our international revenue was approximately \$15.3 million and \$25.3 million for the quarters ended June 30, 2009 and 2008, respectively, which represents approximately 26% and 28% of our total revenue for the quarters ended June 30, 2009 and 2008, respectively. Our international revenue was approximately \$28.9 million and \$44.2 million for the first half of 2009 and 2008, respectively, which represents approximately 24% and 25% of our total revenue for the six months ended June 30, 2009 and 2008, respectively. International revenue includes all revenue derived from sales to customers outside the United States.

At June 30, 2009, we employed 1,871 employees worldwide, of which 965 employees are based outside the United States. Of the 965 international employees, approximately 75%, or nearly 750 employees, are located in our India Development Center. We have offices in Australia, China, France, India, Japan, the Netherlands, Singapore and the United Kingdom, as well as representatives in Mexico and reseller partnerships in Latin America.

### **Global Economic Trends and Industry Factors**

Global macro economic trends, technology spending and supply chain management market growth are important barometers for our business. Historically, about 75% of our total revenue is generated in the United States and 25% from our International operation. In addition, industry analysts estimate that approximately two-thirds of every supply chain software solutions dollar invested is spent in the United States; consequently, the health of the U.S. economy has a meaningful impact on our financial results.

On July 8, 2009, the International Monetary Fund (IMF) provided a World Economic Outlook Update revising its growth estimates for 2009 and 2010 upward approximately 1/2 percentage point stating the global economy is beginning to pull out of a recession unprecedented in the post-World War II era, but stabilization is uneven and recovery is expected to be sluggish. Financial conditions have improved more than expected, owing mainly to public intervention, and recent data suggest that the rate of decline in economic activity is moderating, although to varying degrees among regions. Despite these positive signs the global recession is not over, and the recovery is expected to be slow, as financial systems remain impaired, support from public policies will gradually diminish, and households in countries that suffered asset price busts will rebuild savings. The world economy is now projected to shrink 1.4% in 2009 and grow 2.5% in 2010. Overall, advanced economies are now forecasted to shrink 3.8% in 2009. The U.S. economy is now projected to contract 2.6% in 2009 and grow 0.8% in 2010.

In July 2009, leading Supply Chain Industry Analyst, AMR Research (AMR), published its Global Enterprise Application Market Sizing Report, 2008–2013 and for the Supply Chain Management Market in 2009,

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AMR is forecasting negative growth of 6% and is expecting positive, albeit conservative growth in 2010. For software application markets in general, AMR is forecasting a 2% to 6% decline in 2009 based on budget lockdowns and general reluctance by corporations to spend.

Given the current global economic recession, we believe companies are seeking to protect their balance sheets by reducing debt and hoarding cash, which in turn drives capital spending such as information technology spending. Consequently, our timing of closing software transactions has been significantly impacted as evidenced in our license revenue trends since the second half of 2008, which in turn affects our revenue and earnings per share. In the first half of 2009, our license revenues declined 76% compared to the first half of 2008 as demand was well below our plans.

We sell technology-based solutions with total pricing, including software and services, in many cases exceeding \$1.0 million. Reductions in capital budgets of our customers and prospective customers have had an adverse impact on our ability to sell our solutions largely as a result of the global economic recession. The deterioration in the current business climate within the United States and geographic regions in which we operate, continued delays in capital spending, and the timing of deals closed will continue to have a material adverse impact on our business and our ability to compete and is likely to further intensify competition in our already highly competitive markets.

**Revenue**

**License revenue.** License revenue, a leading indicator of our business, is primarily derived from software license fees that customers pay for supply chain solutions. In the three and six months ended June 30, 2009, license revenue totaled \$4.1 million, or 7% of total revenue, with gross margins of 74.9% and \$9.0 million, or 8% of total revenue, with gross margins of 72.8%, respectively. Our typical license revenue percentage mix of new to existing customers is approximately 50/50. However, due to lower license revenue for the quarter ended June 30, 2009, the percentage mix was approximately 30/70 of new to existing customers, respectively.

License revenue growth is influenced by the strength of general economic and business conditions and the competitive position of our software products. Our license revenue generally has long sales cycles of which the timing of the closing of a few large license transactions can have a material impact on our quarterly license revenues, operating profit and earnings per share. For example, \$1.0 million of license revenue in 2009 equates to approximately \$0.03 of diluted earnings per share impact.

Our software solutions are singularly focused on the supply chain planning and execution markets, which are intensely competitive, rapidly consolidating and characterized by rapid technological change. We are a market leader in the supply chain management software solutions market as defined by industry analysts such as AMR, ARC and Gartner. Our goal is to extend our position as a leading global supply chain solutions provider by growing our license revenues faster than our competitors. We do anticipate facing increased competition in the future from ERP and SCM applications vendors and business application software vendors that may broaden their solution offerings by internally developing or by acquiring or partnering with independent developers of supply chain planning and execution software. Increased competition could result in price reductions, fewer customer orders, reduced gross margins and loss of market share.

**Services revenue.** Our services business consists of professional services (consulting and training) and customer support services and software enhancements. In the second quarter of 2009, our services revenue totaled \$49.4 million, or 85% of total revenue, with gross margins of 56.9%. For the six months ended June 30, 2009, our services revenue totaled \$100.3 million, or 84% of total revenue, with gross margins of 55.6%. Professional services accounted for approximately 60% of total services revenue and approximately 50% of total revenue in the second quarter and the first half of 2009. When comparing our operating margins to other technology companies, our operating margin profile can be lower due to our large services revenue mix as a percentage of total revenue. While we believe our services margins are very strong, they do lower our overall operating margin as services margins are lower than license revenue margins.

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At June 30, 2009, our consulting services business totaled approximately 900 employees, nearly 50% of our total employees worldwide. Our professional services organization provides our customers with expertise and assistance in planning and implementing our solutions. To ensure a successful product implementation, consultants assist customers with the initial installation of a system, the conversion and transfer of the customer's historical data onto our system, and ongoing training, education and system upgrades. We believe our professional services enable customers to implement our software rapidly, ensure the customer's success with our solution, strengthen our customer relationships, and add to our industry-specific knowledge base for use in future implementations and product innovations.

Although our consulting services are optional, the majority of our customers use at least some portion of these services for the implementation and ongoing support of our software solutions. Consulting services are typically rendered under time and materials-based contracts with services typically billed on an hourly basis. Professional services are sometimes rendered under fixed-fee based contracts with payments due on specific dates or milestones.

Typically, our consulting services lag license revenue by several quarters, as implementation services are performed after the purchase of the software. Services revenue growth is contingent upon: 1) license revenue growth, which is influenced by the strength of general economic and business conditions and the competitive position of our software products, 2) customer multiple site implementation timelines and upgrades, which is influenced by the strength of general economic and business conditions specifically impacting our customers, 3) competitive exposure to offshore providers and other consulting companies, 4) price pressure due to competition and general economic and business conditions, and 5) fluctuations in currency rates. All of these factors potentially create the risk of pricing pressure, fewer customer orders, reduced gross margins and loss of market share.

For customer support services and software enhancements (CSSE), we offer a comprehensive program that provides our customers with software upgrades, when and if available, that offer additional or improved functionality and technological advances incorporating emerging supply chain and industry initiatives. We offer 24 hour customer support every day of the year plus software upgrades for an annual fee that is paid in advance.

Our CSSE revenues totaled \$18.6 million and \$37.2 million in the three and six months ended June 30, 2009, respectively. CSSE represents approximately 40% of services revenue and approximately 30% of total revenue in the second quarter and the first half of 2009. The growth of CSSE revenues is influenced by: 1) new license revenue growth, 2) annual renewal of support contracts, 3) increase in customers through acquisitions, and 4) fluctuations in currency rates. Substantially all of our customers renew their annual support contracts. Over the last three years, our annual renewal rate of customers subscribing to comprehensive support and enhancements has been greater than 90%. CSSE revenue is generally paid in advance and recognized ratably over the term of the agreement, typically 12 months. CSSE renewal revenue is not recognized unless payment is received from the customer.

**Hardware and other revenue.** Our hardware and other revenues totaled \$4.9 million representing 8% of total revenue with gross margins of 14.1%, and \$9.9 million representing 8% of total revenue with gross margin of 16.4%, in the three and six months ended June 30, 2009, respectively. In conjunction with the licensing of our software, and as a convenience for our customers, we resell a variety of hardware products developed and manufactured by third parties. These products include computer hardware, radio frequency terminal networks, RFID chip readers, bar code printers and scanners, and other peripherals. We resell all third-party hardware products pursuant to agreements with manufacturers or through distributor-authorized reseller agreements pursuant to which we are entitled to purchase hardware products at discount prices and to receive technical support in connection with product installations and any subsequent product malfunctions. We generally purchase hardware from our vendors only after receiving an order from a customer. As a result, we do not maintain significant hardware inventory.

## **Product Development**

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We intend to continue to invest significantly in research and development (R&D), which historically has averaged about \$0.14 of every revenue dollar, to provide market leading solutions that help global manufacturers, wholesalers, distributors, retailers and logistics providers successfully manage accelerating and fluctuating demands as well as the increasing complexity and volatility of their local and global supply chains. Our research and development expenses for the three and six months ended June 30, 2009 were \$9.2 million and \$19.4 million, respectively, and for the three and six months ended June 30, 2008 were \$11.7 million and \$24.4 million, respectively. At June 30, 2009, our R&D organization totaled approximately 660 employees, located in the U.S. and India, representing about 35% of our total employees worldwide.

We will continue to focus our R&D resources on the development and enhancement of supply chain software solutions. We offer what we believe to be the broadest solution portfolio in the supply chain solutions marketplace, to address all aspects of planning and forecasting, inventory optimization, order lifecycle management, transportation lifecycle management and distribution management. The underpinning of our product portfolio is the services-based Supply Chain Process Platform, which provides the foundation for ensuring that all our solutions reside on a common architecture, leverage common master and transaction data and utilize the same business services to accomplish tasks common to multiple solutions, enabling our customers to lower their total cost of ownership while optimizing their supply chain effectiveness and efficiency.

We also plan to continue to provide enhancements to existing solutions and to introduce new solutions to address evolving industry standards and market needs. We identify further enhancements to existing solutions and opportunities for new solutions through our customer support organization, as well as through ongoing customer consulting engagements and implementations, interactions with our user groups, association with leading industry analysts and market research firms, and participation on industry standards and research committees. Our solutions address the needs of customers in various vertical markets, including retail, consumer goods, food and grocery, logistics service providers, industrial and wholesale, high technology and electronics, life sciences and government.

### **Cash Flow and Financial Condition**

For the six months ended June 30, 2009 and 2008, we generated cash flow from operating activities of \$23.5 million and \$27.1 million, respectively. Our cash and investments at June 30, 2009 totaled \$90.8 million, with no debt on our balance sheet. We currently have no credit facilities. During the past three years, our primary uses of cash have been funding of R&D investment, operations to drive earnings growth and repurchases of common stock.

At June 30, 2009, we had approximately \$15.0 million remaining in share repurchase authority. In 2009, we anticipate that our priorities for the use of cash will be similar to prior years, with our first priority being continued investment in product development and profitably growing our business to extend our market leadership. We will continue to evaluate acquisition opportunities that are complementary to our product footprint and technology direction. We will also continue to weigh our share repurchase options against cash for acquisitions and investing in the business. We do not anticipate any borrowing requirements in 2009 for general corporate purposes.

### **Results of Operations**

The following table summarizes our consolidated results for the three and six months ended June 30, 2009 and 2008.

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in thousands, except per share data)			
Revenue	\$ 58,409	\$ 90,490	\$ 119,234	\$ 178,814
Operating costs and expenses	55,006	77,226	115,141	156,461
Restructuring charge	3,829		3,892	
Operating (loss) income	(426)	13,264	201	22,353
Other (expense) income, net	(404)	650	(637)	2,951
(Loss) income before taxes	(830)	13,914	(436)	25,304
Net (loss) income	\$ (556)	\$ 9,079	\$ (294)	\$ 16,511
Diluted (loss) earnings per share	\$ (0.02)	\$ 0.37	\$ (0.01)	\$ 0.66
Diluted weighted average number of shares	22,391	24,826	22,687	24,833

We manage our business based on three geographic regions: the Americas, EMEA, and APAC. Geographic revenue information is based on the location of sale. The revenues represented below are from external customers only. The geographical-based costs consist of costs of personnel, direct sales and marketing expenses, and general and administrative costs to support the business. There are certain corporate expenses included in the Americas region that are not charged to the other segments including research and development, certain marketing and general and administrative costs that support the global organization and the amortization of acquired developed technology. Included in the Americas costs are all research and development costs including the costs associated with the Company's India operations. During the three and six months ended June 30, 2009 and 2008, we derived the majority of our revenues from sales to customers within our Americas region. The following table summarizes revenue and operating profit by region:

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	Three Months Ended June 30,			Six Months Ended June 30,		
			%			%
	2009	2008	Change	2009	2008	Change
	(in thousands)		2009 to	(in thousands)		2009 to
			2008			2008
<b>Revenue:</b>						
<b>License</b>						
Americas	\$ 2,352	\$ 15,252	-85%	\$ 6,178	\$ 28,679	-78%
EMEA	1,071	2,448	-56%	1,516	6,019	-75%
APAC	703	1,665	-58%	1,354	2,979	-55%
Total license	\$ 4,126	\$ 19,365	-79%	\$ 9,048	\$ 37,677	-76%
<b>Services</b>						
Americas	\$ 40,386	\$ 50,166	-19%	\$ 82,559	\$ 99,317	-17%
EMEA	6,553	9,120	-28%	12,955	17,152	-24%
APAC	2,483	3,003	-17%	4,751	5,657	-16%
Total services	\$ 49,422	\$ 62,289	-21%	\$ 100,265	\$ 122,126	-18%
<b>Hardware and Other</b>						
Americas	\$ 4,634	\$ 8,133	-43%	\$ 9,462	\$ 17,684	-46%
EMEA	194	393	-51%	377	818	-54%
APAC	33	310	-90%	82	509	-84%
Total hardware and other	\$ 4,861	\$ 8,836	-45%	\$ 9,921	\$ 19,011	-48%
<b>Total Revenue</b>						
Americas	\$ 47,372	\$ 73,551	-36%	\$ 98,199	\$ 145,680	-33%
EMEA	7,818	11,961	-35%	14,848	23,989	-38%
APAC	3,219	4,978	-35%	6,187	9,145	-32%
Total revenue	\$ 58,409	\$ 90,490	-35%	\$ 119,234	\$ 178,814	-33%
<b>Operating (loss) income:</b>						
Americas	\$ (407)	\$ 10,643	-104%	\$ (147)	\$ 17,708	-101%
EMEA	1,124	2,215	-49%	1,862	4,270	-56%
APAC	(1,143)	406	-382%	(1,514)	375	-504%
Total operating (loss) income	\$ (426)	\$ 13,264	-103%	\$ 201	\$ 22,353	-99%

**Financial Summary of Second Quarter 2009 Condensed Consolidated Financial Results**

Consolidated revenue for the second quarter of 2009 was \$58.4 million compared to \$90.5 million in the second quarter of 2008. License revenue was \$4.1 million in the second quarter of 2009 compared to \$19.4 million in the second quarter of 2008;

Operating loss, including a pre-tax restructuring charge of \$3.8 million, for the second quarter of 2009 was \$0.4 million, as compared to operating income of \$13.3 million in the second quarter of 2008. Diluted loss per share was \$0.02 in the second quarter of 2009 compared to \$0.37 diluted earnings per share in the second quarter of 2008. The second quarter of 2009 includes a pre-tax restructuring charge of \$3.8 million, or \$0.12 per share, associated with the workforce reduction initiative executed in the quarter;

Cash flow from operations was \$10.8 million in the second quarter of 2009 compared to \$21.0 million in the second quarter of 2008;

Cash and investments on-hand at June 30, 2009 was \$90.8 million compared to \$89.2 million at March 31, 2009, and \$88.7 million at December 31, 2008;

The Company repurchased 577,606 common shares totaling \$10.0 million at an average share price of \$17.34 in the second quarter of 2009, self-funded from cash flow from operations in the second quarter of 2009.

**Three Months Ended June 30, 2009 Compared to Three Months Ended June 30, 2008**

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The results of our operations for the second quarter of 2009 and 2008 are discussed below.

Revenue

	Three Months Ended June 30,			% of Total Revenue	
	2009 (in thousands)	2008	% Change 2009 to 2008	2009	2008
License	\$ 4,126	\$ 19,365	-79%	7%	21%
Services	49,422	62,289	-21%	85%	69%
Hardware and other	4,861	8,836	-45%	8%	10%
Total revenue	\$ 58,409	\$ 90,490	-35%	100%	100%

Our revenue consists of fees generated from the licensing and hosting of software, fees from professional services and customer support and software enhancements, and sales of computer equipment.

**License revenue.** License revenue decreased \$15.2 million, or 79%, in the quarter ended June 30, 2009 over the same period in the prior year primarily driven by the current global economic recession which has decreased sales and lengthened sales cycles in the global market in 2009. Our Americas, EMEA and APAC license revenues decreased \$12.9 million, \$1.4 million and \$1.0 million, respectively, compared to the same period in the prior year.

Typically, our license sales mix across our product suite is approximately 60% of sales in the Company's historically preeminent warehouse management solutions and 40% in non-warehouse management solutions. However, the license revenue in the quarter ended June 30, 2009, the percentage mix was approximately 70/30 of warehouse management solutions to non-warehouse management solutions, respectively. Our warehouse management solutions decreased \$7.6 million, or 72%, in the second quarter of 2009 compared to the same quarter in the prior year and non-warehouse management solutions decreased \$7.7 million, or 87%, compared to the same quarter in the prior year.

**Services revenue.** Services revenue decreased \$12.9 million, or 21%, in the second quarter of 2009 compared to the same quarter in the prior year due to a \$12.1 million and \$0.8 million decrease in revenue from professional services and customer support and software enhancements, respectively, primarily due to decreased license sales over the past four quarters. Services revenue for the Americas, EMEA and APAC segments decreased \$9.8 million, \$2.6 million and \$0.5 million, respectively, in the second quarter of 2009 compared to the second quarter of 2008.

Over the last four quarters, our services revenue decline has primarily been impacted by declining license revenues and delayed or suspended multiple site implementations and/or upgrades, which we believe is due to the global economic recession which in turn has severely impacted our customer's capital investment levels, prioritization and timing. Additionally, over the past several years, our services revenue growth and margins have been affected by some pricing pressures. We believe that the pricing pressures are attributable to global macroeconomic conditions and competition.

**Hardware and other.** Hardware sales decreased by \$2.4 million, or 45% to \$3.0 million in the second quarter of 2009 compared to \$5.4 million in the second quarter of 2008. Sales of hardware are largely dependent upon customer-specific desires, which fluctuate from quarter to quarter. Reimbursements for out-of-pocket expenses are required to be classified as revenue and are included in hardware and other revenue. Reimbursements by customers for out-of-pocket expenses were approximately \$1.9 million and \$3.4 million for the quarters ended June 30, 2009 and 2008, respectively.

Table of ContentsCost of Revenue

	Three Months Ended June 30,		% Change
	2009	2008	2009 to 2008
	(in thousands)		
Cost of license	\$ 1,035	\$ 1,641	-37%
Cost of services	21,319	29,856	-29%
Cost of hardware and other	4,177	7,317	-43%
Total cost of revenue	\$ 26,531	\$ 38,814	-32%

**Cost of license.** Cost of license consists of the costs associated with software reproduction; hosting services; funded development; media, packaging and delivery, documentation and other related costs; and royalties on third-party software sold with or as part of our products. Cost of license decreased by \$0.6 million, or 37%, in the second quarter of 2009 compared to the same quarter of 2008.

**Cost of services.** Cost of services consists primarily of salaries and other personnel-related expenses of employees dedicated to professional and technical services and customer support services. The \$8.5 million, or 29% decrease in cost of services in the quarter ended June 30, 2009 was principally due to (i) a \$5.8 million decrease in employee-related costs such as salary, benefits and payroll taxes resulting from an 18% decrease in the number of personnel dedicated to the delivery of professional services due to the headcount reduction initiative in the second quarter of 2009 and fourth quarter of 2008, (ii) a \$1.9 million decrease in bonus expense due to headcount reductions as well as lower achievement of performance based compensation, and (iii) a \$0.9 million decrease in travel expenses due to fewer service projects.

Services gross margin increased 4.8 percentage points to 56.9% in the second quarter of 2009 from 52.1% in the second quarter of 2008. The increase in margin is primarily attributable to the decrease in professional services costs in the second quarter of 2009 driven by our actions to lower headcount to align capacity with demand.

**Cost of hardware and other.** Cost of hardware decreased \$1.6 million to approximately \$2.3 million in the second quarter of 2009 from approximately \$3.9 million in the second quarter of 2008. Cost of hardware and other includes out-of-pocket expenses to be reimbursed by customers of approximately \$1.9 million and \$3.4 million for the quarters ended June 30, 2009 and 2008, respectively.

Operating Expenses

	Three Months Ended June 30,		% Change
	2009	2008	2009 to 2008
	(in thousands)		
Research and development	\$ 9,188	\$ 11,711	-22%
Sales and marketing	9,026	14,676	-38%
General and administrative	7,251	8,867	-18%
Depreciation and amortization	3,010	3,158	-5%
Restructuring charge	3,829		100%
Operating expenses	\$ 32,304	\$ 38,412	-16%

**Research and development.** Research and development expenses primarily consist of salaries and other personnel-related costs for personnel involved in our research and development activities. Research and development

expenses for the quarter ended June 30, 2009 decreased \$2.5 million, or 22%, compared to the same quarter of the prior year. This decrease was mainly attributable to the decrease of \$1.4 million in employee-related

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costs such as salary, benefits and payroll taxes resulting from lower headcount and to a \$0.9 million decrease in bonus expense caused by the decline in total revenue and earnings per share.

Our principal research and development activities have focused on the expansion and integration of new products acquired and new product releases and expanding the product footprint of our supply chain optimization solutions called Supply Chain Optimization from Planning through Execution. The Manhattan SCOPE Platform provides not only a sophisticated service-oriented architecture-based application framework, but a platform that facilitates integration with Enterprise Resource Planning (ERP) and other supply chain solutions. For the quarters ended June 30, 2009 and 2008, we did not capitalize any research and development costs.

**Sales and marketing.** Sales and marketing expenses include salaries, commissions, travel and other personnel-related costs and the costs of our marketing and alliance programs and related activities. Sales and marketing expenses decreased by \$5.7 million, or 38% in the second quarter of 2009 compared to the same quarter of the prior year. This decrease was mainly attributable to a reduction in headcount of 24% and decline in license revenue which resulted in (i) a \$2.4 million decrease in employee-related costs such as salary, benefits, payroll taxes and stock compensation expense, (ii) a \$2.4 million decrease in bonus and commission, and (iii) a \$1.0 million decrease in travel expense.

**General and administrative.** General and administrative expenses consist primarily of salaries and other personnel-related costs of executive, financial, human resources, information technology and administrative personnel, as well as facilities, legal, insurance, accounting and other administrative expenses. The \$1.6 million, or 18% decrease in general and administrative expenses during the quarter ended June 30, 2009 was primarily attributable to (i) a decrease of \$0.7 million of employee-related expenses such as salary benefits and payroll taxes, and (ii) a \$0.4 million decrease in bonus expense caused by the decline in total revenue and earnings per share.

**Depreciation and amortization.** Depreciation expense amounted to \$2.3 million for both quarters ended June 30, 2009 and 2008. Amortization of intangibles associated with various acquisitions totaled \$0.7 million and \$0.9 million for the quarters ended June 30, 2009 and 2008, respectively.

**Restructuring charge.** During the second quarter of 2009, we committed to and initiated plans to reduce our workforce by approximately 140 positions to realign our capacity with demand forecasts. As a result of this action, we recorded employee severance and outplacement services of \$3.8 million in the second quarter of 2009.

**Operating (Loss) Income**

Operating loss for the second quarter of 2009 of \$0.4 million decreased by \$13.7 million, or 103%, as compared to operating income of \$13.3 million in the second quarter of 2008. Operating margins decreased 15.4% to an operating loss margin of 0.7% for the second quarter of 2009 from operating profit margin of 14.7% for the second quarter of 2008. Operating income and margins declined primarily due to lower license revenues and the restructuring charge of \$3.8 million in the current year quarter.

**Other (Expense) Income and Taxes**

	Three Months Ended June 30,		
	2009	2008	% Change 2009 to 2008
	(in thousands)		
Other (expense) income, net	\$ (404)	\$ 650	-162%
Income tax (benefit) provision	(274)	4,835	-106%

**Other (expense) income, net.** Other (expense) income, net principally includes interest income and foreign currency gains and losses. Other (expense) income, net decreased \$1.1 million in the second quarter of 2009 compared to the second quarter of 2008 due to the fluctuation of the U.S. dollar relative to foreign currencies and the decrease in interest income. We recorded a net foreign currency loss of \$0.5 million and a net foreign currency gain of \$0.3 million during the three months ended June 30, 2009 and 2008, respectively. The foreign currency gains and losses principally resulted from gains or losses on intercompany balances with subsidiaries and foreign-denominated accounts receivable due to the fluctuation of the U.S. dollar relative to other foreign currencies, principally the Indian

Rupee, the British Pound, and the Euro. Interest income decreased \$0.3 million for the second quarter of 2009 from \$0.4 million for the second quarter of 2008 due to the lower average interest rate earned in the second quarter of 2009. The weighted-average interest rate earned on cash and investment securities during the three month periods ended June 30, 2009 and 2008 was less than 1% in both periods.

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and the decrease in interest income. We recorded a net foreign currency loss of \$0.5 million and a net foreign currency gain of \$0.3 million during the three months ended June 30, 2009 and 2008, respectively. The foreign currency gains and losses principally resulted from gains or losses on intercompany balances with subsidiaries and foreign-denominated accounts receivable due to the fluctuation of the U.S. dollar relative to other foreign currencies, principally the Indian Rupee, the British Pound, and the Euro. Interest income decreased \$0.3 million for the second quarter of 2009 from \$0.4 million for the second quarter of 2008 due to the lower average interest rate earned in the second quarter of 2009. The weighted-average interest rate earned on cash and investment securities during the three month periods ended June 30, 2009 and 2008 was less than 1% in both periods.

**Income tax (benefit) provision.** Our effective income tax rate was 33.01% and 34.75% for the quarters ended June 30, 2009 and 2008, respectively. The reduction in the effective tax rate is principally due to the mix of foreign profits compared to U.S. profits and a tax benefit associated with a foreign exchange loss on the repatriation of cash from a foreign subsidiary.

**Financial Summary for the first half of 2009 Condensed Consolidated Financial Results**

Consolidated revenue for the six months ended June 30, 2009 was \$119.2 million compared to \$178.8 million for the six months ended June 30, 2008. License revenue was \$9.0 million for the six months ended June 30, 2009, compared to \$37.7 million in the six months ended June 30, 2008;

Operating income, including a pre-tax restructuring charge of \$3.9 million, was \$0.2 million for the six months ended June 30, 2009 compared to \$22.4 million for the six months ended June 30, 2008;

Loss per share for the six months ended June 30, 2009 was \$0.01 compared to \$0.66 earnings per share for the six months ended June 30, 2008. The first half of 2009 results include pre-tax restructuring charges of \$3.9 million or \$0.12 per share;

The Company repurchased approximately 1.3 million common shares at an average share price of \$15.93 for a total investment of \$20.0 million.

**Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008**

The results of our operations for the first half of 2009 and 2008 are discussed below.

**Revenue**

	Six Months Ended June 30,			% of Total Revenue	
	2009 (in thousands)	2008	% Change 2009 to 2008	2009	2008
License	\$ 9,048	\$ 37,677	-76%	8%	21%
Services	100,265	122,126	-18%	84%	68%
Hardware and other	9,921	19,011	-48%	8%	11%
Total revenue	\$ 119,234	\$ 178,814	-33%	100%	100%

**License revenue.** License revenue decreased \$28.6 million, or 76% to \$9.0 million in the six months ended June 30, 2009 over the same period in the prior year, primarily driven by the current global economic recession which has decreased sales and lengthened sales cycles in the global market in 2009 as customers and prospects have constrained capital spending. Our Americas, EMEA and APAC license revenue decreased \$22.5 million, \$4.5 million, and \$1.6 million respectively, compared to the same period in the prior year.

Typically, our license sales mix across our product suite is approximately 60% of sales in the Company's historically preeminent warehouse management solutions and 40% in non-warehouse management solutions.



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However, the license revenue in the six months ended June 30, 2009, the percentage mix was approximately 65/35 of warehouse management solutions to non-warehouse management solutions, respectively. Our warehouse management solutions decreased \$13.8 million, or 70%, in the first half of 2009 compared to the same period in the prior year and non-warehouse management solutions decreased \$14.8 million, or 82%, compared to the same period in the prior year.

**Services revenue.** Services revenue decreased \$21.9 million, or 18%, in the first half of 2009 compared to the same period in the prior year principally due to a \$21.5 million, or 25%, decrease in professional services revenue due to decreased license sales and a \$0.4 million decrease in revenue from customer support and software enhancements. The Americas, EMEA and APAC segments decreased \$16.8 million, \$4.2 million, and \$0.9 million, respectively, for the first half of 2009 compared to the first half of 2008.

**Hardware and other.** Hardware sales decreased by \$6.5 million, or 52%, to \$6.1 million in the first half of 2009 compared to \$12.6 million in the first half of 2008. Sales of hardware are largely dependent upon customer-specific desires, which fluctuate from year to year. Reimbursements for out-of-pocket expenses are required to be classified as revenue and are included in hardware and other revenue. For the six months ended June 30, 2009 and 2008, reimbursements by customers for out-of-pocket expenses were approximately \$3.8 million and \$6.4 million, respectively.

**Cost of Revenue**

	Six Months Ended June 30,		
			% Change
	2009	2008	2009 to
	(in thousands)		2008
Cost of license	\$ 2,459	\$ 2,785	-12%
Cost of services	44,476	61,136	-27%
Cost of hardware and other	8,298	15,583	-47%
Total cost of revenue	\$ 55,233	\$ 79,504	-31%

**Cost of license.** Cost of license consists of the costs associated with software reproduction; hosting services; funded development; media, packaging and delivery, documentation and other related costs; and royalties on third-party software sold with or as part of our products. Cost of license decreased 12%, or \$0.3 million, in the first half of 2009 compared to the first half of 2008, primarily due to a 76% decrease in license revenue.

**Cost of services.** Cost of services consists primarily of salaries and other personnel-related expenses of employees dedicated to professional and technical services and customer support services. Cost of services decreased \$16.7 million, or 27%, in the six months ended June 30, 2009 compared to the same period in the prior year principally due to (i) a \$10.8 million decrease in employee-related costs such as salary, benefits and payroll taxes resulting from an 15% decrease in the number of professional services personnel, due to headcount reduction initiatives in fourth quarter 2008 and second quarter 2009 to align capacity with demand, (ii) a \$3.5 million decrease in bonus expense caused by headcount reductions as well as lower achievement of performance based compensation, and (iii) a \$2.0 million decrease in travel expenses due to fewer services projects.

Services gross margin increased 5.7 percentage points to 55.6% in the first half of 2009 from 49.9% in the first half of 2008. The increase in services margin is attributable to the decrease in professional services costs in the current year driven by our actions to lower headcount to align capacity with demand.

**Cost of hardware and other.** Cost of hardware decreased \$4.9 million to approximately \$4.5 million in the first half of 2009 from approximately \$9.4 million in the first half of 2008. Cost of hardware and other includes out-of-pocket expenses to be reimbursed by customers of approximately \$3.8 million and \$6.2 million for the six months ended June 30, 2009 and 2008, respectively.

**Operating Expenses**



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	Six Months Ended June 30,		% Change
	2009	2008	2009 to
	(in thousands)		2008
Research and development	\$ 19,415	\$ 24,365	-20%
Sales and marketing	19,105	28,248	-32%
General and administrative	15,213	17,938	-15%
Depreciation and amortization	6,175	6,406	-4%
Restructuring charge	3,892		100%
Operating expenses	\$ 63,800	\$ 76,957	-17%

**Research and development.** Research and development expenses primarily consist of salaries and other personnel-related costs for personnel involved in our research and development activities. The decrease of \$5.0 million, or 20%, in research and development expenses for the first half of 2009 compared to the same period of the prior year was mainly attributable to (i) a decrease in employee-related costs such as salary, benefits and payroll taxes of \$2.8 million resulting from lower headcount and other expense reduction initiatives, (ii) bonus expense of \$1.5 million caused by the decline in total revenue and earnings per share, and (iii) reduction in travel expense of \$0.4 million.

**Sales and marketing.** Sales and marketing expenses include salaries, commissions, travel and other personnel-related costs and the costs of our marketing and alliance programs and related activities. The \$9.1 million, or 32%, decrease in sales and marketing expenses in the six months ended June 30, 2009 compared to the same period of 2008 was attributable to a reduction in headcount of 21% and decline in license revenue which resulted in: (i) a \$4.0 million decrease in employee-related costs such as salary, benefits, payroll taxes and stock compensation expense, (ii) a \$3.9 million decrease in bonus and commission expense, and (iii) a \$1.6 million decrease in travel expenses. These decreases were partially off-set by an increase of \$0.6 million in marketing programs.

**General and administrative.** General and administrative expenses consist primarily of salaries and other personnel-related costs of executive, financial, human resources, information technology and administrative personnel, as well as facilities, legal, insurance, accounting and other administrative expenses. The net decrease of \$2.7 million, or 15%, in general and administrative expenses during the six months ended June 30, 2009 compared to the six months ended June 30, 2008 was primarily attributable to a \$0.8 million decrease in employee-related expense and a \$0.9 million reduction in bonus expense due to the decline in total revenue and earnings per share.

**Depreciation and amortization.** Depreciation expense amounted to \$4.7 million for both of the six months ended June 30, 2009 and 2008. Amortization of intangibles associated with various acquisitions totaled \$1.5 million and \$1.7 million for the six months ended June 30, 2009 and 2008, respectively.

**Restructuring charge.** During the second quarter of 2009, we committed to and initiated plans to reduce our workforce by approximately 140 positions to realign our capacity with demand forecasts. As a result of this action, we recorded employee severance expense and outplacement service fees of \$3.8 million related to the restructuring action taken in the second quarter of 2009. We also recorded additional employee severance expense of \$63,000 in the first quarter of 2009 related to the restructuring action taken in the fourth quarter of 2008.

Operating Income

**Income from Operations.** Operating income for the six months ended June 30, 2009 decreased by \$22.2 million based on a consolidated revenue decline of 33%. Operating margins were 0.2% and 12.5% for the first half of 2009 and 2008, respectively. Operating income in the Americas, EMEA and APAC segments for the six months ended June 30, 2009 decreased by \$17.9 million \$2.4 million and \$1.9 million, respectively.

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	Six Months Ended June 30,		% Change
	2009	2008	2009 to 2008
	(in thousands)		
Other (expense) income, net	\$ (637)	\$ 2,951	-122%
Income tax (benefit) provision	(142)	8,793	-102%

**Other (expense) income, net.** Other (expense) income, net principally includes interest income and foreign currency gains and losses. Other expense for the six months ended June 30, 2009 was \$0.6 million compared to income of \$3.0 million for the same period in the prior year, which is principally attributable to fluctuation of the U.S. dollar relative to other foreign currencies and the decrease in interest income. We recorded a net foreign currency loss of \$0.9 million and a net foreign currency gain of \$1.9 million during the six months ended June 30, 2009 and 2008, respectively. The foreign currency gains and losses resulted from gains or losses on intercompany balances with subsidiaries and foreign-denominated accounts receivable due to the fluctuation of the U.S. dollar relative to other foreign currencies, primarily the Indian Rupee, the British Pound, the Euro and the Australian dollar. Interest income decreased \$0.8 million to \$0.2 million for the six months ended June 30, 2009 from \$1.0 million for the six months ended June 30, 2008 based on lower average investment balances in the first half of 2009. The weighted-average interest rate earned on cash and investment securities during the six month periods ended June 30, 2009 and 2008 was approximately 25 basis points and 130 basis points, respectively.

**Income tax (benefit) provision.** Our effective income tax rates were 32.5% and 34.75% in the six months ended June 30, 2009 and 2008, respectively. The reduction in the effective income tax rate was a result of the mix of foreign profits compared to U.S. profits and a tax benefit associated with a foreign exchange loss on the repatriation of cash from a foreign subsidiary.

**Liquidity and Capital Resources**

As of June 30, 2009, we had approximately \$90.8 million in cash, cash equivalents and investments, as compared to \$88.7 million at December 31, 2008. Our main source of operating cash flows is cash collections from our customers which we use to fund our operations. Our primary use of cash is to support continuing operations and capital expenditure requirements and to repurchase our common stock in the open market.

Our operating activities generated cash flow of approximately \$23.5 million for the six months ended June 30, 2009 and \$27.1 million for the six months ended June 30, 2008. The decrease in cash flow from operations was attributable to a decrease in net income which was partially offset by strong accounts receivable collections. Days sales outstanding ( DSO ) were 61 days at June 30, 2009 and 78 days at December 31, 2008.

Our investing activities used cash of approximately \$1.3 million for the six months ended June 30, 2009 and provided cash of \$16.0 million for the six months ended June 30, 2008. The use of cash for investing activities for the six months ended June 30, 2009 was for capital expenditures of approximately \$1.4 million. The sources of cash provided by investing activities for the six months ended June 30, 2008 was net maturities of investments of approximately \$21.5 million offset by capital expenditures of approximately \$5.5 million.

Our financing activities used cash of approximately \$20.0 million and \$10.1 million for the six months ended June 30, 2009 and 2008, respectively. The principal use of cash for financing activities for the six months ended June 30, 2009 was to purchase approximately \$20.5 million of our common stock including \$0.5 million for shares withheld for taxes due upon vesting of restricted stock, partially offset by proceeds generated from options exercised of \$0.5 million. The principal use of cash for financing activities for the six months ended June 30, 2008 was to purchase approximately \$12.4 million of our common stock, partially offset by proceeds generated from options exercised of \$2.2 million.

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Periodically, opportunities may arise to grow our business through the acquisition of complementary and synergistic companies, products and technologies. Any material acquisition could result in a decrease to our working capital depending on the amount, timing and nature of the consideration to be paid. We believe that existing balances of cash and investments will be sufficient to meet our working capital and capital expenditure needs at least for the next twelve months, although there can be no assurance that this will be the case.

### **Critical Accounting Policies and Estimates**

The SEC defines critical accounting policies as those that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements and related footnotes. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions were made. To the extent there are material differences between those estimates, judgments or assumptions and actual results, our financial statements will be affected. The accounting policies that we believe reflect our more significant estimates, judgments and assumptions, which we have identified as our critical accounting policies are: Revenue Recognition, Allowance for Doubtful Accounts, Valuation of Goodwill, Accounting for Income Taxes, Stock-based Compensation, and Business Combinations.

### **Revenue Recognition**

Our revenue consists of revenues from the licensing and hosting of software, fees from implementation and training services (collectively, professional services), plus customer support and software enhancements, and sales of hardware and other revenues (other revenues consists of reimbursements of out-of-pocket expenses incurred by professional services). All revenue is recognized net of any related sales taxes.

We recognize license revenue under Statement of Position No. 97-2, Software Revenue Recognition (SOP 97-2), as amended by Statement of Position No. 98-9, Software Revenue Recognition, With Respect to Certain Transactions (SOP 98-9), specifically when the following criteria are met: (1) a signed contract is obtained; (2) delivery of the product has occurred; (3) the license fee is fixed or determinable; and (4) collectibility is probable. SOP 98-9 requires recognition of revenue using the residual method when (a) there is vendor-specific objective evidence of the fair values of all undelivered elements in a multiple-element arrangement that is not accounted for using long-term contract accounting; (b) vendor-specific objective evidence of fair value does not exist for one or more of the delivered elements in the arrangement; and (c) all revenue-recognition criteria in SOP 97-2, other than the requirement for vendor-specific objective evidence of the fair value of each delivered element of the arrangement are satisfied. For those contracts that contain significant customization or modifications, license revenue is recognized using contract accounting.

The accounting related to license revenue recognition in the software industry is complex and affected by interpretations of the rules which are subject to change. Our judgment is required in assessing the probability of collection, which is generally based on evaluation of customer-specific information, historical collection experience and economic market conditions. If market conditions decline, or if the financial condition of our customers deteriorates, we may be unable to determine that collectibility is probable, and we could be required to defer the recognition of revenue until we receive customer payments.

Our services revenue consists of fees generated from professional services, customer support services and software enhancements related to our software products. Fees from professional services performed by us are generally billed on an hourly basis, and revenue is recognized as the services are performed. Professional services are sometimes rendered under agreements in which billings are limited to contractual maximums or based upon a fixed-fee for portions of or all of the engagement. Revenue related to fixed-fee based contracts is recognized on a proportional performance basis based on the hours incurred on discrete projects within an overall services arrangement. Project losses are provided for in their entirety in the period in which they become known. Revenue



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related to customer support services and software enhancements is generally paid in advance and recognized ratably over the term of the agreement, typically 12 months.

Hardware and other revenue is generated from the resale of a variety of hardware products, developed and manufactured by third parties that are integrated with and complementary to our software solutions. As part of a complete solution, our customers periodically purchase hardware from us in conjunction with the licensing of software. These products include computer hardware, radio frequency terminal networks, radio frequency identification (RFID) chip readers, bar code printers and scanners and other peripherals. Hardware revenue is recognized upon shipment to the customer when title passes. We generally purchase hardware from our vendors only after receiving an order from a customer. As a result, we do not maintain significant hardware inventory.

In accordance with the Financial Accounting Standard Board's (FASB's) Emerging Issues Task Force (EITF) Issue No. 01-14 (EITF No. 01-14), Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred, we recognize amounts associated with reimbursements from customers for out-of-pocket expenses as revenue. Such amounts have been included in hardware and other revenue.

### **Allowance for Doubtful Accounts**

We continuously monitor collections and payments from our customers and maintain an allowance for estimated credits based upon our historical experience and any specific customer collection issues that we have identified. Additions to the allowance for doubtful accounts generally represent a sales allowance on services revenue, which are recorded to operations as a reduction to services revenue. While such credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past.

### **Valuation of Goodwill**

In accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, we do not amortize goodwill and other intangible assets with indefinite lives. Our goodwill is subject to an annual impairment test, which requires us to estimate the fair value of our business compared to the carrying value. The impairment reviews require an analysis of future projections and assumptions about our operating performance. Should such review indicate the assets are impaired, we would record an expense for the impaired assets.

Annual tests or other future events could cause us to conclude that impairment indicators exist and that our goodwill is impaired. For example, if we had reason to believe that our recorded goodwill had become impaired due to decreases in the fair market value of the underlying business, we would have to take a charge to income for that portion of goodwill that we believed was impaired. Any resulting impairment loss could have a material adverse impact on our financial position and results of operations.

### **Accounting for Income Taxes**

We provide for the effect of income taxes on our financial position and results of operations in accordance with SFAS No. 109, Accounting for Income Taxes. Under this accounting pronouncement, income tax expense is recognized for the amount of income taxes payable or refundable for the current year and for the change in net deferred tax assets or liabilities resulting from events that are recorded for financial reporting purposes in a different reporting period than recorded in the tax return. Management must make significant assumptions, judgments and estimates to determine our current provision for income taxes and also our deferred tax assets and liabilities and any valuation allowance to be recorded against our net deferred tax asset.

Our judgments, assumptions and estimates relative to the current provision for income tax take into account current tax laws, our interpretation of current tax laws, allowable deductions, projected tax credits and possible outcomes of current and future audits conducted by foreign and domestic tax authorities. We do not recognize a tax benefit unless we conclude that it is more likely than not that the benefit will be sustained on audit by the taxing authority based solely on the technical merits of the associated tax position. If the recognition threshold is met, we recognize a tax benefit measured at the largest amount of the tax benefit that, in our judgment,

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is greater than 50 percent likely to be realized. Changes in tax law or our interpretation of tax laws and the resolution of current and future tax audits could significantly impact the amounts provided for income taxes in our financial position and results of operations. Our assumptions, judgments and estimates relative to the value of our net deferred tax asset take into account predictions of the amount and category of future taxable income. Actual operating results and the underlying amount and category of income in future years could render our current assumptions, judgments and estimates of recoverable net deferred taxes inaccurate, thus materially impacting our financial position and results of operations.

### **Stock-Based Compensation**

We estimate the fair value of options granted on the date of grant using the Black-Scholes option pricing model. We base our estimate of fair value on certain assumptions, including the expected term of the option, the expected volatility of the price of the underlying share for the expected term of the option, the expected dividends on the underlying share for the expected term, and the risk-free interest rate for the expected term of the option. We base our expected volatilities on a combination of the historical volatility of our stock and the implied volatility of our publicly traded stock options. Due to the limited trading volume of our publicly traded options, we place a greater emphasis on historical volatility. We also use historical data to estimate the term that options are expected to be outstanding and the forfeiture rate of options granted. We base the risk-free interest rate on the rate for U.S. Treasury zero-coupon issues with a term approximating the expected term of the option.

We recognize compensation cost for awards with graded vesting using the straight-line attribution method, with the amount of compensation cost recognized at any date at least equal to the portion of the grant-date value of the award that is vested at that date. Compensation cost recognized in any period is affected by the number of stock options granted and the vesting period (which generally is four years), as well as the underlying assumptions used in estimating the fair value on the date of grant. This estimate is dependent upon a number of variables such as the number of options awarded, cancelled or exercised and fluctuations in our share price during the year.

### **Business Combinations**

In accordance with business combination accounting, we allocate the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets.

Management makes estimates of fair value based upon assumptions believed to be reasonable. These estimates are based on historical experience and information obtained from the management of the acquired companies and are inherently uncertain. Critical estimates in valuing certain of the intangible assets include but are not limited to future expected cash flows from customer contracts and acquired developed technologies; the acquired company's brand awareness and market position, as well as assumptions about the period of time the acquired brand will continue to be used in the combined company's product portfolio; and discount rates. Unanticipated events and circumstances may occur which may affect the accuracy or validity of such assumptions, estimates or actual results.

In connection with purchase price allocations, we estimate the fair value of the support obligations assumed in connection with acquisitions. The estimated fair value of the support obligations is determined utilizing a cost build-up approach. The cost build-up approach determines fair value by estimating the costs related to fulfilling the obligations plus a normal profit margin. The estimated costs to fulfill the support obligations are based on the historical direct costs related to providing the support services and to correcting any errors in the software products acquired. We do not include any costs associated with selling efforts, available upgrades, or research and development or the related fulfillment margins on these costs. Profit associated with selling effort is excluded because the acquired entities would have concluded the selling effort on the support contracts prior to the acquisition date. The estimated research and development costs are not included in the fair value determination, as these costs are not deemed to represent a legal obligation at the time of acquisition. The sum of the costs and operating profit approximates, in theory, the amount that we would be required to pay a third party to assume the support obligation.

**Table of Contents****Item 3. Quantitative and Qualitative Disclosures About Market Risk.****Foreign Business**

Our international business is subject to risks typical of an international business, including, but not limited to: differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions, and foreign exchange rate volatility. Our international operations currently include business activity out of offices in the United Kingdom, the Netherlands, Germany, France, Australia, Japan, China, Singapore and India. When the U.S. dollar strengthens against a foreign currency, the value of our sales and expenses in that currency converted to U.S. dollars decreases. When the U.S. dollar weakens, the value of our sales and expenses in that currency converted to U.S. dollars increases. We recorded a foreign exchange rate loss of \$0.9 million and a foreign exchange rate gain of \$1.9 million for the six months ended June 30, 2009 and 2008, respectively. Foreign exchange rate transaction gains and losses are classified in Other (expense) income, net in our Condensed Consolidated Statements of Operations. A fluctuation of 10% in the period end exchange rates at June 30, 2009 relative to the U.S. dollar would result in approximately a \$0.2 million change in the reported foreign currency loss for the six months ended June 30, 2009.

**Interest Rates**

We invest our cash in a variety of financial instruments, including taxable and tax-advantaged floating rate and fixed rate obligations of corporations, municipalities, and local, state and national governmental entities and agencies. These investments are denominated in U.S. dollars. Cash balances in foreign currencies overseas are derived from operations. At June 30, 2009, our cash and investments balance totaled \$90.8 million, of which \$88.0 million is 100% liquid. The remaining investments totaling \$2.8 million are invested in auction rate securities.

Our investments in marketable securities consist principally of debt instruments of state and local government agencies and U.S. corporate commercial paper. These investments are categorized as available-for-sale securities and recorded at fair market value, as defined by SFAS No. 157. At June 30, 2009, we hold \$6.5 million of investments in auction rate securities, which have original maturities greater than one year, but which have auctions to reset the yield every 7 to 35 days. The fair values of these auction rate securities considered the credit worthiness of the counterparty, estimates of interest rates, expected holding periods, and the timing and value of expected future cash flows. Changes in the assumptions of our valuation could have a significant impact on the value of these securities, which may cause losses and affect our liquidity specifically for these securities potentially requiring us to record an impairment charge on these investments in the future. Certain auctions failed during 2008 and the underlying securities were not called by the issuer. During 2008, we recorded an other-than-temporary impairment charge of \$3.5 million on one of these investments. During 2009 and 2008, we also recorded temporary impairment charges of \$0.1 million each period on these investments, resulting in \$2.8 million in total auction rate securities investments on the balance sheet at June 30, 2009. We reduced the carrying value to zero due to credit downgrades of the underlying issuer and the bond insurer as well as increasing publicly reported exposure to bankruptcy risk by the issuer. The remaining \$2.8 million of auction rate securities held by us at June 30, 2009 were issued by state or regional educational loan authorities and are collateralized by federally insured student loans. These investments have high credit ratings, and we intend and have the ability to hold these securities until maturity or until called. We will continue to evaluate the fair value of our investments in auction rate securities each reporting period for a potential other-than-temporary impairment.

Investments in both fixed rate and floating rate interest-earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates, or we may suffer losses in principal if forced to sell securities that have seen a decline in market value due to changes in interest rates. The weighted-average interest rate of return on cash and investment securities was less than 1% for the three and six months ended June 30, 2009 as compared to less than 1% and 1% for the three and six months ended June 30, 2008, respectively. The fair value of cash equivalents and investments held at June 30, 2009 was \$60.0 million. Based on

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the average investments outstanding during the three months ended June 30, 2009, an increases or decreases of 25 basis points would result in nominal increases or decreases to interest income.

**Item 4. Controls and Procedures.**

We maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures. Based on the evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective to provide reasonable assurance that the objectives of disclosure controls and procedures are met.

**Change in Internal Control over Financial Reporting**

During the six months ended June 30, 2009, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, including any corrective actions with regard to material weaknesses.

**PART II  
OTHER INFORMATION**

**Item 1. Legal Proceedings.**

From time to time, we are party to various legal proceedings arising in the ordinary course of business. The Company is not currently a party to any other legal proceeding the result of which it believes could have a material adverse impact upon its business, financial position or results of operations.

Many of our installations involve products that are critical to the operations of our clients' businesses. Any failure in our products could result in a claim for substantial damages against us, regardless of our responsibility for such failure. Although we attempt to limit contractually our liability for damages arising from product failures or negligent acts or omissions, there can be no assurance the limitations of liability set forth in our contracts will be enforceable in all instances.

**Item 1A. Risk Factors.**

In addition to the other information set forth in this report, you should carefully consider the risk factors disclosed in Item 1A, Risk Factors, of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

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

The following table provides information regarding our common stock repurchases under our publicly-announced repurchase program and shares withheld for taxes due upon vesting of restricted stock for the quarter ended June 30, 2009. All repurchases related to the repurchase program were made on the open market.

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<b>Period</b>	<b>Total Number of Shares Purchased<sup>(a)</sup></b>	<b>Average Price Paid per Share<sup>(b)</sup></b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs</b>
April 1 - April 30, 2009	66,796	\$ 15.96	64,156	\$ 23,933,839
May 1 - May 31, 2009	352,271	16.93	352,172	17,971,072
June 1 - June 30, 2009	161,278	18.77	161,278	14,943,949
Total	580,345	\$ 17.33	577,606	\$ 14,943,949

(a) Includes 2,640 shares and 99 shares withheld for taxes due upon vesting of restricted stock during April and May, respectively.

(b) The average price paid per share for shares withheld for taxes due upon vesting of restricted stock were \$15.14 and \$16.66 in April and May, respectively.

**Item 3. Defaults Upon Senior Securities.**

No events occurred during the quarter covered by the report that would require a response to this item.

**Item 4. Submission of Matters to a Vote of Security Holders.**

Our Annual Meeting of Shareholders (the Annual Meeting ) was held on May 29, 2009. There were present at the Annual Meeting, in person or by proxy, holders of 21,659,328 shares (or 94%) of the common stock entitled to vote.

The following directors were elected to hold office for a term at the Annual Meeting disclosed below or until their successors are elected and qualified, with the vote for the directors being reflected below:

<b>Name</b>	<b>Term Expires</b>	<b>Vote For</b>	<b>Vote Withheld</b>
Peter J. Kight	2012	20,070,333	1,588,995

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Deepak Raghavan	2012	21,033,493	625,835
Peter F. Sinisgalli	2012	21,030,810	628,518

The affirmative vote of the holders of a plurality of the outstanding shares of common stock represented at the Annual Meeting was required to elect the directors.

Continuing Class III Directors serving until the 2010 Annual Meeting of Shareholders are John J. Huntz, Jr., Dan J. Lautenbach and Thomas E. Noonan.

Continuing Class I Directors serving until the 2011 Annual Meeting of Shareholders are Brian J. Cassidy and Paul R. Goodwin.

The appointment of Ernst & Young LLP as the independent registered public accounting firm to audit our consolidated financial statements and our internal controls over financial reporting for the year ending December 31, 2009, was ratified with 21,617,926 affirmative votes cast, 35,965 negative votes cast and 5,437 abstentions. The affirmative vote of the holders of a majority of the outstanding shares of common stock represented at the Annual Meeting was required to ratify the appointment of Ernst & Young LLP.

The Amendment to Manhattan Associates, Inc. 2007 Stock Incentive Plan was approved with 14,864,966 affirmative votes cast, 5,339,226 negative votes cast, 163,030 abstentions, and 1,292,106 broker non-votes. The affirmative vote of the holders of a majority of the outstanding shares of common stock represented at the Annual Meeting was required to approve the plan.

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**Item 5. Other Information.**

No events occurred during the quarter covered by the report that would require a response to this item.

**Item 6. Exhibits.**

- Exhibit 31.1 Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- Exhibit 31.2 Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- Exhibit 32\* Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- Exhibit 10.1 Written Summary of Manhattan Associates, Inc. 2009 Annual Cash Incentive Plan (Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 000-23999), filed on May 19, 2009).
- Exhibit 10.2 Written Summary of Manhattan Associates, Inc. 2009 Supplemental Cash Incentive Plan (Incorporated by reference to Exhibit 10.2 to the Company's Form 8-K (File No. 000-23999), filed on May 19, 2009).

\* In accordance with Item 601(b)(32)(ii) of the SEC's Regulation S-K, this Exhibit is hereby furnished to the SEC as an accompanying document and is not deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that Section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933.

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**SIGNATURES**

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

**MANHATTAN ASSOCIATES, INC.**

Date: July 31, 2009

/s/ Peter F. Sinisgalli  
*Peter F. Sinisgalli*  
Chief Executive Officer, President and  
Director (Principal Executive Officer)

Date: July 31, 2009

/s/ Dennis B. Story  
*Dennis B. Story*  
Senior Vice President, Chief Financial  
Officer (Principal Financial and  
Accounting Officer)

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**EXHIBIT INDEX**

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