

MANHATTAN ASSOCIATES INC

Form 10-Q

October 29, 2010

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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 September 30, 2010**

**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.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(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 October 27, 2010, the latest practicable date, is as follows: 21,912,209 shares of common stock, \$0.01 par value per share.



MANHATTAN ASSOCIATES, INC.  
FORM 10-Q  
Quarter Ended September 30, 2010  
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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)**

	September 30, 2010 (unaudited)	December 31, 2009
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 105,327	\$ 120,217
Short term investments	8,916	
Accounts receivable, net of allowance of \$6,370 and \$4,943 in 2010 and 2009, respectively	48,587	37,945
Deferred income taxes	5,426	5,745
Income taxes receivable	180	
Prepaid expenses and other current assets	6,385	4,847
Total current assets	174,821	168,754
Property and equipment, net	15,033	15,759
Long-term investments	2,432	2,797
Goodwill, net	62,270	62,280
Acquisition-related intangible assets, net	1,625	3,473
Deferred income taxes	10,761	9,826
Other assets	2,607	1,822
Total assets	\$ 269,549	\$ 264,711
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 7,294	\$ 4,434
Accrued compensation and benefits	19,701	12,855
Accrued and other liabilities	14,590	15,430
Deferred revenue	40,729	37,436
Income taxes payable		796
Total current liabilities	82,314	70,951
Other non-current liabilities	10,434	10,395
Shareholders equity:		
Preferred stock, no par value; 20,000,000 shares authorized, no shares issued or outstanding in 2010 or 2009		
Common stock, \$.01 par value; 100,000,000 shares authorized; 21,636,650 and 22,467,123 shares issued and outstanding at	216	225

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September 30, 2010 and December 31, 2009, respectively

Additional paid-in capital			2,892
Retained earnings	<b>177,707</b>		182,387
Accumulated other comprehensive loss	<b>(1,122)</b>		(2,139)
Total shareholders' equity	<b>176,801</b>		183,365
Total liabilities and shareholders' equity	<b>\$ 269,549</b>	<b>\$</b>	264,711

*See accompanying Notes to Condensed Consolidated Financial Statements.*

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Table of Contents**Item 1. Financial Statements** (continued)**MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(unaudited)		(unaudited)	
Revenue:				
Software license	\$ 12,092	\$ 11,360	\$ 41,784	\$ 20,408
Services	53,486	46,917	161,727	147,182
Hardware and other	8,436	7,017	22,093	16,938
Total revenue	74,014	65,294	225,604	184,528
Costs and expenses:				
Cost of license	1,471	1,162	4,631	3,621
Cost of services	24,661	19,697	73,631	64,173
Cost of hardware and other	7,092	5,846	18,366	14,144
Research and development	9,866	8,781	30,640	28,196
Sales and marketing	10,329	8,626	32,870	27,731
General and administrative	8,721	7,462	25,359	22,675
Depreciation and amortization	2,262	2,665	6,995	8,840
Restructuring charge				3,892
Total costs and expenses	64,402	54,239	192,492	173,272
Operating income	9,612	11,055	33,112	11,256
Other (loss) income, net	(188)	255	(382)	(382)
Income before income taxes	9,424	11,310	32,730	10,874
Income tax provision	3,192	327	11,114	185
Net income	\$ 6,232	\$ 10,983	\$ 21,616	\$ 10,689
Basic earnings per share	\$ 0.29	\$ 0.50	\$ 1.00	\$ 0.48
Diluted earnings per share	\$ 0.28	\$ 0.50	\$ 0.96	\$ 0.47
Weighted average number of shares:				
Basic	21,248	22,116	21,638	22,483
Diluted	22,051	22,175	22,456	22,529

*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)

	Nine Months Ended September 30,	
	2010	2009
	(unaudited)	
<b>Operating activities:</b>		
Net income	\$ 21,616	\$ 10,689
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,995	8,840
Stock compensation	7,707	6,312
(Gain) loss on disposal of equipment	(2)	125
Tax benefit (deficiency) of stock awards exercised/vested	1,277	(1,080)
Excess tax benefits from stock based compensation	(354)	(29)
Deferred income taxes	(529)	412
Unrealized foreign currency loss	343	585
Changes in operating assets and liabilities:		
Accounts receivable, net	(10,624)	22,789
Other assets	(2,236)	2,422
Accounts payable, accrued and other liabilities	8,619	(9,959)
Income taxes	(748)	(3,081)
Deferred revenue	3,297	898
Net cash provided by operating activities	35,361	38,923
<b>Investing activities:</b>		
Purchase of property and equipment	(4,331)	(1,726)
Net (purchases) maturities of investments	(8,439)	88
Net cash used in investing activities	(12,770)	(1,638)
<b>Financing activities:</b>		
Purchase of common stock	(56,562)	(20,590)
Proceeds from issuance of common stock from options exercised	18,381	604
Excess tax benefits from stock based compensation	354	29
Net cash used in financing activities	(37,827)	(19,957)
Foreign currency impact on cash	346	155
Net change in cash and cash equivalents	(14,890)	17,483



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Cash and cash equivalents at beginning of period	<b>120,217</b>	85,739
Cash and cash equivalents at end of period	<b>\$ 105,327</b>	\$ 103,222

*See accompanying Notes to Condensed Consolidated Financial Statements.*

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**MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements**  
**September 30, 2010**  
**(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 September 30, 2010, the results of operations for the three and nine months ended September 30, 2010 and 2009 and cash flows for the nine months ended September 30, 2010 and 2009. The results for the three and nine months ended September 30, 2010 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, 2009.

**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 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. Revenue recognition for software with multiple-element arrangements 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 other applicable revenue-recognition criteria for software revenue recognition, 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 Company allocates revenue to customer support and software enhancements and any other undelivered elements of the arrangement based on vendor specific objective evidence, or VSOE, of fair value of each element and such amounts are deferred until the applicable delivery criteria and other revenue recognition criteria have been met. The balance of the revenue, net of any discounts inherent in the arrangement, is recognized at the outset of the arrangement using the residual method as the product licenses are delivered. If the Company cannot objectively determine the fair value of each undelivered element based on the VSOE of fair value, the Company defers revenue recognition until all elements are delivered, all services have been performed, or until fair value can be objectively determined. The Company must apply judgment in determining all elements of the arrangement and in determining the VSOE of fair value for each element, considering the price charged for each product on a stand-alone basis or applicable renewal rates.

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 conditions of customers deteriorate, 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

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**Notes to Condensed Consolidated Financial Statements (continued)**  
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**(unaudited)**

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 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 other presentation matters within the Revenue Recognition Topic of the Financial Accounting Standards Board's (FASB) Accounting Standards Codification, the Company recognizes amounts associated with reimbursements from customers for out-of-pocket expenses as revenue. Such amounts have been classified as hardware and other revenue. The total amount of expense reimbursement recorded to revenue was \$2.7 million and \$6.8 million for the three and nine months ended September 30, 2010, respectively, and \$1.9 million and \$5.8 million for the three and nine months ended September 30, 2009, respectively.

**4. Fair Value Measurement**

The Company measures its investments based on 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 affected 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 are categorized as available-for-sale securities and recorded at fair market value. 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.

At September 30, 2010, the Company's cash, cash equivalent and short-term investments balance was \$73.8 million, \$31.5 million and \$8.9 million, respectively. Cash equivalents and short-term investments primarily consist of highly liquid money market funds and certificates of deposit.

The Company invested \$6.5 million in auction rate securities with original maturities ranging from 2025 to 2040, but which had auctions to reset the yield every 7 to 35 days. Certain auctions failed during 2008 and the underlying securities were not redeemed by the issuer. During 2008, the Company recorded an other-than-temporary impairment charge of \$3.5 million on one of these investments. The Company 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

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

risk by the issuer. During 2010, the Company sold \$0.2 million of its auction rate securities at par value. From 2008 to 2010, the Company also recorded temporary impairment charges of \$0.4 million on these investments, of which \$0.2 million was recorded during the nine months ended September 30, 2010, resulting in \$2.4 million in total auction rate securities investments on the balance sheet at September 30, 2010. The unrealized loss is included as a separate component of shareholders' equity and in total comprehensive income. The \$2.4 million of auction rate securities held by the Company at September 30, 2010 were issued by state or regional educational loan authorities and are collateralized by federally insured student loans. These investments consequently have high credit ratings, and the Company intends and has the ability to hold these securities until maturity or until redeemed. In determining the fair values of these 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. Changes in the assumptions underlying the Company's valuation could have a significant impact on the value of these securities, which may cause losses and potentially require the Company to record additional other-than-temporary impairment charges on these investments in the future. 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 Company's auction rate securities are classified in the fair value hierarchy as Level 3 as their valuation technique includes significant unobservable inputs. 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 for all other available-for-sale securities. The Company has no investments classified at Level 2.

The following table set forth the assets carried at fair value measured on a recurring basis at September 30, 2010 (in thousands):

	<b>Fair Value Measurements at September 30, 2010</b>			<b>Total</b>
	<b>Quoted Prices (Level 1)</b>	<b>Using Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	
Money market funds	\$ 27,807	\$	\$	\$ 27,807
Auction rate securities			2,432	2,432
Total available-for-sale securities	\$ 27,807	\$	\$ 2,432	\$ 30,239

**5. Stock-Based Compensation**

In January 2010 the Compensation Committee approved certain changes to the Company's historical equity incentive grant practices, with the objective to optimize its performance and retention strength while managing program share usage to improve long-term equity overhang. The changes eliminate stock option awards in favor of 100% restricted stock grants, which for the 2010 awards contain vesting provisions that are 50% service-based and 50% performance-based for employee awards and 100% service based for non-employee members of the Board of Directors (Outside Directors). The equity compensation program change for employees was effective January 2010 and for Outside Directors was effective May 2010. The employee awards have a four year vesting period, with the performance portion tied to annual revenue and earnings per share targets. The awards to Outside Directors have a one year vesting period.

During the three months ended September 30, 2010 and 2009, the Company recorded stock option expense of \$0.8 million and \$1.4 million, respectively. During the nine months ended September 30, 2010 and 2009, the

Company granted options to purchase 17,500 shares and 590,575 shares of common stock, respectively. The Company recorded stock option expense of \$2.9 million and \$3.8 million during the nine months ended September 30, 2010 and 2009, respectively.

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**Notes to Condensed Consolidated Financial Statements (continued)**  
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**(unaudited)**

A summary of changes in outstanding options for the nine months ended September 30, 2010 is as follows:

	<b>Number of Options</b>
<b>Outstanding at December 31, 2009</b>	5,768,961
Granted	17,500
Exercised	(837,947)
Forfeited and expired	(75,287)
<b>Outstanding at September 30, 2010</b>	<b>4,873,227</b>

The Company also granted 14,524 shares and 5,831 shares of restricted stock during the three months ended September 30, 2010 and 2009, respectively. The Company recorded restricted stock expense of \$1.8 million and \$0.9 million during the three months ended September 30, 2010 and 2009, respectively. During the nine months ended September 30, 2010 and 2009, the Company granted 431,952 shares and 195,083 shares of restricted stock, respectively. The Company recorded restricted stock expense of \$4.8 million and \$2.5 million during the nine months ended September 30, 2010 and 2009, respectively.

A summary of changes in unvested shares of restricted stock for the nine months ended September 30, 2010 is as follows:

	<b>Number of Shares</b>
<b>Outstanding at December 31, 2009</b>	388,560
Granted	431,952
Vested	(133,079)
Forfeited	(18,109)
<b>Outstanding at September 30, 2010</b>	<b>669,324</b>

**6. Income Taxes**

The Company's effective tax rate was 34.0% and 1.7% for the nine months ended September 30, 2010 and 2009, respectively. The effective tax rate in the first nine months of 2010 included a tax benefit from the disqualifying disposition of incentive stock options that were previously expensed and the reduction of U.S. federal income tax reserves that resulted from the expiration of tax audit statues for tax returns filed for 2006 and prior, partially offset by the establishment of income tax reserves for state audits. The effective tax rate in the first nine months of 2009 was favorably impacted by a net reduction of \$2.8 million of income tax reserves and related interest, partially offset by the establishment of \$0.8 million in tax reserves associated with the treatment of currency gains under our transfer pricing policy with one of our foreign subsidiaries.

As of the quarter ended September 30, 2010, the Company's unrecognized tax benefits totaled \$2.5 million, all of which, if recognized, would affect the effective tax rate.

The Company recognizes potential accrued interest and penalties to unrecognized tax benefits within its global operations in income tax expense. The Company's liability for the potential payment of interest and penalties totaled \$0.3 million at September 30, 2010.

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 income tax examinations



for the years before 2007 in U.S. Federal, substantially all state and local, and substantially all non-US jurisdictions. The Company experienced a net increase in unrecognized tax benefits of \$0.1 million during the quarter ended September 30, 2010. This resulted from a \$0.1 million benefit due to the expiration of statutes of limitations in multiple jurisdictions globally, offset by additional reserves of \$0.2 million, primarily related to state income tax audits. Further, the Company

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**MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES**  
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anticipates it is reasonably possible that unrecognized tax benefits will decrease by \$0.4 million within the next twelve months related primarily to jurisdictional taxable income amounts due to the expiration of statutes of limitation.

**7. Comprehensive Income**

Comprehensive income includes net 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 for the three and nine months ended September 30, 2010 (in thousands):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Net income	\$ 6,232	\$ 10,983	\$ 21,616	\$ 10,689
Other comprehensive income, net of tax:				
Foreign currency translation adjustment	1,219	138	1,124	694
Unrealized (loss) gain on investments		8	(107)	(78)
Other comprehensive income	1,219	146	1,017	616
Comprehensive income	\$ 7,451	\$ 11,129	\$ 22,633	\$ 11,305

**8. Net Earnings Per Share**

Basic net earnings per share is computed using net income divided by the weighted average number of shares of common stock outstanding ( Weighted Shares ) for the period presented. Diluted net earnings per share is computed using net 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 income and share amounts used in the computation of basic and diluted net earnings per common share (in thousands, except per share data):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Net income	\$ 6,232	\$ 10,983	\$ 21,616	\$ 10,689
<b>Earnings per share:</b>				
Basic	\$ 0.29	\$ 0.50	\$ 1.00	\$ 0.48
Effect of CESs	(0.01)		(0.04)	(0.01)
Diluted	\$ 0.28	\$ 0.50	\$ 0.96	\$ 0.47
<b>Weighted average number of shares:</b>				
Basic	21,248	22,116	21,638	22,483
Effect of CESs	803	59	818	46
Diluted	22,051	22,175	22,456	22,529

Weighted average shares issuable upon the exercise of stock options that were not included in the calculation of diluted earnings per share were 2,031,924 shares and 5,243,976 shares for the three months ended September 30, 2010 and 2009, respectively, and 2,060,724 shares and 5,266,526 shares for the nine months ended September 30, 2010 and 2009, respectively. Such shares were not included because they were anti-dilutive.

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**MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements (continued)**  
**September 30, 2010**  
**(unaudited)**

**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.

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 \$0.5 million and \$0.3 million for the three months ended September 30, 2010 and 2009, respectively, and \$1.9 million and \$1.0 million for the nine months ended September 30, 2010 and 2009, 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 income (loss) by reporting segment for the three and nine months ended September 30, 2010 and 2009 (in thousands):

	<b>Three Months Ended September 30,</b>							
	<b>2010</b>				<b>2009</b>			
	<b>Americas</b>	<b>EMEA</b>	<b>APAC</b>	<b>Consolidated</b>	<b>Americas</b>	<b>EMEA</b>	<b>APAC</b>	<b>Consolidated</b>
<b>Revenue:</b>								
Software license	<b>\$ 10,036</b>	<b>\$ 1,693</b>	<b>\$ 363</b>	<b>\$ 12,092</b>	\$ 10,342	\$ 464	\$ 554	\$ 11,360
Services	<b>44,369</b>	<b>6,344</b>	<b>2,773</b>	<b>53,486</b>	38,511	5,868	2,538	46,917
Hardware and other	<b>8,150</b>	<b>229</b>	<b>57</b>	<b>8,436</b>	6,773	195	49	7,017
Total revenue	<b>62,555</b>	<b>8,266</b>	<b>3,193</b>	<b>74,014</b>	55,626	6,527	3,141	65,294

**Costs and Expenses:**

Cost of revenue	<b>26,962</b>	<b>4,475</b>	<b>1,787</b>	<b>33,224</b>	20,790	4,117	1,798	26,705
Operating expenses	<b>25,325</b>	<b>2,505</b>	<b>1,086</b>	<b>28,916</b>	21,646	2,229	994	24,869
Depreciation and amortization	<b>2,147</b>	<b>72</b>	<b>43</b>	<b>2,262</b>	2,454	161	50	2,665
Total costs and expenses	<b>54,434</b>	<b>7,052</b>	<b>2,916</b>	<b>64,402</b>	44,890	6,507	2,842	54,239
Operating income	<b>\$ 8,121</b>	<b>\$ 1,214</b>	<b>\$ 277</b>	<b>\$ 9,612</b>	\$ 10,736	\$ 20	\$ 299	\$ 11,055

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**MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements (continued)**  
**September 30, 2010**  
**(unaudited)**

	Nine Months Ended September 30,				2009			
	Americas	EMEA	APAC	Consolidated	Americas	EMEA	APAC	Consolidated
<b>Revenue:</b>								
Software license	\$ 33,935	\$ 4,565	\$ 3,284	\$ 41,784	\$ 16,520	\$ 1,980	\$ 1,908	\$ 20,408
Services	134,103	19,611	8,013	161,727	121,070	18,823	7,289	147,182
Hardware and other	21,281	666	146	22,093	16,235	572	131	16,938
Total revenue	189,319	24,842	11,443	225,604	153,825	21,375	9,328	184,528
<b>Costs and Expenses:</b>								
Cost of revenue	76,981	13,605	6,042	96,628	63,637	12,201	6,100	81,938
Operating expenses	77,430	7,829	3,610	88,869	68,555	6,673	3,374	78,602
Depreciation and amortization	6,618	246	131	6,995	8,025	599	216	8,840
Restructuring charge					3,019	20	853	3,892
Total costs and expenses	161,029	21,680	9,783	192,492	143,236	19,493	10,543	173,272
Operating income (loss)	\$ 28,290	\$ 3,162	\$ 1,660	\$ 33,112	\$ 10,589	\$ 1,882	\$ (1,215)	\$ 11,256

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 nine months ended September 30, 2010 and 2009 are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Professional services	\$ 33,349	\$ 27,158	\$ 101,658	\$ 90,270
Customer support and software enhancements	20,137	19,759	60,069	56,912
Total services revenue	\$ 53,486	\$ 46,917	\$ 161,727	\$ 147,182

License revenues related to the Company's warehouse and non-warehouse product groups for the three and nine months ended September 30, 2010 and 2009 are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Warehouse	\$ 7,020	\$ 6,799	\$ 22,375	\$ 12,649
Non-Warehouse	5,072	4,561	19,409	7,759
Total software license revenue	\$ 12,092	\$ 11,360	\$ 41,784	\$ 20,408

### 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 of 2009 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 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 consisted of employee severance and outplacement services. In the first quarter of 2009, the Company also recorded additional employee severance expense of \$63,000 pre-tax, or \$42,000 after-tax, related to similar restructuring action taken in the fourth quarter of 2008. The

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**MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements (continued)**  
**September 30, 2010**  
**(unaudited)**

restructuring charges are classified in Restructuring charge in the Company's Condensed Consolidated Statements of Operations.

The following table summarizes the segment activity in the restructuring accrual for the nine months ended September 30, 2010 (in thousands):

	<b>Americas</b>	<b>EMEA</b>	<b>APAC</b>	<b>Consolidated</b>
Restructuring accrual balance at December 31, 2009	\$ 255	\$	\$	\$ 255
Cash payments	(159)			(159)
<b>Restructuring accrual balance at September 30, 2010</b>	<b>\$ 96</b>	<b>\$</b>	<b>\$</b>	<b>\$ 96</b>

The balance at September 30, 2010 is included in Accrued compensation and benefits in the Company's Condensed Consolidated Balance Sheets. The majority of the remaining balance is expected to be paid during the fourth quarter of 2010.

**12. New Accounting Pronouncements**

In January 2010, the FASB issued an Accounting Standard Update to improve disclosures about fair value measurements. This guidance requires enhanced disclosures regarding transfers in and out of the levels within the fair value hierarchy. Separate disclosures are required for significant transfers in and out of Level 1 and 2 in the fair value hierarchy and the reasons for the transfers. This guidance also requires disclosures relating to the reconciliation of fair value measurements using significant unobservable inputs (Level 3) investments. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009 except Level 3 reconciliation disclosures which are effective for the fiscal years and interim periods beginning after December 15, 2010. The Company adopted the enhanced disclosures for Level 1 and 2 in its first quarter of 2010 reporting, which did not have a material impact on its financial statements. The Company does not expect the Level 3 reconciliation disclosures to have a material impact on its financial statements when the Company adopts them.

In February 2010, the FASB issued an Accounting Standards Update to amend certain recognition and disclosure requirements related to subsequent events. The new guidance clarifies that management must evaluate, as of each reporting period, events or transactions that occur after the balance sheet date through the date that the financial statements are issued. Management must perform its assessment for both interim and annual financial reporting periods. This update also exempts SEC filers from disclosing the date through which subsequent events have been evaluated. The adoption of this amended standard did not have an impact on the Company's consolidated financial statements.

**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, 2009. 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.

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The following discussion should be read in conjunction with the condensed consolidated financial statements for the three and nine months ended September 30, 2010 and 2009, 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, 2009. References in this filing to the Company, Manhattan, Manhattan Associates, we, our, and us refer to Manhattan Associates, Inc., 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. Our platform-based supply chain software solution portfolios Manhattan SCOPE<sup>®</sup> and Manhattan SCALE<sup>™</sup> are designed to deliver both business agility and total cost of ownership advantages to customers. Manhattan SCOPE (Supply Chain Optimization, Planning through Execution) leverages our Supply Chain Process Platform (SCPP) to unify the full breadth of the supply chain, while Manhattan SCALE (Supply Chain Architected for Logistics Execution) leverages Microsoft's .NET<sup>®</sup> platform to unify logistics functions.

Early in the Company's history, our offerings were heavily focused on warehouse management solutions. As the Company grew in size and scope, our offerings expanded across the entire supply chain. As a result of the Company's historical beginnings however, we still enjoy significant presence in, and a relatively strong concentration of revenues from, warehouse management solutions, which are a component of our distribution management solution suite. Over time, as our non-warehouse management solutions have proliferated and increased in capability, the Company's revenue concentration in its warehouse management solutions has correspondingly decreased, a trend we expect to see continue.

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.

In the three months ended September 30, 2010, we generated \$74.0 million in total revenue, with a revenue mix of: license revenues 16%; services 72%; and hardware and other revenue 12%. In the nine months ended September 30, 2010, we generated \$225.6 million in total revenue, with a revenue mix of: license revenues 18%; services 72%; and hardware and other revenue 10%.

We manage our business based on three geographic regions: North America and Latin America (Americas), Europe, Middle East and Africa (EMEA), and Asia Pacific (APAC). Geographic revenue is based on the location of the sale. Our international revenue was approximately \$20.8 million and \$62.4 million for the three and nine months ended September 30, 2010, respectively, which represents approximately 30% of our total revenue for both periods. International revenue includes all revenue derived from sales to customers outside the United States. At September 30, 2010, we employed approximately 1,900 employees worldwide, of which approximately 950 employees are based in the Americas, approximately 145 employees in EMEA, and approximately 805 employees in APAC and India. 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. In the third quarter of 2010, approximately 70% of our total revenue was generated in the United States, 10% in EMEA and the balance in APAC, Canada and Latin America. In addition, industry analysts project 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.

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 current and prospective customers have had an adverse impact on our

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ability to sell our solutions, largely we believe 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 continues to affect customers and prospects decisions regarding timing of strategic capital spend. Timing of deals closed can have a material adverse impact on our business and is likely to further intensify competition in our already highly competitive markets.

In October 2010, the International Monetary Fund (IMF) provided a World Economic Outlook (WEO) update reiterating its previous 2010 world economic growth forecast from July 2010. The update noted that, global activity is forecast to expand by 4.8% in 2010 and 4.2% in 2011, broadly in line with earlier expectations, and downside risks continue to predominate. However, the probability of a sharp global slowdown, including stagnation or contraction in advanced economies, still appears low. Advanced economies are projected to expand sluggishly through 2010 and 2011 with annual growth of about 2.7% and 2.2%, respectively.

In the first nine months of 2009, we recognized three license deals greater than \$1.0 million. In contrast, in the first nine months of 2010, we recognized eight license deals greater than \$1.0 million and view this as a sign the economy is continuing to stabilize and customers and prospects are beginning to invest more in improving their supply chains. While our results over the past several quarters seem to be a signal of improving demand, we and our customers still remain cautious regarding the global economic recovery as noted by IMF's World Economic outlook.

When reviewing our 2010 results compared to 2009 it is important to highlight temporary expense actions instituted in 2009 to offset the impact of the global economic crisis on our revenue. During 2009 we had no annual merit salary increases, our executives and Board of Directors absorbed a salary reduction, we asked many of our employees to take unpaid furlough days and we dramatically reduced many other expenses to help offset a revenue decline versus 2008. Moreover, due to poor financial results, 2009 incentive compensation was significantly reduced. In 2009, we had total revenue of \$246.7 million for the full year, a 27% decline in total revenue compared to the full year of 2008. Without sacrificing investment in innovation, our aggressive measures to reduce costs enabled us to achieve \$21.1 million in operating profit in 2009, with positive operating margins of 8.6%. For 2010, we have restored executives and Board of Directors salaries, eliminated unpaid furlough days and provided merit increases to our employees among other actions to ensure long-term success.

Year to date in 2010, we have achieved 22% total revenue growth, representing a strong rebound from 2009 in a stabilizing and improving macro-economic environment. License revenue has more than doubled and services revenue has grown by 10% in the first three quarters of 2010 as compared to the same period in 2009 with demand currently exceeding capacity. As a result of the improved demand environment, we are actively hiring to support demand for our products. The difference between the 2010 and 2009 expense base has created an abnormal comparison of 2010 versus 2009 operating results. In addition, performance based compensation has increased significantly for 2010 on improved revenue and earnings performance. Barring another macro-economic catastrophe, we expect expense comparisons will largely normalize in 2011 versus 2010 as we look to post consecutive years of revenue and earnings growth.

**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. License revenue totaled \$12.1 million, or 16% of total revenue, with gross margins of 87.8% and \$41.8 million, or 18% of total revenue, with gross margins of 88.9% in the three and nine months ended September 30, 2010, respectively. Our typical license revenue percentage mix of new to existing customers is approximately 50/50. However, for the three and nine months ended September 30, 2010, the percentage mix was approximately 25/75 and 35/65, respectively, of new to existing customers.

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 and 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 the third quarter of 2010 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 Enterprise Resource Planning (ERP) and Supply Chain Management applications vendors and business application software vendors that may broaden

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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. Services revenue totaled \$53.5 million, or 72% of total revenue, with gross margins of 53.9% and \$161.7 million, or 72% of total revenue, with gross margins of 54.5% in the three and nine months ended September 30, 2010, respectively. Professional services accounted for approximately 60% of total services revenue and approximately 45% of total revenue in the third quarter and the first nine months of 2010. 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.

At September 30, 2010, our services business totaled approximately 950 employees, accounting for approximately 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 are 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 \$20.1 million and \$60.1 million in the three and nine months ended September 30, 2010. CSSE represented approximately 40% of services revenue and approximately 25% of total revenue in the third quarter and the first nine months of 2010. 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 revenue 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 \$8.4 million representing 12% of total revenue with gross margins of 15.9% and \$22.1 million representing 10% of total revenue with gross margins of 16.9% in the three and nine months ended September 30, 2010, 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.

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Other revenue represents amounts associated with reimbursements from customers for out-of-pocket expenses. The total amount of expense reimbursement recorded to hardware and other revenue was \$2.7 million and \$6.8 million for three and nine months ended September 30, 2010, respectively.

**Product Development**

We 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 nine months ended September 30, 2010 were \$9.9 million and \$30.6 million, respectively. At September 30, 2010, our R&D organization totaled approximately 620 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. 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 nine months ended September 30, 2010, we generated cash flow from operating activities of \$35.4 million. Our cash, cash equivalents and investments at September 30, 2010 totaled \$116.7 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 investment in R&D and operations to drive earnings growth and repurchases of common stock.

During the quarter ended September 30, 2010, we repurchased approximately \$15.4 million of Manhattan Associates outstanding common stock under the repurchase program approved by our Board in July 2010. In October 2010, our Board of Directors approved the repurchase of up to an additional \$25.0 million of Manhattan Associates outstanding common stock. For the remainder of 2010, 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 the fourth quarter of 2010 or 2011 for general corporate purposes.



**Table of Contents****Results of Operations**

The following table summarizes our consolidated results for the three and nine months ended September 30, 2010 and 2009.

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(in thousands, except per share data)</b>			
Revenue	<b>\$ 74,014</b>	\$ 65,294	<b>\$ 225,604</b>	\$ 184,528
Costs and expenses	<b>64,402</b>	54,239	<b>192,492</b>	169,380
Restructuring charge				3,892
Operating income	<b>9,612</b>	11,055	<b>33,112</b>	11,256
Other (loss) income, net	<b>(188)</b>	255	<b>(382)</b>	(382)
Income before income taxes	<b>9,424</b>	11,310	<b>32,730</b>	10,874
Net income	<b>\$ 6,232</b>	\$ 10,983	<b>\$ 21,616</b>	\$ 10,689
Diluted earnings per share	<b>\$ 0.28</b>	\$ 0.50	<b>\$ 0.96</b>	\$ 0.47
Diluted weighted average number of shares	<b>22,051</b>	22,175	<b>22,456</b>	22,529

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 expenses include 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 nine months ended September 30, 2010 and 2009, 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 September 30,			Nine Months Ended September 30,		
	2010	2009	% Change vs. Prior Year	2010	2009	% Change vs. Prior Year
	(in thousands)			(in thousands)		
<b>Revenue:</b>						
<b>Software license</b>						
Americas	\$ 10,036	\$ 10,342	-3%	\$ 33,935	\$ 16,520	105%
EMEA	1,693	464	265%	4,565	1,980	131%
APAC	363	554	-34%	3,284	1,908	72%
Total software license	\$ 12,092	\$ 11,360	6%	\$ 41,784	\$ 20,408	105%
<b>Services</b>						
Americas	\$ 44,369	\$ 38,511	15%	\$ 134,103	\$ 121,070	11%
EMEA	6,344	5,868	8%	19,611	18,823	4%
APAC	2,773	2,538	9%	8,013	7,289	10%
Total services	\$ 53,486	\$ 46,917	14%	\$ 161,727	\$ 147,182	10%
<b>Hardware and Other</b>						
Americas	\$ 8,150	\$ 6,773	20%	\$ 21,281	\$ 16,235	31%
EMEA	229	195	17%	666	572	16%
APAC	57	49	16%	146	131	11%
Total hardware and other	\$ 8,436	\$ 7,017	20%	\$ 22,093	\$ 16,938	30%
<b>Total Revenue</b>						
Americas	\$ 62,555	\$ 55,626	12%	\$ 189,319	\$ 153,825	23%
EMEA	8,266	6,527	27%	24,842	21,375	16%
APAC	3,193	3,141	2%	11,443	9,328	23%
Total revenue	\$ 74,014	\$ 65,294	13%	\$ 225,604	\$ 184,528	22%
<b>Operating income (loss):</b>						
Americas	\$ 8,121	\$ 10,736	-24%	\$ 28,290	\$ 10,589	167%
EMEA	1,214	20	5970%	3,162	1,882	68%
APAC	277	299	-7%	1,660	(1,215)	237%
Total operating income	\$ 9,612	\$ 11,055	-13%	\$ 33,112	\$ 11,256	194%

As discussed in our business overview under global economic trends and industry factors, our revenue has increased 22% year to date and 13% quarter to date, in which we attribute primarily to a stabilizing and improving macro-economic environment. As a result of the improved demand environment, we are actively hiring to support

demand for our products. Additionally, we eliminated our short-term compensation reduction measures instituted in 2009 and our performance-based compensation has increased significantly on improved revenue and earnings performance. These differences have created an abnormal comparison of 2010 versus 2009 operating results, particularly on quarter to date expenses. Thus, we believe that year to date 2010 comparisons to 2009 are currently better for analyzing our performance.

**Financial Summary of Third Quarter 2010 Condensed Consolidated Financial Results**

The Company reported diluted earnings per share of \$0.28 in the third quarter of 2010, compared to \$0.50 in the third quarter of 2009.

Consolidated revenue for the third quarter of 2010 was \$74.0 million, compared to \$65.3 million in the third quarter of 2009. License revenue was \$12.1 million in the third quarter of 2010, compared to \$11.4 million in the third quarter of 2009.

Operating income for the third quarter of 2010 was \$9.6 million, compared to \$11.1 million in the third quarter of 2009.

Cash flow from operations was \$11.5 million in the third quarter of 2010, compared to \$15.4 million in the third quarter of 2009. Days Sales Outstanding were 60 days at September 30, 2010, compared to 55 days at June 30, 2010.

Cash and investments on-hand at September 30, 2010 was \$116.7 million, compared to \$120.2 million at June 30, 2010.

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The Company repurchased approximately 573,000 common shares under the share repurchase program authorized by the Board of Directors totaling \$15.4 million at an average share price of \$26.96 in the third quarter of 2010. In October 2010, Manhattan's Board of Directors approved raising the Company's share repurchase authority to repurchase a total of \$25.0 million of Manhattan Associates outstanding common stock.

**Three Months Ended September 30, 2010 Compared to Three Months Ended September 30, 2009**

The results of our operations for the third quarter of 2010 and 2009 are discussed below.

**Revenue**

	<b>Three Months Ended September 30,</b>		<b>% Change vs. Prior Year</b>	<b>% of Total Revenue</b>	
	<b>2010</b>	<b>2009</b>		<b>2010</b>	<b>2009</b>
	<b>(in thousands)</b>				
Software license	<b>\$ 12,092</b>	\$ 11,360	<b>6%</b>	<b>16%</b>	17%
Services	<b>53,486</b>	46,917	<b>14%</b>	<b>72%</b>	72%
Hardware and other	<b>8,436</b>	7,017	<b>20%</b>	<b>12%</b>	11%
Total revenue	<b>\$ 74,014</b>	\$ 65,294	<b>13%</b>	<b>100%</b>	100%

Our revenue consists of fees generated from the licensing and hosting of software; fees from professional services, customer support services and software enhancements; hardware sales of complementary radio frequency and computer equipment; and other revenue representing amounts associated with reimbursements from customers for out-of-pocket expenses.

**License revenue.** License revenue increased \$0.7 million, or 6%, in the quarter ended September 30, 2010 over the same period in the prior year. The license sales percentage mix across our product suite in the quarter ended September 30, 2010 was approximately 60/40 of warehouse management solutions to non-warehouse management solutions, respectively.

**Services revenue.** Services revenue increased \$6.6 million, or 14%, in the third quarter of 2010 compared to the same quarter in the prior year due to a \$6.2 million increase in professional services revenue and a \$0.4 million increase in customer support and software enhancements. The increase in services revenue is primarily due to improved license sales over the past five quarters combined with customer upgrade activity largely driven by the improving macroeconomic conditions. Services revenue for the Americas, EMEA and APAC segments increased \$5.9 million, \$0.5 million and \$0.2 million, respectively, in the third quarter of 2010 compared to the third quarter of 2009.

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. Our services revenue growth has been and will likely continue to be affected by the mix of products sold. Further, the individual engagements involving our non-warehouse management solutions typically require less implementation services; however, the number of engagements continues to grow.

**Hardware and other.** Hardware sales increased by \$0.7 million, or 13%, to \$5.8 million in the third quarter of 2010 compared to \$5.1 million in the third quarter of 2009. 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 \$2.7 million and \$1.9 million for the quarters ended September 30, 2010 and 2009, respectively.

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	<b>Three Months Ended September 30,</b>		
			<b>% Change</b>
			<b>vs.</b>
			<b>Prior</b>
	<b>2010</b>	<b>2009</b>	<b>Year</b>
	<b>(in thousands)</b>		
Cost of software license	\$ 1,471	\$ 1,162	27%
Cost of services	24,661	19,697	25%
Cost of hardware and other	7,092	5,846	21%
Total cost of revenue	\$ 33,224	\$ 26,705	24%

**Cost of software license.** Cost of software 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 software license increased by \$0.3 million, or 27%, in the third quarter of 2010 compared to the same quarter of 2009 principally due to increased sales of third party software.

**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 \$5.0 million, or 25%, increase in cost of services in the quarter ended September 30, 2010 compared to the same quarter in the prior year was principally due to (1) a \$2.9 million increase in compensation and other personnel-related expenses resulting from increased headcount in our services organization, (2) a \$1.7 million increase in performance-based bonus expense, and (3) a \$0.2 million increase in travel expenses.

Services gross margin decreased 410 basis points to 53.9% in the third quarter of 2010 from 58.0% in the third quarter of 2009. The decrease in margin is primarily due to the impact of 2009 short-term compensation reduction measures that were eliminated in 2010, higher 2010 performance-based compensation, and increased hiring to fulfill services demand.

**Cost of hardware and other.** Cost of hardware increased \$0.5 million to approximately \$4.4 million in the third quarter of 2010 compared to the same quarter of 2009 as a direct result of increased hardware sales. Cost of hardware and other includes out-of-pocket expenses to be reimbursed by customers of approximately \$2.7 million and \$1.9 million for the quarters ended September 30, 2010 and 2009, respectively.

Operating Expenses

	<b>Three Months Ended September 30,</b>		
			<b>% Change</b>
			<b>vs.</b>
			<b>Prior</b>
	<b>2010</b>	<b>2009</b>	<b>Year</b>
	<b>(in thousands)</b>		
Research and development	\$ 9,866	\$ 8,781	12%
Sales and marketing	10,329	8,626	20%
General and administrative	8,721	7,462	17%
Depreciation and amortization	2,262	2,665	-15%
Operating expenses	\$ 31,178	\$ 27,534	13%

**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 September 30, 2010 increased to \$9.9 million from \$8.8 million in the same quarter of the prior year. This \$1.1 million increase was mainly attributable to the increase of \$0.7 million in performance based bonus expense and an increase of \$0.4 million in employee-related costs such as salary, benefits and payroll taxes.

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 **S**upply **C**hain **O**ptimization from **P**lanning through **E**xecution. The Manhattan SCOPE Platform provides not only a sophisticated service-oriented architecture-based application framework, but a platform that facilitates integration with ERP

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and other supply chain solutions. For the quarters ended September 30, 2010 and 2009, 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 increased by \$1.7 million, or 20%, in the third quarter of 2010 compared to the same quarter of the prior year. This increase was mainly attributable to the increase in performance based bonus and commission expense of \$1.2 million related to higher software license revenue and a \$0.4 million increase in compensation and employee-related expenses resulting from a slight increase in sales and marketing headcount.

**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 \$1.3 million, or 17%, increase in general and administrative expenses during the quarter ended September 30, 2010 compared to the same quarter in the prior year was primarily attributable to an increase of \$0.6 million in performance based bonus expense and a \$0.7 million increase in compensation and employee-related expenses including contract labor.

**Depreciation and amortization.** Depreciation expense amounted to \$1.7 million and \$1.9 million for the quarters ended September 30, 2010 and 2009, respectively. Amortization of intangibles associated with various acquisitions totaled \$0.6 million and \$0.7 million for the quarters ended September 30, 2010 and 2009, respectively.

**Operating Income**

Operating income for the third quarter of 2010 was \$9.6 million compared to operating income of \$11.1 million in the third quarter of 2009. Operating margins were 13.0% for the third quarter of 2010 versus 16.9% for the third quarter of 2009. Operating income and margins decreased primarily due to increased performance-based compensation tied to improved results and restoration of normalized base compensation following short-term reduction initiatives executed in 2009.

**Other (Loss) Income and Taxes**

	<b>Three Months Ended September 30,</b>		
			<b>% Change</b>
			<b>vs.</b>
			<b>Prior</b>
	<b>2010</b>	<b>2009</b>	<b>Year</b>
	<b>(in thousands)</b>		
Other (loss) income, net	\$ (188)	\$ 255	-174%
Income tax provision	3,192	327	876%

**Other (loss) income, net.** Other (loss) income, net principally includes interest income, foreign currency gains and losses and other non-operating expense. Other (loss) income, net decreased \$0.4 million in the third quarter of 2010 compared to the third quarter of 2009 primarily due to the fluctuation of the U.S. dollar relative to foreign currencies, principally the Indian Rupee, the Australian Dollar, the Japanese Yen, and the Singapore Dollar. We recorded a net foreign currency gain of \$0.3 million during the third quarter of 2009 and a net foreign currency loss of \$0.4 million during the third quarter of 2010. This loss was partially offset by a \$0.2 million increase in interest income.

**Income tax provision.** Our effective income tax rate was 33.9% and 2.9% for the quarter ended September 30, 2010 and 2009, respectively. The effective tax rate in the third quarter of 2010 included the reduction of U.S. federal income tax reserves that resulted from the expiration of tax audit statutes for tax returns filed for 2006 and prior, partially offset by the establishment of income tax reserves for state audits. The effective tax rate in the third quarter of 2009 included the reduction of income tax reserves resulting from expiration of tax audit statutes for U.S. federal income tax returns filed for 2005, partially offset by the establishment of \$0.8 million in tax reserves associated with the treatment of currency gains under our transfer pricing policy with one of our foreign subsidiaries.

**Financial Summary for the First Nine Months of 2010 Condensed Consolidated Financial Results**

Diluted earnings per share for the nine months ended September 30, 2010 was \$0.96, compared to \$0.47 for the nine months ended September 30, 2009.





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Consolidated revenue for the nine months ended September 30, 2010 was \$225.6 million, compared to \$184.5 million for the nine months ended September 30, 2009. License revenue was \$41.8 million for the nine months ended September 30, 2010, compared to \$20.4 million in the nine months ended September 30, 2009.

Operating income was \$33.1 million for the nine months ended September 30, 2010, compared to \$11.3 million for the nine months ended September 30, 2009. For the first nine months of 2010, operating income includes \$1.2 million of recoveries of previously expensed sales tax associated with expiring sales tax audit statutes. Results for the first nine months of 2009 include restructuring charges of \$3.9 million associated with the workforce reduction executed in the second quarter of 2009.

For the nine months ended September 30, 2010, the Company repurchased approximately 2.0 million common shares under the share repurchase program authorized by the Board of Directors at an average share price of \$27.22, for a total investment of \$55.4 million.

**Nine Months Ended September 30, 2010 Compared to Nine Months Ended September 30, 2009**

The results of our operations for the first nine months of 2010 and 2009 are discussed below.

**Revenue**

	<b>Nine Months Ended September 30,</b>		<b>% Change vs. Prior Year</b>	<b>% of Total Revenue</b>	
	<b>2010</b>	<b>2009</b>		<b>2010</b>	<b>2009</b>
	<b>(in thousands)</b>				
Software license	<b>\$ 41,784</b>	\$ 20,408	<b>105%</b>	<b>18%</b>	11%
Services	<b>161,727</b>	147,182	<b>10%</b>	<b>72%</b>	80%
Hardware and other	<b>22,093</b>	16,938	<b>30%</b>	<b>10%</b>	9%
Total revenue	<b>\$ 225,604</b>	\$ 184,528	<b>22%</b>	<b>100%</b>	100%

**License revenue.** License revenue increased \$21.4 million, or 105%, in the nine months ended September 30, 2010 over the same period in the prior year primarily, we believe, driven by the continued stabilization of the global economy resulting in customers and prospects beginning to invest more capital to improve their supply chains.

The license sales percentage mix across our product suite for the nine months ended September 30, 2010 was approximately 55/45 of warehouse management solutions to non-warehouse management solutions, respectively.

**Services revenue.** Services revenue increased \$14.5 million, or 10%, in the first nine months of 2010 compared to the same period in the prior year due to an \$11.4 million and \$3.1 million increase in revenue from professional services and customer support and software enhancements, respectively. The increase in services revenue is primarily due to improved license sales beginning in the second half of 2009 and continuing year to date in 2010 combined with customer upgrade activity largely driven by the improving macroeconomic conditions. Services revenue for the Americas, EMEA and APAC segments increased \$13.0 million, \$0.8 million and \$0.7 million, respectively in the first nine months of 2010 compared to the first nine months of 2009.

**Hardware and other.** Hardware sales increased by \$4.2 million, or 37%, to \$15.3 million in the first nine months of 2010 compared to \$11.1 million in the first nine months of 2009. 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 \$6.8 million and \$5.8 million for the nine months ended September 30, 2010 and 2009, respectively.



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	<b>Nine Months Ended September 30,</b>		
			<b>% Change</b>
			<b>vs.</b>
			<b>Prior</b>
	<b>2010</b>	<b>2009</b>	<b>Year</b>
	<b>(in thousands)</b>		
Cost of software license	<b>\$ 4,631</b>	\$ 3,621	28%
Cost of services	<b>73,631</b>	64,173	15%
Cost of hardware and other	<b>18,366</b>	14,144	30%
Total cost of revenue	<b>\$ 96,628</b>	\$ 81,938	18%

**Cost of software license.** Cost of software 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 software license increased by \$1.0 million, or 28%, in the nine months ended September 30, 2010 compared to the same period of 2009 principally due to increased sales of third party software driven by 105% increase in software license revenues over the prior year.

**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 \$9.5 million, or 15%, increase in cost of services in the nine months ended September 30, 2010 compared to the same period in the prior year was principally due to a \$7.6 million increase in performance-based bonus expense and a \$2.1 million increase in employee-related costs such as salary, benefits and payroll taxes resulting from increased headcount in our professional services organization.

Services gross margin decreased 190 basis points to 54.5% in the first nine months of 2010 from 56.4% in the first nine months of 2009. The decrease in margin is primarily attributable to the increase in professional services costs due to the impact of 2009 short-term compensation reduction measures that were eliminated in 2010, higher 2010 performance-based compensation, and increased hiring to fulfill services demand.

**Cost of hardware and other.** Cost of hardware increased \$3.2 million to approximately \$11.7 million in the first nine months of 2010 compared to the same period of 2009 as a direct result of increased hardware sales. Cost of hardware and other includes out-of-pocket expenses to be reimbursed by customers of approximately \$6.7 million and \$5.7 million for the nine months ended September 30, 2010 and 2009, respectively.

Operating Expenses

	<b>Nine Months Ended September 30,</b>		
			<b>% Change</b>
			<b>vs.</b>
			<b>Prior</b>
	<b>2010</b>	<b>2009</b>	<b>Year</b>
	<b>(in thousands)</b>		
Research and development	<b>\$ 30,640</b>	\$ 28,196	9%
Sales and marketing	<b>32,870</b>	27,731	19%
General and administrative	<b>25,359</b>	22,675	12%
Depreciation and amortization	<b>6,995</b>	8,840	-21%
Restructuring charge		3,892	-100%
Operating expenses	<b>\$ 95,864</b>	\$ 91,334	5%

**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 nine months ended September 30, 2010 increased to \$30.6 million from \$28.2 million in the same period of the prior year. This \$2.4 million increase was mainly attributable to the increase of \$3.1 million in performance based bonus expense, partially offset by a decrease of \$0.6 million in employee-related costs such as salary, benefits and payroll taxes resulting from lower headcount.

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**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 increased by \$5.1 million, or 19%, during the nine months ended September 30, 2010 compared to the same period of the prior year. This increase was mainly attributable to (1) the increase in performance based bonus and commission expense of \$4.4 million related to increased revenue and earnings performance, (2) a \$0.7 million increase in stock compensation expense, and (3) a \$0.6 million increase in travel expense, partially offset by a decrease of \$0.4 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 \$2.7 million, or 12%, increase in general and administrative expenses during the nine months ended September 30, 2010 compared to the same period in the prior year was primarily attributable to an increase of \$2.3 million in performance-based bonus expense and a \$1.0 million increase in other administrative costs such as professional services, contract labor and computer related costs. This increase was partially offset by \$1.2 million in recoveries of previously recorded state sales tax resulting from sales tax audits.

**Depreciation and amortization.** Depreciation expense amounted to \$5.1 million and \$6.6 million for the nine months ended September 30, 2010 and 2009, respectively. Amortization of intangibles associated with various acquisitions totaled \$1.8 million and \$2.2 million for the nine months ended September 30, 2010 and 2009, 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**

Operating income for the nine months ended September 30, 2010 was \$33.1 million, an increase of \$21.8 million as compared to \$11.3 million for the nine months ended September 30, 2009. Operating margins improved to 14.7% for the first nine months of 2010, up from 6.1% for the first nine months of 2009. The increase in operating income and margins is primarily due to a 22% increase in year to date revenue versus the same period of 2009.

**Other Loss and Taxes**

	<b>Nine Months Ended September 30,</b>		<b>% Change</b>
	<b>2010</b>	<b>2009</b>	<b>vs.</b>
	<b>(in thousands)</b>		<b>Prior</b>
			<b>Year</b>
Other loss, net	\$ (382)	\$ (382)	0%
Income tax provision	11,114	185	5908%

**Other loss, net.** Other loss, net principally includes interest income, foreign currency gains and losses and other non-operating expense. Other loss, net remained unchanged during in the first nine months of 2010 compared to the first nine months of 2009.

**Income tax provision.** Our effective income tax rate was 34.0% and 1.7% for the nine months ended September 30, 2010 and 2009, respectively. The effective tax rate in the first nine months of 2010 included a tax benefit from the disqualifying disposition of incentive stock options that were previously expensed and the reduction of U.S. federal income tax reserves that resulted from the expiration of tax audit statutes for tax returns filed for 2006 and prior, partially offset by the establishment of income tax reserves for state audits. The effective tax rate in the first nine months of 2009 included the reduction of income tax reserves resulting from expiration of tax audit statutes for U.S. federal income tax returns filed for 2005, partially offset by the establishment of \$0.8 million in tax reserves

associated with the treatment of currency gains under our transfer pricing policy with one of our foreign subsidiaries.

**Table of Contents****Liquidity and Capital Resources**

As of September 30, 2010, we had approximately \$116.7 million in cash, cash equivalents and investments, as compared to \$123.0 million at December 31, 2009. Our main source of operating cash flows is cash collections from our customers, which we use to fund our operations. Our priorities for the use of cash will be similar to prior years, with our first priority being continued investment in product development and 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 the fourth quarter of 2010 or 2011 for general corporate purposes.

Our operating activities generated cash flow of approximately \$35.4 million and \$38.9 million for the nine months ended September 30, 2010 and 2009, respectively. The decrease in cash flow from operations was primarily attributable to higher income tax and performance-based compensation payments, partially offset by an increase in trade receivables collections on increased revenues in the first nine months of 2010 compared to the same period of 2009.

Our investing activities used cash of approximately \$12.8 million and \$1.6 million for the nine months ended September 30, 2010 and 2009, respectively. The primary use of cash for investing activities for the nine months ended September 30, 2010 was the net purchase of \$8.4 million in short-term investments and \$4.3 million in capital expenditures. The primary use of cash for investing activities for the nine months ended September 30, 2009 was capital expenditures.

Our financing activities used cash of approximately \$37.8 million and \$20.0 million for the nine months ended September 30, 2010 and 2009, respectively. The principal use of cash for financing activities for the nine months ended September 30, 2010 was to purchase approximately \$56.6 million of our common stock including \$1.2 million for shares withheld for taxes due upon vesting of restricted stock, partially offset by proceeds generated from options exercised of \$18.4 million. The principal use of cash for financing activities for the nine months ended September 30, 2009 was to purchase approximately \$20.6 million of our common stock including \$0.6 million for shares withheld for taxes due upon vesting of restricted stock, partially offset by proceeds generated from options exercised of \$0.6 million.

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





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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 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. Revenue recognition for software with multiple-element arrangement 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 other applicable revenue-recognition criteria for software revenue recognition, 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.

We allocate revenue to customer support and software enhancements and any other undelivered elements of the arrangement based on vendor specific objective evidence, or VSOE, of fair value of each element and such amounts are deferred until the applicable delivery criteria and other revenue recognition criteria have been met. The balance of the revenue, net of any discounts inherent in the arrangement, is recognized at the outset of the arrangement using the residual method as the product licenses are delivered. If we cannot objectively determine the fair value of each undelivered element based on the VSOE of fair value, we defer revenue recognition until all elements are delivered, all services have been performed, or until fair value can be objectively determined. We must apply judgment in determining all elements of the arrangement and in determining the VSOE of fair value for each element, considering the price charged for each product on a stand-alone basis or applicable renewal rates.

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 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 other presentation matters within Revenue Recognition Topic of the FASB Accounting Standards Codification, 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.

**Table of Contents****Valuation of Goodwill**

In accordance with Intangibles-Goodwill and Other Topic of the FASB Accounting Standards Codification, 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 the Income Taxes Topic of the FASB Accounting Standards Codification. 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 taxes 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, 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 service-based 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. We recognize compensation costs for service-based awards that also contain performance conditions when it is probable that the performance conditions will be met. We recognize the cost for awards with performance conditions using the accelerated attribution method (on a straight-line basis over the service period for each separately vesting portion of the award). Compensation cost recognized in any period is affected by the number of awards granted, the vesting period (which generally is four years), the underlying assumptions used in estimating the fair value and estimated forfeiture rates, and the probability that the performance

conditions, if applicable, will be achieved.

**Table of Contents****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.

**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, 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 foreign exchange losses of \$0.7 million and \$0.6 million for the nine months ended September 30, 2010 and 2009, respectively. Foreign exchange rate transaction losses are classified in Other (loss) income, net in our Condensed Consolidated Statements of Operations. A fluctuation of 10% in the period end exchange rates at September 30, 2010 relative to the U.S. dollar would result in approximately a \$0.2 million change in the reported foreign currency loss for the nine months ended September 30, 2010.

**Interest Rates**

We invest our cash in a variety of financial instruments, including money market funds, certificates of deposit and auction rate securities. These investments are denominated in U.S. dollars and recorded at fair market value. Cash balances in foreign currencies overseas are derived from operations. At September 30, 2010, our cash, cash equivalents and investments balance totaled \$116.7 million, of which \$105.3 million is highly liquid. The remaining investments totaling \$11.3 million are invested in short-term certificates of deposit and auction rate securities. Our cash equivalents balance at September 30, 2010 was \$31.5 million. Cash equivalents principally consist of highly liquid money market funds and certificates of deposit with maturities of more than three months when purchased.

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 nine months ended

September 30, 2010 and 2009. Based on

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the average total cash and investments outstanding during the nine months ended September 30, 2010, an increase or decrease of 25 basis points would result in an increase or decrease in interest income approximately \$0.3 million.

**Item 4. Controls and Procedures.**

**Disclosure 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.

**Changes in Internal Control over Financial Reporting**

During the nine months ended September 30, 2010, 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, 2009.

**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 September 30, 2010. 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>
July 1 - July 31, 2010	133,010	\$ 27.73	129,900	\$ 21,396,368
August 1 - August 31, 2010	274,310	26.01	274,310	14,261,536
September 1 - September 30, 2010	168,976	27.91	168,668	9,553,888
<b>Total</b>	<b>576,296</b>	<b>\$ 26.96</b>	<b>572,878</b>	<b>\$ 9,553,888</b>

(a) Includes 3,110 shares and 308 shares withheld for taxes due upon vesting of restricted stock during July and September, respectively.

(b) The average price paid per share for shares withheld for taxes due upon vesting of restricted stock was \$27.25 and \$28.04 in July and September, respectively.

In October 2010, our Board of Directors approved raising our remaining repurchase authority for the Company's common stock to a total of \$25.0 million.

**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 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.

\* 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: October 29, 2010

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

Date: October 29, 2010

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

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**EXHIBIT INDEX**

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