

MANHATTAN ASSOCIATES INC

Form 10-Q

November 08, 2007

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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, 2007**

**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 is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one)  
Large accelerated filer  Accelerated filer  Non-accelerated filer

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 November 6, 2007, the latest practicable date, is as follows: 25,555,495 shares of common stock, \$0.01 par value per share.

MANHATTAN ASSOCIATES, INC.  
FORM 10-Q  
Quarter Ended September 30, 2007  
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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 data)**

|  | <b>September<br/>30,<br/>2007<br/>(unaudited)</b> | <b>December<br/>31,<br/>2006</b> |
|--|---|----------------------------------|
| <b>ASSETS</b>  |   |                                  |
| Current Assets:  |   |                                  |
| Cash and cash equivalents  | \$ 32,531   | \$ 18,449                        |
| Short term investments   | 36,228  | 90,570                           |
| Accounts receivable, net of a \$6,002 and \$4,901 allowance for doubtful accounts in 2007 and 2006, respectively | 73,166  | 60,937                           |
| Deferred income taxes  | 6,558   | 5,208                            |
| Prepaid expenses and other current assets  | 9,199   | 11,939                           |
| <b>Total current assets</b>  | <b>157,682</b>                                    | <b>187,103</b>                   |
| Property and equipment, net  | 25,198  | 15,850                           |
| Long-term investments  | 13,226  | 22,038                           |
| Acquisition-related intangible assets, net   | 10,774  | 14,344                           |
| Goodwill   | 62,279  | 70,361                           |
| Deferred income taxes  | 7,890   | 481                              |
| Other assets   | 5,488   | 4,716                            |
| <b>Total assets</b>  | <b>\$ 282,537</b>                                 | <b>\$ 314,893</b>                |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>   |   |                                  |
| Current liabilities:   |   |                                  |
| Accounts payable   | \$ 7,912  | \$ 11,716                        |
| Accrued compensation and benefits  | 18,557  | 16,560                           |
| Accrued and other liabilities  | 10,096  | 13,872                           |
| Deferred revenue   | 32,968  | 29,918                           |
| Income taxes payable   | 5,310   | 4,006                            |
| <b>Total current liabilities</b>   | <b>74,843</b>                                     | <b>76,072</b>                    |
| Other non-current liabilities  | 7,990   | 1,681                            |
| Shareholders equity:   |   |                                  |
| Preferred stock, no par value; 20,000,000 shares authorized, no shares issued or outstanding in 2007 or 2006     | 254   | 276                              |

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Common stock, \$01 par value; 100,000,000 shares authorized, 25,702,405 shares issued and outstanding in 2007 and 27,610,105 shares issued and outstanding in 2006

|  |                   |                   |
|--|-------------------|-------------------|
| Additional paid-in capital                 | <b>39,685</b>     | 98,704            |
| Retained earnings                          | <b>156,736</b>    | 136,321           |
| Accumulated other comprehensive income     | <b>3,029</b>      | 1,839             |
| Total shareholders' equity                 | <b>199,704</b>    | 237,140           |
| Total liabilities and shareholders' equity | <b>\$ 282,537</b> | <b>\$ 314,893</b> |

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 INCOME****(unaudited and 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>2007</b>               | <b>2006</b> | <b>2007</b>              | <b>2006</b> |
| Revenue:                           |                           |             |                          |             |
| License                            | \$ 17,303                 | \$ 15,217   | \$ 54,454                | \$ 47,540   |
| Services                           | 58,437                    | 51,049      | 169,100                  | 144,642     |
| Hardware and other                 | 8,849                     | 6,046       | 28,854                   | 20,816      |
| <br>                               |                           |             |                          |             |
| Total revenue                      | 84,589                    | 72,312      | 252,408                  | 212,998     |
| <br>                               |                           |             |                          |             |
| Costs and Expenses:                |                           |             |                          |             |
| Cost of license                    | 1,599                     | 1,400       | 4,045                    | 4,410       |
| Cost of services                   | 28,348                    | 24,231      | 81,631                   | 69,908      |
| Cost of hardware and other         | 7,286                     | 5,356       | 24,511                   | 18,328      |
| Research and development           | 11,887                    | 9,765       | 35,316                   | 30,398      |
| Sales and marketing                | 13,079                    | 11,407      | 40,177                   | 34,018      |
| General and administrative         | 8,397                     | 7,896       | 24,926                   | 21,863      |
| Depreciation and amortization      | 3,406                     | 3,377       | 10,261                   | 9,914       |
| Asset impairment charge            |                           | 270         |                          | 270         |
| Acquisition-related charges        |                           | 174         |                          | 1,503       |
| <br>                               |                           |             |                          |             |
| Total costs and expenses           | 74,002                    | 63,876      | 220,867                  | 190,612     |
| <br>                               |                           |             |                          |             |
| Operating income                   | 10,587                    | 8,436       | 31,541                   | 22,386      |
| <br>                               |                           |             |                          |             |
| Other income, net                  | 1,619                     | 630         | 3,009                    | 2,727       |
| <br>                               |                           |             |                          |             |
| Income before income taxes         | 12,206                    | 9,066       | 34,550                   | 25,113      |
| Income tax provision               | 4,321                     | 3,822       | 12,253                   | 10,596      |
| <br>                               |                           |             |                          |             |
| Net income                         | \$ 7,885                  | \$ 5,244    | \$ 22,297                | \$ 14,517   |
| <br>                               |                           |             |                          |             |
| Basic earnings per share           | \$ 0.31                   | \$ 0.19     | \$ 0.84                  | \$ 0.53     |
| Diluted earnings per share         | \$ 0.29                   | \$ 0.19     | \$ 0.80                  | \$ 0.52     |
| <br>                               |                           |             |                          |             |
| Weighted average number of shares: |                           |             |                          |             |
| Basic                              | 25,739                    | 26,969      | 26,536                   | 27,151      |
| Diluted                            | 26,879                    | 27,462      | 27,723                   | 27,688      |

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**  
(unaudited and in thousands)

|   | <b>Nine Months Ended</b> |             |
|---|--------------------------|-------------|
|   | <b>September 30,</b>     |             |
|   | <b>2007</b>              | <b>2006</b> |
| <b>Operating activities:</b>  |                          |             |
| Net income  | \$ 22,297                | \$ 14,517   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                          |             |
| Depreciation and amortization   | 10,261                   | 9,914       |
| Asset impairment charge   |                          | 270         |
| Stock compensation  | 4,939                    | 5,544       |
| Loss (gain) on disposal of equipment  | 26                       | (32)        |
| Tax benefit of options exercised  | 1,596                    | 2,444       |
| Excess tax benefits from stock based compensation                                 | (607)                    | (1,792)     |
| Deferred income taxes   | (742)                    | (790)       |
| Unrealized foreign currency (loss)/gain   | (880)                    | 622         |
| Changes in operating assets and liabilities:                                      |                          |             |
| Accounts receivable, net  | (11,341)                 | 5,510       |
| Other assets  | 2,228                    | (2,055)     |
| Prepaid retention bonus   |                          | 1,599       |
| Accounts payable, accrued and other liabilities                                   | (7,173)                  | (1,066)     |
| Income taxes payable  | (1,304)                  | 2,528       |
| Deferred revenue  | 3,261                    | 4,133       |
| Net cash provided by operating activities   | 22,561                   | 41,346      |
| <b>Investing activities:</b>  |                          |             |
| Purchase of property and equipment  | (7,934)                  | (7,529)     |
| Net maturities (purchases) of available-for-sale investments                      | 63,185                   | (29,631)    |
| Payments in connection with various acquisitions                                  |                          | (126)       |
| Net cash provided by (used in) investing activities                               | 55,251                   | (37,286)    |
| <b>Financing activities:</b>  |                          |             |
| Payment of capital lease obligations  |                          | (72)        |
| Purchase of common stock  | (74,932)                 | (16,029)    |
| Excess tax benefits from stock based compensation                                 | 607                      | 1,792       |
| Proceeds from issuance of common stock from options exercised                     | 9,356                    | 5,124       |
| Net cash used in financing activities   | (64,969)                 | (9,185)     |
| Foreign currency impact on cash   | 1,239                    | (775)       |

|   |                  |           |
|---|------------------|-----------|
| Net change in cash and cash equivalents                                       | <b>14,082</b>    | (5,900)   |
| Cash and cash equivalents at beginning of period                              | <b>18,449</b>    | 19,419    |
| Cash and cash equivalents at end of period                                    | <b>\$ 32,531</b> | \$ 13,519 |
| Supplemental disclosures of cash flow information noncash investing activity: |                  |           |
| Tenant improvements funded by landlord  | <b>\$ 7,918</b>  | \$        |

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, 2007**  
**(unaudited)**

**1. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements of Manhattan Associates, Inc. and its subsidiaries ( we, our, us or 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 our management, these condensed consolidated financial statements contain all normal recurring adjustments considered necessary for a fair presentation of our financial position at September 30, 2007, the results of operations for the three and nine months ended September 30, 2007 and 2006 and cash flows for the nine months ended September 30, 2007 and 2006. The results for the three and nine months ended September 30, 2007 are not necessarily indicative of the results to be expected for the full year. These statements should be read in conjunction with our audited consolidated financial statements and management's discussion and analysis included in our annual report on Form 10-K for the year ended December 31, 2006.

**2. Principles of Consolidation**

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

**3. Revenue Recognition**

Our revenue consists of revenues from the licensing and hosting of software, fees from implementation and training services (collectively, professional services ), plus customer support and software enhancements, and sales of hardware and other revenues (other revenues consists of reimbursements of out of pocket expenses incurred in connection with our professional services).

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

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

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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 and customer support 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 enhancement are 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 and reimbursement of out of pocket expenses incurred in connection with our professional services. As part of a complete solution, our customers periodically purchase hardware from us in conjunction with the licensing of software. These products include computer hardware, radio frequency terminal networks, radio frequency identification ( RFID ) chip readers, bar code printers and scanners and other peripherals. Hardware revenue is recognized upon shipment to the customer when title passes. We generally purchase hardware from our vendors only after receiving an order from a customer. As a result, we do not maintain significant hardware inventory.

In accordance with the Financial Accounting Standard Board's ( FASB's ) Emerging Issues Task Force ( EITF ) Issue No. 01-14 ( EITF No. 01-14 ), Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred, we recognize amounts associated with reimbursements from customers for out-of-pocket expenses as revenue. Such amounts have been classified to hardware and other revenue. The total amount of expense reimbursement recorded to revenue was \$3.2 million and \$9.3 million for the three and nine months ended September 30, 2007, respectively and \$2.7 million and \$7.6 million for the three and nine months ended September 30, 2006, respectively.

**4. Investments**

Our investments in marketable securities consist principally of debt instruments of the U.S. Treasury, U.S. government agencies, state and local government agencies and corporate commercial paper. These investments are categorized as available-for-sale securities and recorded at fair market value, as defined by the FASB's Statement of Financial Accounting Standards ( SFAS ) No. 115, Accounting for Certain Investments in Debt and Equity Securities. 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. The long-term investments consist of corporate or U.S. government debt instruments with maturities greater than one year and up to five years. We hold investments in Auction Rate Securities, which have original maturities greater than one year, but which have auctions to reset the yield every 7 to 35 days. We have classified these assets as short-term investments as the assets are viewed as available to support current operations, based on the provisions of Accounting Research Bulletin No. 43, Chapter 3A,

Working Capital Current Assets and Liabilities. 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.

**5. Acquisitions**

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On August 31, 2005, we acquired all of the issued and outstanding stock of Evant, Inc. ( Evant ), and Evant became a wholly-owned subsidiary. Evant was a provider of demand planning and forecasting and replenishment solutions to more than 60 customers in the retail, manufacturing and distribution industries. We paid \$2.8 million into escrow at closing for employee retention purposes to be distributed to employees upon completion of up to 12 months of service with us. The \$2.8 million was recorded as a prepaid asset, and compensation expense was recognized ratably over the required employee retention period. During the third quarter of 2006, we completed the Evant retention bonus program and paid out the final bonuses.

During the third quarter of 2007, the Company completed the analysis of the post-acquisition limitations on the use of Evant's deferred tax assets. As a result, the Company recorded \$8.3 million of deferred tax assets and reduced goodwill mainly for deductible research and development costs previously capitalized by Evant for tax purposes.

**6. Stock-Based Compensation**

Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123(R) ( SFAS 123(R) ) using the modified prospective transition method. Under that transition method, compensation cost recognized on or after January 1, 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted on or after January 1, 2006, based on the grant date fair value estimated in accordance with SFAS 123(R).

During the nine months ended September 30, 2007 and 2006, we granted options for 827,113 and 843,500 shares of common stock, respectively. We recorded stock option expense of \$1.2 million and \$1.8 million during the three months ended September 30, 2007 and 2006, respectively. We recorded stock option expense of \$3.5 million and \$5.5 million during the nine months ended September 30, 2007 and 2006, respectively.

We also issued 271,264 shares of restricted stock during the nine months ended September 30, 2007. No shares of restricted stock were issued during 2006. We recorded restricted stock expense of \$0.6 million and \$26,000 during the three months ended September 30, 2007 and 2006, respectively. We recorded restricted stock expense of \$1.5 million and \$93,000 during the nine months ended September 30, 2007 and 2006, respectively.

**7. Income Taxes**

On January 1, 2007, the Company adopted the provisions of FASB Interpretation No 48, Accounting for Uncertainty in Income Taxes ( FIN 48 ). As a result of the implementation of FIN 48, the Company recognized an increase of \$2.6 million in the gross liability for unrecognized tax benefits, and recorded a corresponding deferred tax asset for future benefits of \$0.7 million, with the net amount of \$1.9 million accounted for as a decrease to the January 1, 2007 balance of retained earnings. As of the date of adoption and after the impact of recognizing the increase in liability noted above, the Company's unrecognized tax benefits totaled \$7.6 million mainly related to research and development credits and intercompany transactions, of which \$6.0 million, if recognized, would affect the effective tax rate.

The Company recognizes potential accrued interest and penalties related to unrecognized tax benefits within its global operations in income tax expense. In conjunction with the adoption of FIN 48, the Company recognized approximately \$2.6 million for the potential payment of interest and penalties at

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January 1, 2007, which is included as a component of the unrecognized tax benefits noted above. To the extent interest and penalties are not assessed with respect to uncertain tax positions, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision.

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 U.S. Federal, state and local, or non-U.S. income tax examinations for years before 1999.

In the first quarter of 2007, the Internal Revenue Service ( IRS ) commenced an examination of our Evant subsidiary for its tax year 2004 (prior to our acquisition of that company). This exam was concluded in the third quarter resulting in no changes to the taxpayer. The IRS commenced an examination of the Company's U.S. Federal income tax return for 2005 in the second quarter of 2007. It is anticipated that the examination will not be completed within the next twelve months.

During the third quarter of 2007, various state audits were settled, resulting in adjustments to reduce the reserve balance by \$0.4 million. In addition, the Company's subsidiary audit in France was settled with no change.

The Company does not anticipate that total unrecognized tax benefits will significantly change in the next twelve months due to the settlement of audits and the expiration of statute of limitations prior to September 30, 2008.

**8. 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:

|   | <b>Three Months<br/>Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|---|---|-------------|--|-------------|
|   | <b>2007</b>                                     | <b>2006</b> | <b>2007</b>                                | <b>2006</b> |
|   | (in thousands)                                  |             |  |             |
| Net income  | \$ 7,885  | \$ 5,244    | \$ 22,297                                  | \$ 14,517   |
| Other comprehensive income (loss), net of tax:        |   |             |  |             |
| Unrealized (loss) gain on investments, net of taxes   | 51  | 95          | 30   | 159         |
| Foreign currency translation adjustment, net of taxes | (170)   | 362         | 1,160                                      | 158         |
| Total other comprehensive income (loss), net of taxes | (119)   | 457         | 1,190                                      | 317         |
| Comprehensive income                                  | \$ 7,766  | \$ 5,701    | \$ 23,487                                  | \$ 14,834   |

**9. Net Income Per Share**

Basic net income 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

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

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

|   | <b>Three Months Ended</b>                |             | <b>Nine Months Ended</b> |             |
|---|--|-------------|--------------------------|-------------|
|   | <b>September 30,</b>                     |             | <b>September 30,</b>     |             |
|   | <b>2007</b>                              | <b>2006</b> | <b>2007</b>              | <b>2006</b> |
|   | (in thousands, except per share amounts) |             |                          |             |
| Net income                                | \$ 7,885                                 | \$ 5,244    | \$ 22,297                | \$ 14,517   |
| <b>Earnings per Share:</b>                |  |             |                          |             |
| Basic                                     | \$ 0.31                                  | \$ 0.19     | \$ 0.84                  | \$ 0.53     |
| Effect of CESs                            | (0.02)                                   |             | (0.04)                   | (0.01)      |
| Diluted                                   | \$ 0.29                                  | \$ 0.19     | \$ 0.80                  | \$ 0.52     |
| <b>Weighted average number of shares:</b> |  |             |                          |             |
| Basic                                     | 25,739                                   | 26,969      | 26,536                   | 27,151      |
| Effect of CESs                            | 1,140                                    | 493         | 1,187                    | 537         |
| Diluted                                   | 26,879                                   | 27,462      | 27,723                   | 27,688      |

Weighted average shares issuable upon the exercise of stock options that were not included in the calculation of diluted earnings per share were 1,359,931 shares and 4,571,883 shares for the three months ended September 30, 2007 and 2006, respectively, and 1,359,931 shares and 5,228,033 shares for the nine months ended September 30, 2007 and 2006, respectively. Such shares were not included because they were antidilutive.

**10. Contingencies**

From time to time, we may be involved in litigation relating to claims arising out of our ordinary course of business. Many of our installations involve products that are critical to the operations of our clients' businesses. Any failure in a product 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 that the limitations of liability set forth in our 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. We expense legal costs associated with loss contingencies as such legal costs are incurred.

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**11. Operating Segments**

We operate our business in three geographical segments: the Americas, Europe, Middle East and Africa ( EMEA ) and Asia Pacific. The information for the periods presented below reflects these segments. All segments derive revenue from the sale and implementation of our 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. We use 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 Asia Pacific segments based on software licenses sold by those operating segments. The royalties, which totaled approximately \$0.7 million and \$0.3 million for the three months ended September 30, 2007 and 2006, respectively, and \$1.9 million and \$1.6 million for the nine months ended September 30, 2007 and 2006, respectively, are included in cost of revenue in EMEA and Asia Pacific 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 our India operations.

In accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, we have included a summary of the financial information by reporting segment. The following table presents the revenues, expenses and operating income (loss) by reporting segment for the three and nine months ended September 30, 2007 and 2006 (in thousands):

**Table of Contents****For the three months ended September 30, 2007**

|                               | Americas  | EMEA     | Asia<br>Pacific | Total     |
|-------------------------------|-----------|----------|-----------------|-----------|
| <b>Revenue:</b>               |           |          |                 |           |
| License                       | \$ 14,348 | \$ 2,308 | \$ 647          | \$ 17,303 |
| Services                      | 47,723    | 7,417    | 3,297           | 58,437    |
| Hardware and other            | 7,779     | 738      | 332             | 8,849     |
| Total revenue                 | 69,850    | 10,463   | 4,276           | 84,589    |
| <b>Costs and Expenses:</b>    |           |          |                 |           |
| Cost of revenue               | 28,654    | 5,729    | 2,850           | 37,233    |
| Operating expenses            | 29,160    | 3,094    | 1,109           | 33,363    |
| Depreciation and amortization | 3,142     | 208      | 56              | 3,406     |
| Total costs and expenses      | 60,956    | 9,031    | 4,015           | 74,002    |
| Operating income              | \$ 8,894  | \$ 1,432 | \$ 261          | \$ 10,587 |

**For the three months ended September 30, 2006**

|                               | Americas  | EMEA     | Asia<br>Pacific | Total     |
|-------------------------------|-----------|----------|-----------------|-----------|
| <b>Revenue:</b>               |           |          |                 |           |
| License                       | \$ 13,980 | \$ 993   | \$ 244          | \$ 15,217 |
| Services                      | 41,324    | 5,021    | 4,704           | 51,049    |
| Hardware and other            | 5,494     | 464      | 88              | 6,046     |
| Total revenue                 | 60,798    | 6,478    | 5,036           | 72,312    |
| <b>Costs and Expenses:</b>    |           |          |                 |           |
| Cost of revenue               | 23,225    | 4,221    | 3,541           | 30,987    |
| Operating expenses            | 24,981    | 2,804    | 1,283           | 29,068    |
| Depreciation and amortization | 3,017     | 292      | 68              | 3,377     |
| Asset impairment charge       | 270       |          |                 | 270       |
| Acquisition-related charges   | 174       |          |                 | 174       |
| Total costs and expenses      | 51,667    | 7,317    | 4,892           | 63,876    |
| Operating income (loss)       | \$ 9,131  | \$ (839) | \$ 144          | \$ 8,436  |

**Table of Contents****For the nine months ended September 30, 2007**

|                               | Americas  | EMEA     | Asia<br>Pacific | Total     |
|-------------------------------|-----------|----------|-----------------|-----------|
| <b>Revenue:</b>               |           |          |                 |           |
| License                       | \$ 46,694 | \$ 6,574 | \$ 1,186        | \$ 54,454 |
| Services                      | 140,362   | 18,120   | 10,618          | 169,100   |
| Hardware and other            | 26,839    | 1,422    | 593             | 28,854    |
| Total revenue                 | 213,895   | 26,116   | 12,397          | 252,408   |
| <b>Costs and Expenses:</b>    |           |          |                 |           |
| Cost of revenue               | 86,582    | 15,016   | 8,589           | 110,187   |
| Operating expenses            | 88,022    | 9,088    | 3,309           | 100,419   |
| Depreciation and amortization | 9,325     | 756      | 180             | 10,261    |
| Total costs and expenses      | 183,929   | 24,860   | 12,078          | 220,867   |
| Operating income              | \$ 29,966 | \$ 1,256 | \$ 319          | \$ 31,541 |

**For the nine months ended September 30, 2006**

|                               | Americas  | EMEA     | Asia<br>Pacific | Total     |
|-------------------------------|-----------|----------|-----------------|-----------|
| <b>Revenue:</b>               |           |          |                 |           |
| License                       | \$ 41,189 | \$ 3,176 | \$ 3,175        | \$ 47,540 |
| Services                      | 116,795   | 16,180   | 11,667          | 144,642   |
| Hardware and other            | 19,652    | 924      | 240             | 20,816    |
| Total revenue                 | 177,636   | 20,280   | 15,082          | 212,998   |
| <b>Costs and Expenses:</b>    |           |          |                 |           |
| Cost of revenue               | 70,392    | 12,322   | 9,932           | 92,646    |
| Operating expenses            | 74,953    | 7,660    | 3,666           | 86,279    |
| Depreciation and amortization | 8,825     | 889      | 200             | 9,914     |
| Asset impairment charge       | 270       |          |                 | 270       |
| Acquisition-related charges   | 1,503     |          |                 | 1,503     |
| Total costs and expenses      | 155,943   | 20,871   | 13,798          | 190,612   |
| Operating income (loss)       | \$ 21,693 | \$ (591) | \$ 1,284        | \$ 22,386 |

Our services revenue consists of fees generated from professional services and customer support and software enhancements related to our software products as follows:

| Three Months Ended<br>September 30,<br>2007 |      | Nine Months Ended<br>September 30,<br>2007 |      |
|---|------|--|------|
| 2007  | 2006 | 2007                                       | 2006 |
| (in thousands)                              |      | (in thousands)                             |      |



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|  |           |           |            |            |
|--|-----------|-----------|------------|------------|
| Professional services                      | \$ 41,488 | \$ 36,105 | \$ 120,184 | \$ 102,282 |
| Customer support and software enhancements | 16,949    | 14,944    | 48,916     | 42,360     |
| Total services revenue                     | \$ 58,437 | \$ 51,049 | \$ 169,100 | \$ 144,642 |

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License revenues related to our warehouse and non-warehouse product groups are as follows:

|                       | Three Months Ended |           | Nine Months Ended |           |
|-----------------------|--------------------|-----------|-------------------|-----------|
|                       | September 30,      |           | September 30,     |           |
|                       | 2007               | 2006      | 2007              | 2006      |
|                       | (in thousands)     |           | (in thousands)    |           |
| Warehouse             | \$ 10,290          | \$ 8,834  | \$ 28,771         | \$ 25,496 |
| Non-Warehouse         | 7,013              | 6,383     | 25,683            | 22,044    |
| Total license revenue | \$ 17,303          | \$ 15,217 | \$ 54,454         | \$ 47,540 |

**12. New Accounting Pronouncements**

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* ( SFAS No. 159 ). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS No. 159 does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in FASB Statements No. 157, *Fair Value Measurements*, and No. 107, *Disclosures about Fair Value of Financial Instruments*. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company does not expect that the implementation SFAS No. 159 will have a material impact on our consolidated financial statements.

On January 1, 2007, the Company adopted the provisions of FASB Interpretation No 48, *Accounting for Uncertainty in Income Taxes* ( FIN 48 ). FIN 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. See Note 7, *Income Taxes*, for further discussion.

**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, 2006. 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, 2007 and 2006, 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, 2006.

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

**Business**

We are a leading developer and provider of technology-based supply chain software solutions that help companies manage the effectiveness and efficiency of their supply chain. Our business is organized into three geographical reporting segments: Americas (North America and Latin America), EMEA (Europe, Middle East and Africa), and APAC (Asia Pacific). Each of these reporting segments has unique characteristics and faces different challenges and opportunities. In each of these segments, we provide solutions that consist of a combination of software, services, and hardware used for planning and execution of supply chain activities. These solutions help coordinate the actions and communication of manufacturers, suppliers, distributors, retailers, transportation providers and consumers.

Our solutions consist of two main areas *supply chain planning* and *supply chain execution*, which together represent our supply chain management solutions.

*Supply Chain Planning.* We call the combination of our supply chain planning solutions Integrated Planning Solutions . Integrated Planning Solutions consist of Advanced Planning, Demand Forecasting and Replenishment.

With our Advanced Planning solutions comprising Financial and Item Planning, Catalog Planning, Web Planning and Promotion Planning companies can plan their inventory using several methodologies. Financial and Item planning enables companies to develop top-down and bottom-up plans across multiple channels and multiple levels of the product hierarchy. Catalog Planning and Web Planning support the unique planning requirements of the catalog and Web channels. With Promotion Planning, companies are able to plan and manage promotional events and assortments.

Demand Forecasting enables companies to generate and maintain forecasts at different levels of product data. It also includes a Promotion Forecasting solution which generates a promotion forecast and promotional lift based on historical sales.

Finally, Replenishment helps companies regulate, maintain and deploy inventory, as well as supports Vendor Managed Inventory, which allows suppliers to manage their own replenishment.

*Supply Chain Execution.* We refer to the combination of our supply chain execution solutions as Integrated Logistics Solution . Integrated Logistics Solutions consist of Distributed Order Management, Warehouse Management, Slotting Optimization, Labor Management, Yard Management, Transportation Management Systems (TMS), Trading Partner Management (TPM), Reverse Logistics Management and RFID Solutions.

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Distributed Order Management manages the order fulfillment process, capturing and allocating orders across the supply chain to balance supply with demand.

Warehouse Management manages the processes that take place in a distribution center, beginning with the placement of an order by a customer and ending with order fulfillment.

Slotting Optimization determines the optimal layout of a facility.

Labor Management enables the tracking, monitoring and management of employee activities within the warehouse.

Transportation Management allows companies to optimally plan and execute transportation services.

Yard Management plans, executes, tracks and audits all incoming and outgoing loads, managing both the yard and dock door.

Trading Partner Management synchronizes the business processes and communication of suppliers, manufacturers, distributors, logistics service providers and customers.

Reverse Logistics Management manages and automates the returns process tracking, storing, referencing and reporting on returned merchandise to increase net asset recovery.

Our RFID Solutions help capture and track electronic product code ( EPC ) data and utilize this information to better manage and track inventory.

For all of our solutions, we offer services such as design, configuration, implementation, product assessment and training plus customer support and software enhancement subscriptions.

Certain developments described in the next section affect the comparability of our financial results for the three and nine months ended September 30, 2007 and 2006.

**Recent Developments**

*Adoption of FIN 48.* On January 1, 2007, the Company adopted the provisions of FASB Interpretation No 48, Accounting for Uncertainty in Income Taxes ( FIN 48 ). As a result of the implementation of FIN 48, the Company recognized an increase of \$2.6 million in the gross liability for unrecognized tax benefits, and recorded a corresponding deferred tax asset for future benefits of \$0.7 million, with the net amount of \$1.9 million accounted for as a decrease to the January 1, 2007 balance of retained earnings. As of the date of adoption and after the impact of recognizing the increase in liability noted above, the Company's unrecognized tax benefits totaled \$7.6 million, of which \$6.0 million, if recognized, would affect the effective tax rate.

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**Highlights of Third Quarter 2007 Condensed Consolidated Financial Results**

Summarized highlights of the 2007 third quarter results, as compared to the 2006 third quarter are:

Consolidated revenue increased 17% to \$84.6 million;

o License revenue increased 14% to \$17.3 million;

o Services revenue increased 14%, to \$58.4 million;

Operating income increased 25% to \$10.6 million;

Diluted earnings per share increased 53% to \$0.29 per share;

Cash and investments on hand at September 30, 2007, was \$82.0 million; and

The Company repurchased 809,680 common shares totaling \$22.2 million at an average share price of \$27.37 in the quarter.

**Results of Operations**

**Overview**

Our primary goal is to expand our position as a leading provider of technology-based supply chain solutions that help companies manage the effectiveness and efficiency of their supply chain by delivering integrated, modular solutions to our customers. With the addition and integration of new products resulting from the acquisitions completed during the last three years, along with releases of new versions of our product suite with enhanced functionality, we have been able to accomplish continued revenue growth.

In 2007, we plan to continue to enhance both our supply chain planning and supply chain execution solutions, expand globally and further develop our sales and marketing, including strategic alliances and indirect sales channels. Our success could be limited by several factors, including spending on information technology, the timely release of quality new products and releases, continued market acceptance of our solutions and the introduction of new products by existing or new competitors.

The following table summarizes our consolidated results for the three and nine months ended September 30, 2007 and 2006.

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|   | <b>Three Months Ended<br/>September 30,</b>  |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|---|--|-------------|--|-------------|
|   | <b>2007</b>                                  | <b>2006</b> | <b>2007</b>                                | <b>2006</b> |
|   | <b>(in thousands, except per share data)</b> |             |  |             |
| Revenue                                   | \$ 84,589                                    | \$ 72,312   | \$ 252,408                                 | \$ 212,998  |
| Costs & expense                           | 74,002                                       | 63,876      | 220,867                                    | 190,612     |
| Operating income                          | 10,587                                       | 8,436       | 31,541                                     | 22,386      |
| Other income, net                         | 1,619  | 630         | 3,009                                      | 2,727       |
| Income before taxes                       | 12,206                                       | 9,066       | 34,550                                     | 25,113      |
| Net income                                | \$ 7,885                                     | \$ 5,244    | \$ 22,297                                  | \$ 14,517   |
| Diluted net income per share              | \$ 0.29                                      | \$ 0.19     | \$ 0.80                                    | \$ 0.52     |
| Diluted weighted average number of shares | 26,879                                       | 27,462      | 27,723                                     | 27,668      |

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We manage our business based on three geographic regions: the Americas, EMEA, and Asia Pacific. Geographic revenue information is based on the location of sale. During the three and nine months ended September 30, 2007 and 2006, 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:

|                                 | Three Months Ended September 30, |           |                                | Nine Months Ended September 30, |            |                                |
|---------------------------------|----------------------------------|-----------|--------------------------------|---------------------------------|------------|--------------------------------|
|                                 | 2007                             | 2006      | %<br>Change<br>2006 to<br>2007 | 2007                            | 2006       | %<br>Change<br>2006 to<br>2007 |
|                                 | (in thousands)                   |           |                                | (in thousands)                  |            |                                |
| <b>Revenue:</b>                 |                                  |           |                                |                                 |            |                                |
| <b>License</b>                  |                                  |           |                                |                                 |            |                                |
| Americas                        | \$ 14,348                        | \$ 13,980 | 3%                             | \$ 46,694                       | \$ 41,189  | 13%                            |
| EMEA                            | 2,308                            | 993       | 132%                           | 6,574                           | 3,176      | 107%                           |
| Asia/Pacific                    | 647                              | 244       | 165%                           | 1,186                           | 3,175      | -63%                           |
| Total License                   | \$ 17,303                        | \$ 15,217 | 14%                            | \$ 54,454                       | \$ 47,540  | 15%                            |
| <b>Services</b>                 |                                  |           |                                |                                 |            |                                |
| Americas                        | \$ 47,723                        | \$ 41,324 | 15%                            | \$ 140,362                      | \$ 116,795 | 20%                            |
| EMEA                            | 7,417                            | 5,021     | 48%                            | 18,120                          | 16,180     | 12%                            |
| Asia/Pacific                    | 3,297                            | 4,704     | -30%                           | 10,618                          | 11,667     | -9%                            |
| Total Services                  | \$ 58,437                        | \$ 51,049 | 14%                            | \$ 169,100                      | \$ 144,642 | 17%                            |
| <b>Hardware and other</b>       |                                  |           |                                |                                 |            |                                |
| Americas                        | \$ 7,779                         | \$ 5,494  | 42%                            | \$ 26,839                       | \$ 19,652  | 37%                            |
| EMEA                            | 738                              | 464       | 59%                            | 1,422                           | 924        | 54%                            |
| Asia/Pacific                    | 332                              | 88        | 277%                           | 593                             | 240        | 147%                           |
| Total Hardware and other        | \$ 8,849                         | \$ 6,046  | 46%                            | \$ 28,854                       | \$ 20,816  | 39%                            |
| <b>Total Revenue</b>            |                                  |           |                                |                                 |            |                                |
| Americas                        | \$ 69,850                        | \$ 60,798 | 15%                            | \$ 213,895                      | \$ 177,636 | 20%                            |
| EMEA                            | 10,463                           | 6,478     | 62%                            | 26,116                          | 20,280     | 29%                            |
| Asia/Pacific                    | 4,276                            | 5,036     | -15%                           | 12,397                          | 15,082     | -18%                           |
| Total Revenue                   | \$ 84,589                        | \$ 72,312 | 17%                            | \$ 252,408                      | \$ 212,998 | 19%                            |
| <b>Operating income/(loss):</b> |                                  |           |                                |                                 |            |                                |
| Americas                        | \$ 8,894                         | \$ 9,131  | -3%                            | \$ 29,966                       | \$ 21,693  | 38%                            |
| EMEA                            | 1,432                            | (839)     | 271%                           | 1,256                           | (591)      | 313%                           |
| Asia/Pacific                    | 261                              | 144       | 81%                            | 319                             | 1,284      | -75%                           |

|                        |           |          |     |           |           |     |
|------------------------|-----------|----------|-----|-----------|-----------|-----|
| Total Operating income | \$ 10,587 | \$ 8,436 | 25% | \$ 31,541 | \$ 22,386 | 41% |
|------------------------|-----------|----------|-----|-----------|-----------|-----|



**Table of Contents****Quarter Ended September 30, 2007 Compared to Quarter Ended September 30, 2006**

The results of our operations for third quarter 2007 and 2006 are discussed below.

**Revenue**

|                    | Quarter Ended September<br>30, |           | %<br>Change<br>2006 to<br>2007 | % of total Revenue |      |
|--------------------|--------------------------------|-----------|--------------------------------|--------------------|------|
|                    | 2007                           | 2006      |                                | 2007               | 2006 |
|                    | (in thousands)                 |           |                                |                    |      |
| License            | \$ 17,303                      | \$ 15,217 | 14%                            | 20%                | 21%  |
| Services           | 58,437                         | 51,049    | 14%                            | 69%                | 71%  |
| Hardware and other | 8,849                          | 6,046     | 46%                            | 10%                | 8%   |
| Total revenue      | \$ 84,589                      | \$ 72,312 | 17%                            | 100%               | 100% |

Our revenue consists of fees generated from the licensing and hosting of software; fees from professional services and customer support and software enhancements; and sales of complementary radio frequency and computer equipment. We believe our revenue growth in the last two years is attributable to several factors, including, among others, our market leadership position as to the breadth of our product offerings, financial stability, a compelling return on investment proposition for our customers, increased services associated with implementations of our expanded product suite, and geographic expansion.

*License revenue.* License revenue increased 14% in the quarter ended September 30, 2007 over the prior year primarily driven by strong growth in our EMEA segment. The Americas license and hosting revenues increased \$0.4 million, or 3%, compared to the prior year third quarter of 2006. EMEA license revenue increased \$1.3 million to \$2.3 million, more than double the license revenue for the third quarter of 2006. Asia Pacific license revenue increased \$0.4 million over the third quarter of 2006 to \$0.6 million.

License sales mix across our product suite remained well-balanced in the quarter with 59% of sales in our warehouse management solutions and 41% in non-warehouse management solutions. With our expanded suite of supply chain solutions we continue to see growth in both our core warehouse management solutions with 16% growth in the quarter and non-warehouse management solutions growth of 10% over the prior year quarter.

*Services revenue.* Services revenue increased 14% in the third quarter of 2007 principally due to: (i) a 15% increase of professional services revenue from larger implementation projects and increased license sales; and (ii) a 13% increase in revenue from customer support and software enhancements. The Americas segment led the growth in revenue with an increase in services revenue of \$6.4 million, or 15%, from third quarter 2006 to third quarter 2007. Services revenue in EMEA also increased by \$2.4 million, or 48%, from third quarter 2006 to third quarter 2007 due to higher license revenue in the second and third quarter of 2007. These increases were partially offset by a decrease in Asia Pacific services revenue of \$1.4 million, or 30%, from third quarter 2006 to third quarter 2007 due to lower license revenue.

Over the past several years, we have experienced some pricing pressures with regard to our services. We believe that the pricing pressures are attributable to global macro-economic conditions and competitive pressures. In addition, our services revenue growth has been and will likely continue to be affected by the mix of products sold. The individual engagements involving our non-warehouse management solutions typically require less implementation services.

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*Hardware and other.* Sales of hardware increased by 46% to \$8.8 million in the third quarter of 2007 compared to \$6.0 million in the third quarter of 2006. 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. For the quarters ended September 30, 2007 and 2006, reimbursements by customers for out-of-pocket expenses were approximately \$3.2 million and \$2.7 million, respectively.

**Cost of Revenue**

|                            | Quarter Ended September<br>30, |          | % Change<br>2006 to<br>2007 |
|----------------------------|--------------------------------|----------|-----------------------------|
|                            | 2007                           | 2006     |                             |
|                            | (in thousands)                 |          |                             |
| Cost of license            | \$ 1,599                       | \$ 1,400 | 14%                         |
| Cost of services           | \$28,348                       | \$24,331 | 17%                         |
| Cost of hardware and other | \$ 7,286                       | \$ 5,356 | 36%                         |

*Cost of license.* Cost of license consists of the costs associated with software reproduction; hosting services; funded development; media, packaging and delivery, documentation and other related costs; and royalties on third-party software sold with or as part of our products. The increase in cost of license in the third quarter of 2007 is mainly attributable to an increase in royalties paid for our 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 increase in cost of services in the quarter ended September 30, 2007 was principally due to increases in salary-related costs resulting from: (i) a 20% increase in the average number of personnel dedicated to the delivery of professional services; and (ii) annual compensation increases for 2007, effective January 1, 2007.

Services gross margin decreased slightly to 51.5% in the third quarter of 2007 from 52.3% in the third quarter of 2006. The decline in margins is due to a 20% increase in headcount additions to support growing demand for our services engagements combined with a shift in product mix of our more mature i-series platforms to open systems platforms.

*Cost of hardware and other.* Cost of hardware increased to approximately \$7.3 million in the third quarter of 2007 from approximately \$5.4 million in the third quarter of 2006 as a direct result of higher sales of hardware. Cost of hardware and other includes out-of-pocket expenses to be reimbursed by customers of approximately \$3.2 million and \$2.7 million for the quarters ended September 30, 2007 and 2006, respectively. The increase in reimbursed out-of-pocket expenses is due to increased travel related to the increase in services projects.

**Table of Contents****Operating Expenses**

|                               | <b>Quarter Ended September<br/>30,</b> |             | <b>% Change<br/>2006 to<br/>2007</b> |
|-------------------------------|--|-------------|--------------------------------------|
|                               | <b>2007</b>                            | <b>2006</b> |                                      |
|                               | <b>(in thousands)</b>                  |             |                                      |
| Research and development      | \$ 11,887                              | \$ 9,765    | 22%                                  |
| Sales and marketing           | \$ 13,079                              | \$ 11,407   | 15%                                  |
| General and administrative    | \$ 8,397                               | \$ 7,896    | 6%                                   |
| Depreciation and amortization | \$ 3,406                               | \$ 3,377    | 1%                                   |
| Asset impairment charges      | \$                                     | \$ 270      | -100%                                |
| Acquisition-related charges   | \$                                     | \$ 174      | -100%                                |

*Research and development.* Research and development expenses primarily consist of salaries and other personnel-related costs for personnel involved in our research and development activities. The increase in research and development expenses in the quarter ended September 30, 2007 was attributable to an increase in salary-related costs of \$1.8 million resulting from additional personnel combined with annual compensation increases effective January 1, 2007. The number of research and development personnel in our India operations increased 14% at September 30, 2007 over September 30, 2006. Changes in the Indian Rupee exchange rate resulted in an increase of \$0.4 million from the third quarter 2006 to 2007. Our principal research and development activities during 2007 and 2006 focused on the expansion and integration of new products acquired and new product releases and expanding the product footprint of both our comprehensive Integrated Logistics Solutions and Integrated Planning Solutions product suites. In addition, we invested in our Logistics Event Management Architecture ( LEMA ) platform, which is designed to provide our customers with a comprehensive, services-oriented supply chain platform. For the quarters ended September 30, 2007 and 2006, we capitalized no 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. The increase in sales and marketing expenses in the third quarter of 2007 was attributable to: (i) a \$0.8 million increase in bonus and incentive compensation expense relating to higher license fees in the third quarter of 2007 combined with annual compensation increases effective January 1, 2007, and (ii) a \$0.4 million increase in expense related to our marketing programs.

*General and administrative.* General and administrative expenses consist primarily of salaries and other personnel-related costs of executive, financial, human resources, information technology and administrative personnel, as well as facilities, legal, insurance, accounting and other administrative expenses. The net increase in general and administrative expenses during the quarter ended September 30, 2007 was attributable to: (i) an increase in salary-related costs resulting from additional personnel combined with annual compensation increases effective January 1, 2007, and (ii) an increase in stock compensation expense.

*Depreciation and amortization.* Depreciation expense was \$2.2 million for both quarters ended September 30, 2007 and 2006. Amortization of intangibles totaled \$1.2 million for both quarters ended September 30, 2007 and 2006. We have recorded goodwill and other acquisition-related intangible assets as part of the purchase accounting associated with various acquisitions, including the acquisitions of Evant in August 2005, eebiznet in July 2004, Avere, Inc. in January 2004, ReturnCentral, Inc. in June 2003, and Logistics.com, Inc. in December 2002.

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*Asset impairment charges.* In July 2003, the Company invested \$2.0 million in a technology company. During the quarter ended September 30, 2006, the Company recorded an asset impairment charge of \$0.3 million based on our assessment of uncertainties with the fair value of our investment following an unsuccessful public offering.

*Acquisition-related charges.* The \$0.2 million of charges for 2006 represent employee retention bonuses incurred in connection with the Evant acquisition. At the closing of the Evant acquisition, \$2.8 million was deposited into escrow for employee retention purposes and was distributed to employees upon completion of up to 12 months of service with us. The \$2.8 million was recorded as a prepaid asset, and was recognized as compensation expense ratably over the required employee retention period. During 2006, we completed the Evant retention bonus program and paid out the final bonuses.

**Operating Income**

*Income from Operations.* Operating income in the third quarter of 2007 increased by \$2.2 million or 25% on consolidated revenue growth of 17%. Operating margins increased from 11.7% in the third quarter of 2006 to 12.5% in the third quarter of 2007. The incremental profit contribution and margin increase is the result of strong revenue performance along with slightly lower stock compensation expense and a decrease in acquisition-related expenses and asset impairment charges in the third quarter of 2007. These increases were offset slightly by a decrease of \$0.6 million in operating income caused by changes in foreign exchange rates, principally the Indian Rupee, from 2006 to 2007. Operating income in the Americas segment decreased slightly by 3%. Operating income in the EMEA segment increased by \$2.3 million due to strong revenue growth in the third quarter of 2007. Operating income in Asia Pacific increased slightly by \$0.1 million.

**Other Income and Taxes**

|                      | <b>Quarter Ended September 30,</b> |             |
|----------------------|------------------------------------|-------------|
|                      | <b>2007</b>                        | <b>2006</b> |
|                      | <b>(in thousands)</b>              |             |
| Other income, net    | \$ 1,619                           | \$ 630      |
| Income tax provision | \$ 4,321                           | \$ 3,822    |

*Other income, net.* Other income, net principally includes interest income and foreign currency gains and losses. Interest income increased to \$0.8 million in 2007 from \$0.7 million in 2006. The weighted-average interest rate earned on investment securities during the three month periods ended September 30, 2007 and 2006 was approximately 4.1% and 3.6%, respectively. We recorded a net foreign currency gain of \$0.9 million during the three months ended September 30, 2007. The foreign currency gains and losses resulted from gains or losses on intercompany balances with subsidiaries due to the fluctuation of the U.S. dollar relative to other foreign currencies, primarily the Indian Rupee, the Australian Dollar, the British Pound and the Euro.

*Income tax provision.* Our effective income tax rates were 35.5% and 42.2% in the quarters ended September 30, 2007 and 2006, respectively. The reduction in the effective income tax rate was a result of continued tax planning and implementation of various state and international tax planning strategies.

**Table of Contents****Nine Months Ended September 30, 2007 Compared to Nine Months Ended September 30, 2006**

The results of our operations for the first nine months of 2007 and 2006 are discussed below.

**Revenue**

|                    | Nine Months Ended<br>September 30, |            | %<br>Change<br>2006 to<br>2007 | % of total<br>Revenue |      |
|--------------------|------------------------------------|------------|--------------------------------|-----------------------|------|
|                    | 2007                               | 2006       |                                | 2007                  | 2006 |
|                    | (in thousands)                     |            |                                |                       |      |
| License            | \$ 54,454                          | \$ 47,540  | 15%                            | 22%                   | 22%  |
| Services           | 169,100                            | 144,642    | 17%                            | 67%                   | 68%  |
| Hardware and other | 28,854                             | 20,816     | 39%                            | 11%                   | 10%  |
| Total revenue      | \$ 252,408                         | \$ 212,998 | 19%                            | 100%                  | 100% |

*License revenue.* License revenue increased 15% in the nine months ended September 30, 2007 over the prior year driven by strong growth in our Americas segment. The Americas license and hosting revenues increased \$5.5 million, or 13%, compared to the first nine months of 2006. EMEA license revenue increased \$3.4 million, or 107%, compared to the first nine months of 2006. These increases were partially offset by a decline in Asia Pacific license sales of \$2.0 million.

License sales mix across our product suite remained well-balanced in the first nine months of 2007 with 53% of sales in our warehouse management solutions and 47% in non-warehouse management solutions. With our expanded suite of supply chain solutions we continue to see growth in both our core warehouse management solutions with 13% growth and non-warehouse management solutions growth of 17% over the prior year quarter.

*Services revenue.* Services revenue increased 17% in the first nine months of 2007 principally due to: (i) a 18% increase of professional services revenue from larger implementation projects and increased license sales; and (ii) a 15% increase in revenue from customer support and software enhancements. The Americas segment led the growth with an increase in services revenue of \$23.6 million, or 20%, from the first nine months of 2006 to the first nine months of 2007. Services revenue in EMEA also increased by \$1.9 million, or 12%, from the first nine months of 2006 to the first nine months of 2007 due to strong license growth and related implementation service revenue in the second and third quarter of 2007. These increases were partially offset by a decrease in Asia Pacific services revenue of \$1.0 million, or 9%, from the first nine months of 2006 to the first nine months of 2007.

Over the past several years, we have experienced some pricing pressures with regard to our services. We believe that the pricing pressures are attributable to global macro-economic conditions and competitive pressures. In addition, our services revenue growth has been and will likely continue to be affected by the mix of products sold. The individual engagements involving our non-warehouse management solutions typically require less implementation services.

*Hardware and other.* Sales of hardware increased by 39% to \$28.9 million in the nine months ended September 30, 2007 compared to \$20.8 million in the nine months ended September 30, 2006. 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. For the nine months ended September 30, 2007 and 2006, reimbursements by customers for out-of-pocket expenses were approximately \$9.3 million and \$7.6 million, respectively.

**Table of Contents****Cost of Revenue**

|                            | <b>Nine Months Ended September</b> |             | <b>% Change<br/>2006 to<br/>2007</b> |
|----------------------------|------------------------------------|-------------|--------------------------------------|
|                            | <b>2007</b>                        | <b>2006</b> |                                      |
|                            | <b>30,</b>                         |             |                                      |
|                            | <b>(in thousands)</b>              |             |                                      |
| Cost of license            | \$ 4,045                           | \$ 4,410    | -8%                                  |
| Cost of services           | \$ 81,631                          | \$ 69,908   | 17%                                  |
| Cost of hardware and other | \$ 24,511                          | \$ 18,328   | 34%                                  |

*Cost of license.* Cost of license consists of the costs associated with software reproduction; hosting services; funded development; media, packaging and delivery, documentation and other related costs; and royalties on third-party software sold with or as part of our products. The decrease in cost of license in the first nine months of 2007 is attributable to a \$0.7 million decrease in third-party software costs partially offset by an increase in the cost of hosting expenses.

*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 increase in cost of services in the nine months ended September 30, 2007 was principally due to increases in salary-related costs resulting from: (i) a 20% increase in the average number of personnel dedicated to the delivery of professional services; and (ii) annual compensation increases for 2007, effective January 1, 2007.

Services gross margin was 51.7% for both the nine months ended September 30, 2007 and 2006.

*Cost of hardware and other.* Cost of hardware increased to approximately \$24.5 million in the nine months ended September 30, 2007 from approximately \$18.3 million in the nine months ended September 30, 2006 as a direct result of increased hardware sales. Hardware margins for the nine months ended September 30, 2007 increased to 15.1% compared to 12.0% for the nine months ended September 30, 2006 due to mix of products sold. Cost of hardware and other includes out-of-pocket expenses to be reimbursed by customers of approximately \$9.5 million and \$7.6 million for the nine months ended September 30, 2007 and 2006, respectively. The increase in reimbursed out-of-pocket expenses is due to increased travel related to the increase in services projects.

Table of Contents**Operating Expenses**

|                               | <b>Nine Months Ended September</b> |             | <b>% Change<br/>2006 to<br/>2007</b> |
|-------------------------------|------------------------------------|-------------|--------------------------------------|
|                               | <b>2007</b>                        | <b>2006</b> |                                      |
|                               | <b>30,</b>                         |             |                                      |
|                               | <b>(in thousands)</b>              |             |                                      |
| Research and development      | \$ 35,316                          | \$ 30,398   | 16%                                  |
| Sales and marketing           | \$ 40,177                          | \$ 34,018   | 18%                                  |
| General and administrative    | \$ 24,926                          | \$ 21,863   | 14%                                  |
| Depreciation and amortization | \$ 10,261                          | \$ 9,914    | 4%                                   |
| Asset impairment charge       | \$                                 | \$ 270      | -100%                                |
| Acquisition-related charges   | \$                                 | \$ 1,503    | -100%                                |

*Research and development.* Research and development expenses primarily consist of salaries and other personnel-related costs for personnel involved in our research and development activities. The increase in research and development expenses in the nine months ended September 30, 2007 was attributable to an increase in salary-related costs of \$4.4 million resulting from additional personnel combined with annual compensation increases effective January 1, 2007. The number of research and development personnel in our India operations increased 14% in the nine months ended September 30, 2007 over the nine months ended September 30, 2006. Changes in the Indian Rupee exchange rate resulted in an increase of \$0.7 million from 2006 to 2007.

Our principal research and development activities during 2007 and 2006 focused on the expansion and integration of new products acquired and new product releases and expanding the product footprint of both our comprehensive Integrated Logistics Solutions and Integrated Planning Solutions product suites. In addition, we invested in our Logistics Event Management Architecture ( LEMA ) platform, which is designed to provide our customers with a comprehensive, services-oriented supply chain platform. For the nine months ended September 30, 2007 and 2006, we capitalized no 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. The increase in sales and marketing expenses in the nine months ended September 30, 2007 over the nine months ended September 30, 2006 was attributable to: (i) an increase in bonus and incentive compensation expense relating to higher license fees in nine months ended September 30, 2007 combined with annual compensation increases effective January 1, 2007, (ii) a \$0.7 million increase in travel and travel-related expenses, and (iii) a \$0.7 million increase in expense related to our annual customer conference.

*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 increase in general and administrative expenses during the nine months ended September 30, 2007 over the nine months ended September 30, 2006 was attributable to: (i) an increase in salary-related costs of \$1.8 million resulting from additional personnel combined with annual compensation increases effective January 1, 2007, and (ii) an increase of approximately \$0.8 million in software maintenance and \$0.4 million in contract labor for additional support of newly implemented applications.

*Depreciation and amortization.* Depreciation expense was \$6.7 million and \$6.3 million during the nine months ended September 30, 2007 and 2006, respectively. Amortization of intangibles totaled \$3.6 million for both the nine months ended September 30, 2007 and 2006. We have

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recorded goodwill and other acquisition-related intangible assets as part of the purchase accounting associated with various acquisitions, including the acquisitions of Evant in August 2005, eebiznet in July 2004, Avere, Inc. in January 2004, ReturnCentral, Inc. in June 2003, and Logistics.com, Inc. in December 2002.

*Asset impairment charges.* In July 2003, the Company invested \$2.0 million in a technology company. During the quarter ended September 30, 2006, the Company recorded an asset impairment charge of \$0.3 million based on our assessment of uncertainties with the fair value of our investment following an unsuccessful public offering.

*Acquisition-related charges.* The \$1.5 million of charges for 2006 represent employee retention bonuses incurred in connection with the Evant acquisition. At the closing of the Evant acquisition, \$2.8 million was deposited into escrow for employee retention purposes and was distributed to employees upon completion of up to 12 months of service with us. The \$2.8 million was recorded as a prepaid asset, and was recognized as compensation expense ratably over the required employee retention period. During 2006, we completed the Evant retention bonus program and paid out the final bonuses.

**Operating Income**

*Income from Operations.* Operating income for the nine months ended September 30, 2007 increased by \$9.2 million on consolidated revenue growth of 19%. Operating margins increased to 12.5% for the nine months ended September 30, 2007 from 10.5% for the nine months ended September 30, 2006. The incremental profit contribution and margin are the result of strong revenue performance along with slightly lower stock compensation expense and a decrease in acquisition-related expenses in the nine months ended September 30, 2007. These increases were offset slightly by a decrease of \$1.0 million in operating income caused by changes in foreign exchange rates, principally the Indian Rupee, from 2006 to 2007. Operating income in the Americas segment increased by \$8.3 million, or 38% due to strong revenue growth. Operating income in EMEA increased to \$1.3 million compared to a loss of \$0.6 million in 2006 due to strong license revenue growth and related implementation services revenue in the second and third quarters of 2007. Asia Pacific operating income declined by \$1.0 million mainly due to the fact no large license deals were signed in 2007.

**Other Income and Taxes**

|                      | <b>Nine Months Ended</b> |             |
|----------------------|--------------------------|-------------|
|                      | <b>September 30,</b>     |             |
|                      | <b>2007</b>              | <b>2006</b> |
|                      | <b>(in thousands)</b>    |             |
| Other income, net    | \$ 3,009                 | \$ 2,727    |
| Income tax provision | \$12,253                 | \$10,596    |

*Other income, net.* Other income, net principally includes interest income and foreign currency gains and losses. Interest income increased to \$2.7 million in the nine months ended September 30, 2007 from \$2.4 million in the nine months ended September 30, 2006 due to an overall increase in market interest rates. The weighted-average interest rate earned on investment securities during the nine month periods ended September 30, 2007 and 2006 was approximately 4.1% and 3.5%, respectively. We recorded a net foreign currency gain of \$0.3 million during the nine months ended September 30, 2007 and 2006. The foreign currency gains resulted from gains or losses on intercompany balances with subsidiaries due to the fluctuation of the U.S. dollar relative to other foreign currencies, primarily the Indian Rupee, the Australian Dollar, the British Pound and the Euro.



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*Income tax provision.* Our effective income tax rates were 35.5% and 42.2% in the nine months ended September 30, 2007 and 2006, respectively. The reduction in the effective income tax rate was a result of continued tax planning and implementation of various state and international tax planning strategies.

**Liquidity and Capital Resources**

We have funded our operations through cash generated from operations. As of September 30, 2007, we had approximately \$82.0 million in cash, cash equivalents and investments, as compared to \$131.1 million at December 31, 2006.

Our operating activities generated cash flow of approximately \$22.6 million for the nine months ended September 30, 2007 and \$41.3 million for the nine months ended September 30, 2006. Cash flow from operating activities for the nine months ended September 30, 2007 decreased due to \$3.0 million of legal settlements paid during the nine months as well as higher working capital requirements driven by revenue growth. Days sales outstanding ( DSO ) increased to 80 days at September 30, 2007 from 73 days at December 31, 2006, as a result of record revenue growth increasing at a faster pace than collections growth.

Our investing activities provided cash of approximately \$55.3 million for the nine months ended September 30, 2007 and used cash of approximately \$37.3 million for the nine months ended September 30, 2006. The source of cash provided by investing activities for the nine months ended September 30, 2007 was from the net maturities of investments of approximately \$63.2 million, offset by capital expenditures of \$7.9 million. The use of cash for investing activities for the nine months ended September 30, 2006 was for the capital expenditures of \$7.5 million and the net purchases of investments of approximately \$29.6 million.

Our financing activities used cash of approximately \$65.0 million and \$9.2 million for the nine months ended September 30, 2007 and 2006, respectively. The principal use of cash for financing activities for the nine months ended September 30, 2007 was to purchase approximately \$74.9 million of our common stock, partially offset by proceeds generated from options exercised of \$9.4 million. The principal use of cash for financing activities for the nine months ended September 30, 2006 was to purchase approximately \$16.0 million of our common stock, partially offset by proceeds generated from options exercised of \$5.1 million and excess tax benefits from stock based compensation of \$1.8 million.

During 2007, we extended the term on our lease for our corporate headquarters to September 2018. Total future minimum lease payments under the revised lease are approximately \$47.3 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, cash equivalents and short-term 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.

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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 estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions were made. To the extent there are material differences between those estimates, judgments or assumptions and actual results, our financial statements will be affected. The accounting policies that we believe reflect our more significant estimates, judgments and assumptions which we have identified as our critical accounting policies are: Revenue Recognition, Allowance for Doubtful Accounts, Valuation of Goodwill, Accounting for Income Taxes, Stock-based Compensation, and Business Combinations.

*Revenue Recognition*

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

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

The accounting related to license revenue recognition in the software industry is complex and affected by interpretations of the rules which are subject to change. Our judgment is required in assessing the probability of collection, which is generally based on evaluation of customer-specific information, historical collection experience and economic market conditions. If market conditions decline, or if the financial condition of our customers deteriorate, we may be unable to determine that collection 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 and customer support 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 and software enhancements are generally paid in advance and recognized ratably over the term of the

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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 and reimbursement of out of pocket expenses incurred by professional services. As part of a complete solution, our customers periodically purchase hardware from us in conjunction with the licensing of software. These products include computer hardware, radio frequency terminal networks, radio frequency identification (RFID) chip readers, bar code printers and scanners and other peripherals. Hardware revenue is recognized upon shipment to the customer when title passes. We generally purchase hardware from our vendors only after receiving an order from a customer. As a result, we do not maintain significant hardware inventory.

In accordance with the Financial Accounting Standard Board's (FASB's) Emerging Issues Task Force (EITF) Issue No. 01-14 (EITF No. 01-14), Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred, we recognize amounts associated with reimbursements from customers for out-of-pocket expenses as revenue. Such amounts have been classified to hardware and other revenue. The total amount of expense reimbursement recorded to revenue was \$3.2 million and \$9.3 million for the three and nine months ended September 30, 2007, respectively and \$2.7 million and \$7.6 million for the three and nine months ended September 30, 2006, respectively.

*Allowance for Doubtful Accounts*

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

*Valuation of Goodwill*

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

Annual tests or other future events could cause us to conclude that impairment indicators exist and that our goodwill is impaired. For example, if we had reason to believe that our recorded goodwill had become impaired due to decreases in the fair market value of the underlying business, we would have to take a charge to income for that portion of goodwill that we believed was impaired. Any resulting impairment loss could have a material adverse impact on our financial position and results of operations. At September 30, 2007 our goodwill balance was \$62.3 million.

*Accounting for Income Taxes*

We provide for the effect of income taxes on our financial position and results of operations in accordance with SFAS No. 109, Accounting for Income Taxes. Under this accounting pronouncement,

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income tax expense is recognized for the amount of income taxes payable or refundable for the current year and for the change in net deferred tax assets or liabilities resulting from events that are recorded for financial reporting purposes in a different reporting period than recorded in the tax return. Management must make significant assumptions, judgments and estimates to determine our current provision for income taxes and also our deferred tax assets and liabilities and any valuation allowance to be recorded against our net deferred tax asset.

Our judgments, assumptions and estimates relative to the current provision for income tax take into account current tax laws, our interpretation of current tax laws, allowable deductions, projected tax credits and possible outcomes of current and future audits conducted by foreign and domestic tax authorities. 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.

On January 1, 2007, the Company adopted the provisions of FASB Interpretation No 48, Accounting for Uncertainty in Income Taxes ( FIN 48 ). As a result of the implementation of FIN 48, the Company recognized an increase of \$2.6 million in the gross liability for unrecognized tax benefits, and recorded a corresponding deferred tax asset for future benefits of \$0.7 million, with the net amount of \$1.9 million accounted for as a decrease to the January 1, 2007 balance of retained earnings. As of the date of adoption and after the impact of recognizing the increase in liability noted above, the Company's unrecognized tax benefits totaled \$7.6 million, of which \$6.0 million, if recognized, would affect the effective tax rate.

*Stock-based compensation*

Prior to January 1, 2006, we accounted for our employee stock option plan under the recognition and measurement provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, as permitted by SFAS No. 123, Accounting for Stock-Based Compensation. No stock-based employee compensation cost related to stock options was recognized in the Statements of Income for periods prior to January 1, 2006, as all stock options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123(R) for stock based compensation.

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

We recognize compensation cost for awards with graded vesting using the straight-line attribution method, with the amount of compensation cost recognized at any date at least equal to the portion of the

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grant-date value of the award that is vested at that date. Compensation cost recognized in any period is affected by the number of stock options granted and the vesting period (which generally is four years), as well as the underlying assumptions used in estimating the fair value on the date of grant. This estimate is dependent upon a number of variables such as the number of options awarded, cancelled or exercised and fluctuations in our share price during the year.

*Business Combinations*

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

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

In connection with purchase price allocations, we estimate the fair value of the support obligations assumed in connection with acquisitions. The estimated fair value of the support obligations is determined utilizing a cost build-up approach. The cost build-up approach determines fair value by estimating the costs related to fulfilling the obligations plus a normal profit margin. The estimated costs to fulfill the support obligations are based on the historical direct costs related to providing the support services and to correct 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 a foreign exchange gain of \$0.3 million during the nine months ended September 30, 2007 and 2006. Foreign exchange rate transaction gains and losses are classified in *Other income, net* on our Condensed Consolidated Statements of Income. A fluctuation of 10% in the period end

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exchange rates at September 30, 2007 relative to the U.S. dollar would result in approximately a \$0.5 million change in the reported foreign currency gain for the nine months ended September 30, 2007.

**Interest Rates**

We invest our cash in a variety of financial instruments, including taxable and tax-advantaged floating rate and fixed rate obligations of corporations, municipalities, and local, state and national governmental entities and agencies. These investments are denominated in U.S. dollars. Cash balances in foreign currencies overseas are derived from operations.

We account for our investment instruments in accordance with Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities ( SFAS No. 115 ). All of the cash equivalents and investments are treated as available-for-sale under SFAS No. 115.

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 on investment securities held at September 30, 2007 and 2006 was approximately 4.1% and 3.5%, respectively. The fair value of investments held at September 30, 2007 was approximately \$67.5 million. Based on the average investments outstanding during the nine months ended September 30, 2007, an increase or decrease of 25 basis points would result in an increase or decrease to interest income of \$0.1 million from the reported interest income for the nine months ended September 30, 2007.

**Item 4. Controls and Procedures.**

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

As of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer evaluated, with the participation of management, 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.

**Change in Internal Control over Financial Reporting**

During the nine months ended September 30, 2007, 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.

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**PART II**  
**OTHER INFORMATION**

**Item 1. Legal Proceedings.**

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 Company product could result in a claim for substantial damages against the Company, regardless of the Company's 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 the limitations of liability set forth in its 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.

**Item 1A. Risk Factors.**

There have been no material changes to the Company's Risk Factors set forth in Item 1A to its Annual Report on Form 10-K for the year ended December 31, 2006.

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

On July 26, 2005, we announced that our Board of Directors authorized us to purchase \$50 million of our common stock, over a period ending no later than July 21, 2006. On July 25, 2006, we announced that our Board of Directors authorized us to purchase an additional \$50 million of our common stock, over a period ending no later than July 20, 2007. On April 25, 2007, we announced that our Board of Directors increased our remaining repurchase authority to \$75 million. A summary of purchases during the third quarter of 2007, all of which were made on the open market, is as follows:

| <b>Period</b>              | <b>Total<br/>Number of<br/>Shares<br/>Purchased</b> | <b>Average<br/>Price<br/>Paid per<br/>Share</b> | <b>Total Number<br/>of<br/>Shares<br/>Purchased as<br/>Part of<br/>Publicly<br/>Announced<br/>Plans or<br/>Programs</b> | <b>Maximum Number<br/>(or<br/>Approximate Dollar<br/>Value) of<br/>Shares that May Yet<br/>Be<br/>Purchased Under the<br/>Plans or<br/>Programs</b> |
|----------------------------|---|---|---|---|
| August 1 - August 31, 2007 | 809,680   | \$ 27.37  | 809,680   | \$ 25,068,686   |
| <b>Total</b>               | 809,680   | \$ 27.37  | 809,680   | \$ 25,068,686   |

On October 23, 2007, we announced that our Board of Directors had increased our remaining repurchase authority to \$50 million.

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

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

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

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.**

- |              |   |
|--------------|---|
| 10.1         | Modification dated July 19, 2007 by and between the Company and Peter F. Sinisgalli to the Executive Employment Agreement dated February 25, 2004 (incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 24, 2007 (Commission File No. 000-23999)). |
| 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: November 8, 2007

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

Date: November 8, 2007

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