

MANHATTAN ASSOCIATES INC
Form 10-Q
July 29, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[Mark One]

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

For the quarterly period ended June 30, 2014

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, Tenth Floor

Atlanta, Georgia
(Address of Principal Executive Offices)

30339
(Zip Code)

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

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of the Registrant's class of capital stock outstanding as of July 25, 2014, the latest practicable date, is as follows: 75,093,714 shares of common stock, \$0.01 par value per share.

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MANHATTAN ASSOCIATES, INC.

FORM 10-Q

Quarter Ended June 30, 2014

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements.**MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES****Condensed Consolidated Balance Sheets****(in thousands, except share and per share data)**

	June 30, 2014 (unaudited)	December 31, 2013
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 91,121	\$ 124,375
Short term investments	10,258	8,581
Accounts receivable, net of allowance of \$3,802 and \$3,156 in 2014 and 2013, respectively	86,694	71,136
Deferred income taxes	7,335	7,300
Income taxes receivable	1,692	
Prepaid expenses and other current assets	9,220	7,346
Total current assets	206,320	218,738
Property and equipment, net	15,037	14,342
Goodwill, net	62,270	62,272
Deferred income taxes	440	427
Other assets	4,551	2,049
Total assets	\$ 288,618	\$ 297,828
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 9,660	\$ 11,555
Accrued compensation and benefits	19,787	19,465
Accrued and other liabilities	10,422	12,225
Deferred revenue	59,996	53,812
Income taxes payable		7,131
Total current liabilities	99,865	104,188
Other non-current liabilities	12,435	12,054

Shareholders' equity:

Preferred stock, no par value; 20,000,000 shares authorized, no shares issued or outstanding in 2014 and 2013			
Common stock, \$0.01 par value; 200,000,000 shares and 100,000,000 shares authorized at June 30, 2014 and December 31, 2013, respectively; 75,120,619 and 76,374,180 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	751		764
Retained earnings	182,071		188,604
Accumulated other comprehensive loss	(6,504)		(7,782)
Total shareholders' equity	176,318		181,586
Total liabilities and shareholders' equity	\$ 288,618	\$	297,828

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**

(in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(unaudited)			
Revenue:				
Software license	\$ 17,989	\$ 16,136	\$ 35,096	\$ 30,381
Services	93,519	78,203	180,432	153,090
Hardware and other	11,022	8,177	20,565	15,646
Total revenue	122,530	102,516	236,093	199,117
Costs and expenses:				
Cost of license	1,848	1,937	3,461	3,715
Cost of services	41,457	35,058	79,917	70,104
Cost of hardware and other	9,265	7,023	16,744	13,237
Research and development	11,867	11,032	23,670	22,508
Sales and marketing	12,848	11,888	24,868	23,322
General and administrative	11,256	7,932	21,905	17,440
Depreciation and amortization	1,489	1,459	2,977	2,943
Total costs and expenses	90,030	76,329	173,542	153,269
Operating income	32,500	26,187	62,551	45,848
Other income, net	312	1,243	79	1,394
Income before income taxes	32,812	27,430	62,630	47,242
Income tax provision	12,218	10,023	23,324	16,480
Net income	\$ 20,594	\$ 17,407	\$ 39,306	\$ 30,762
Basic earnings per share	\$ 0.27	\$ 0.23	\$ 0.52	\$ 0.40
Diluted earnings per share	\$ 0.27	\$ 0.22	\$ 0.51	\$ 0.39
Weighted average number of shares:				
Basic	75,274	76,888	75,544	77,096
Diluted	76,037	78,036	76,415	78,388

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**Item 1. Financial Statements** (continued)**MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES****Consolidated Statements of Comprehensive Income****(in thousands)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(unaudited)			
Net income	\$ 20,594	\$ 17,407	\$ 39,306	\$ 30,762
Foreign currency translation adjustment	258	(2,772)	1,277	(2,852)
Comprehensive income	\$ 20,852	\$ 14,635	\$ 40,583	\$ 27,910

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**Item 1. Financial Statements** (continued)**MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Cash Flows**

(in thousands)

	Six Months Ended June 30,	
	2014	2013
	(unaudited)	
Operating activities:		
Net income	\$ 39,306	\$ 30,762
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,977	2,943
Equity-based compensation	4,670	4,040
(Gain) loss on disposal of equipment	(15)	1
Tax benefit of stock awards exercised/vested	6,954	4,987
Excess tax benefits from equity-based compensation	(6,916)	(4,874)
Deferred income taxes	879	2,265
Unrealized foreign currency gain	(174)	(372)
Changes in operating assets and liabilities:		
Accounts receivable, net	(15,320)	(6,971)
Other assets	(4,305)	227
Accounts payable, accrued and other liabilities	(4,148)	(7,341)
Income taxes	(8,786)	887
Deferred revenue	5,910	7,142
Net cash provided by operating activities	21,032	33,696
Investing activities:		
Purchase of property and equipment	(3,580)	(1,633)
Net purchases of investments	(1,441)	(2,055)
Net cash used in investing activities	(5,021)	(3,688)
Financing activities:		
Purchase of common stock	(58,305)	(34,902)
Proceeds from issuance of common stock from options exercised	829	3,861
Excess tax benefits from equity-based compensation	6,916	4,874
Net cash used in financing activities	(50,560)	(26,167)

Foreign currency impact on cash	1,295	(1,955)
Net change in cash and cash equivalents	(33,254)	1,886
Cash and cash equivalents at beginning of period	124,375	96,737
Cash and cash equivalents at end of period	\$ 91,121	\$ 98,623

See accompanying Notes to Condensed Consolidated Financial Statements.

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Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Basis of Presentation, Principles of Consolidation, Stock Split and Increase of the Authorized Number of Shares of Common Stock

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Manhattan Associates, Inc. and its subsidiaries (the Company) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information, with the instructions to Form 10-Q and with Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required for complete financial statements. In the opinion of management, these condensed consolidated financial statements contain all normal recurring adjustments considered necessary for a fair presentation of the Company's financial position at June 30, 2014, the results of operations for the three and six months ended June 30, 2014 and 2013, and cash flows for the six months ended June 30, 2014 and 2013. The results for the three and six months ended June 30, 2014 are not necessarily indicative of the results to be expected for the full year. These statements should be read in conjunction with the Company's audited consolidated financial statements and management's discussion and analysis included in the Company's annual report on Form 10-K for the year ended December 31, 2013.

Principles of Consolidation

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

Stock Split and Increase of the Authorized Number of Shares of Common Stock

On December 19, 2013, the Board of Directors of the Company approved a four-for-one stock split of the Company's common stock, effected in the form of a stock dividend. Each shareholder of record at the close of business on December 31, 2013 received three additional shares for every outstanding share held on the record date. The additional shares were distributed on January 10, 2014 and trading began on a split-adjusted basis on January 13, 2014.

On May 15, 2014, the shareholders of the Company approved an amendment to the Company's articles of incorporation to increase the authorized number of shares of common stock from 100,000,000 to 200,000,000. The amendment was effective on May 15, 2014.

All references made to share or per share amounts in the accompanying condensed consolidated financial statements and applicable disclosures have been restated to reflect the effect of the four-for-one stock split for all periods presented. The Company retained the current par value of \$0.01 per share for all shares of common stock.

2. Revenue Recognition

The Company's revenue consists of fees from the licensing and hosting of software (collectively included in Software license revenue in the Condensed Consolidated Statements of Income), fees from implementation and training services (collectively, professional services) and customer support services and software enhancements (collectively with professional services revenue included in Services revenue in the Condensed Consolidated Statements of Income), and sales of hardware and other revenue, which consists of reimbursements of out-of-pocket expenses incurred in connection with our professional services (collectively included in Hardware and other revenue in the Condensed Consolidated Statements of Income). All revenue is recognized net of any related sales taxes.

The Company recognizes license revenue when the following criteria are met: (1) a signed contract is obtained covering all elements of the arrangement, (2) delivery of the product has occurred, (3) the license fee is fixed or determinable, and (4) collection is probable. Revenue recognition for software with multiple-element arrangements requires recognition of revenue using the residual method when (a) there is vendor-specific objective evidence (VSOE) of the fair values of all undelivered elements in a multiple-element arrangement that is not accounted for using long-term contract accounting, (b) VSOE of fair value does not exist for one or more of the delivered elements in the arrangement, and (c) all other applicable revenue-recognition criteria for software revenue recognition are satisfied. For those contracts that contain significant customization or modifications, license revenue is recognized using contract accounting.

Table of Contents**Notes to Condensed Consolidated Financial Statements****(Unaudited)**

The Company allocates revenue to customer support services and software enhancements and any other undelivered elements of the arrangement based on VSOE of fair value of each element and such amounts are deferred until the applicable delivery criteria and other revenue recognition criteria have been met. The balance of the revenue, net of any discounts inherent in the arrangement, is recognized at the outset of the arrangement using the residual method as the product licenses are delivered. If the Company cannot objectively determine the fair value of each undelivered element based on the VSOE of fair value, the Company defers revenue recognition until all elements are delivered, all services have been performed, or until fair value can be objectively determined. The Company must apply judgment in determining all elements of the arrangement and in determining the VSOE of fair value for each element, considering the price charged for each product on a stand-alone basis or applicable renewal rates. For arrangements that include future software functionality deliverables, the Company accounts for these deliverables as a separate element of the arrangement. Because the Company does not sell these deliverables on a standalone basis, the Company is not able to establish VSOE of fair value of these deliverables. As a result, the Company defers all revenue under the arrangement until the future functionality has been delivered to the customer.

Payment terms for the Company's software licenses vary. Each contract is evaluated individually to determine whether the fees in the contract are fixed or determinable and whether collectability is probable. Judgment is required in assessing the probability of collection, which is generally based on evaluation of customer-specific information, historical collection experience, and economic market conditions. If market conditions decline, or if the financial conditions of customers deteriorate, the Company may be unable to determine that collectability is probable, and the Company could be required to defer the recognition of revenue until the Company receives customer payments. The Company has an established history of collecting under the terms of its software license contracts without providing refunds or concessions to its customers. Therefore, the Company has determined that the presence of payment terms that extend beyond contract execution in a particular contract do not preclude the conclusion that the fees in the contract are fixed or determinable. Although infrequent, when payment terms in a contract extend beyond twelve months, the Company has determined that such fees are not fixed or determinable and recognizes revenue as payments become due provided that all other conditions for revenue recognition have been met.

The Company's services revenue consists of fees generated from professional services and customer support and software enhancements related to the Company's software products. Professional services include system planning, design, configuration, testing, and other software implementation support and are not typically essential to the functionality of our software. Fees from professional services performed by the Company are separately priced and are generally billed on an hourly basis, and revenue is recognized as the services are performed. In certain situations, professional services are 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. The Company has determined that output measures, or services delivered, approximate the input measures associated with fixed-fee services arrangements. Project losses are provided for in their entirety in the period in which they become known. Revenue related to customer support services and software enhancements is generally paid in advance and recognized ratably over the term of the agreement, typically twelve months.

Hardware and other revenue is generated from the resale of a variety of hardware products, developed and manufactured by third parties, that are integrated with and complementary to the Company's software solutions. As

part of a complete solution, the Company's customers periodically purchase hardware from the Company for use with the software licenses purchased from the Company. These products include computer hardware, radio frequency terminal networks, radio frequency identification (RFID) chip readers, bar code printers and scanners, and other peripherals. Hardware revenue is recognized upon shipment to the customer when title passes. The Company generally purchases hardware from the Company's vendors only after receiving an order from a customer. As a result, the Company generally does not maintain hardware inventory.

In accordance with the other presentation matters within the Revenue Recognition Topic of the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC), the Company recognizes amounts associated with reimbursements from customers for out-of-pocket expenses as revenue. Such amounts have been included in

Hardware and other revenue in the Condensed Consolidated Statements of Income. The total amount of expense reimbursement recorded to revenue was \$4.9 million and \$3.9 million for the three months ended June 30, 2014 and 2013, respectively, and \$8.5 million and \$7.2 million for the six months ended June 30, 2014 and 2013, respectively.

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Notes to Condensed Consolidated Financial Statements

(Unaudited)

3. Fair Value Measurement

The Company measures its investments based on a fair value hierarchy disclosure framework that prioritizes and ranks the level of market price observability used in measuring assets and liabilities at fair value. Market price observability is affected by a number of factors, including the type of asset or liability and their characteristics. This hierarchy prioritizes the inputs into three broad levels as follows:

Level 1 Quoted prices in active markets for identical instruments.

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

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

The Company's investments are categorized as available-for-sale securities and recorded at fair market value. Investments with maturities of 90 days or less from the date of purchase are classified as cash equivalents; investments with maturities of greater than 90 days from the date of purchase but less than one year are generally classified as short-term investments; and investments with maturities of one year or greater from the date of purchase are generally classified as long-term investments. Unrealized holding gains and losses are reflected as a net amount in a separate component of shareholders' equity until realized. For the purposes of computing realized gains and losses, cost is determined on a specific identification basis.

At June 30, 2014, the Company's cash, cash equivalents, and short-term investments balances were \$47.9 million, \$43.2 million, and \$10.3 million, respectively. The Company currently has no long-term investments. Cash equivalents consist of highly liquid money market funds and certificates of deposit. Short-term investments consist of certificates of deposit. The Company uses quoted prices from active markets that are classified at Level 1 as a highest level observable input in the disclosure hierarchy framework for all available-for-sale securities. At June 30, 2014 and December 31, 2013, the Company had \$30.5 million and \$30.4 million in money market funds, respectively, which are classified as Level 1 and are included in cash and cash equivalents on the Condensed Consolidated Balance Sheets. The Company has no investments classified as Level 2 or Level 3.

4. Equity-Based Compensation

As discussed in Note 1, on December 19, 2013, the Board of Directors of the Company approved a four-for-one stock split of the Company's common stock, effected in the form of a stock dividend. All references to stock award data have been restated to reflect the effect of the stock split for all periods presented.

The Company recorded equity-based compensation expense related to stock options of \$11,000 and \$159,000 during the three and six months ended June 30, 2013, respectively. No amounts were recorded for equity-based compensation expense related to stock options during the three and six months ended June 30, 2014 as all stock options became vested prior to 2014. The Company does not currently grant stock options.

A summary of changes in outstanding options for the six months ended June 30, 2014 is as follows:

	Number of Options
Outstanding at December 31, 2013	444,420
Exercised	(147,308)
Forfeited and expired	(1,000)
Outstanding at June 30, 2014	296,112

The Company granted 38,384 and 17,020 restricted stock units (RSU) during the three months ended June 30, 2014 and 2013, respectively, and 355,927 and 211,292 RSUs during the six months ended June 30, 2014 and 2013, respectively. The Company recorded equity-based compensation expense related to restricted stock awards and RSUs of \$2.4 million and \$2.1 million during the three months ended June 30, 2014 and 2013, respectively, and \$4.7 million and \$3.9 million during the six months ended June 30, 2014 and 2013, respectively.

Table of Contents**Notes to Condensed Consolidated Financial Statements****(Unaudited)**

A summary of changes in unvested shares/units for the six months ended June 30, 2014 is as follows:

	Number of shares/units
Outstanding at December 31, 2013	1,777,384
Granted	355,927
Vested	(696,378)
Forfeited	(37,041)
Outstanding at June 30, 2014	1,399,892

5. Income Taxes

The Company's effective tax rate was 37.2% and 36.5% for the three months ended June 30, 2014 and 2013, respectively, and 37.2% and 34.9% for the six months ended June 30, 2014 and 2013 respectively. The increase in the effective tax rate for the three months ended June 30, 2014 is principally due to the expiration of the federal research and development tax credit. The effective tax rate for the three and six months ended June 30, 2013 includes the benefit of the credit for the 2013 tax year, partially offset by an increase in foreign taxes. The effective tax rate for the six months ended June 30, 2013 also includes the benefit of the credit for the 2012 tax year, partially offset by the establishment of state income tax reserves.

The Company applies the provisions for income taxes related to, among other things, accounting for uncertain tax positions and disclosure requirements in accordance with the Income Taxes Topic of the FASB Accounting Standards Codification (ASC 740). For the three months ended June 30, 2014, there were no material changes to the Company's uncertain tax positions. There has been no change to the Company's policy that recognizes potential interest and penalties related to uncertain tax positions within its global operations in income tax expense.

The Company currently plans to permanently reinvest all of its remaining undistributed foreign earnings. Accordingly, no provision for U.S. federal and state income taxes has been provided thereon. Upon repatriation of those earnings, in the form of dividends or otherwise, the Company would be subject to both U.S. income taxes (subject to adjustment for foreign tax credits) and withholding taxes payable to various foreign countries. It is impractical to calculate the tax impact until such repatriation occurs.

The Company conducts business globally and, as a result, files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities throughout the world. The Company is no longer subject to U.S. federal, substantially all state and local income tax examinations and substantially all non-US income tax examinations for years before 2010.

6. Net Earnings Per Share

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

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The following is a reconciliation of the net income and share amounts used in the computation of basic and diluted net earnings per common share for the three and six months ended June 30, 2014 and 2013 (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands, except per share data)			
Net income	\$ 20,594	\$ 17,407	\$ 39,306	\$ 30,762
Earnings per share:				
Basic	\$ 0.27	\$ 0.23	\$ 0.52	\$ 0.40
Effect of CESs		(0.01)	(0.01)	(0.01)
Diluted	\$ 0.27	\$ 0.22	\$ 0.51	\$ 0.39
Weighted average number of shares:				
Basic	75,274	76,888	75,544	77,096
Effect of CESs	763	1,148	871	1,292
Diluted	76,037	78,036	76,415	78,388

There were no anti-dilutive CESs during 2013 and 2014.

7. Contingencies

From time to time, the Company may be involved in litigation relating to claims arising out of its ordinary course of business, and occasionally legal proceedings not in the ordinary course. 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 that the limitations of liability set forth in its contracts will be enforceable in all instances. The Company is not currently a party to any legal proceedings the result of which it believes is likely to have a material adverse impact upon its business, financial position, results of operations, or cash flows. The Company expenses legal costs associated with loss contingencies as such legal costs are incurred.

8. Operating Segments

The Company manages the business by geographic segment. The Company has identified three geographic reportable segments: North America and Latin America (the Americas); Europe, Middle East and Africa (EMEA); and Asia Pacific (APAC). All segments derive revenue from the sale and implementation of the Company's supply chain execution and planning solutions. The individual products sold by the segments are similar in nature and are all designed to help companies manage the effectiveness and efficiency of their supply chain. The Company uses the same accounting policies for each reportable 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 other segments based on software licenses sold by those reportable segments. The royalties, which totaled approximately \$0.9 million and \$0.7 million for the three months ended June 30, 2014 and 2013, respectively, and approximately \$2.3 million and \$1.3 million for the six months ended June 30, 2014 and 2013, respectively, are included in cost of revenue for each segment with a corresponding reduction in America's cost of revenue. The revenues represented below are from external customers only. The geographical-based costs consist of costs of professional services personnel, direct sales and marketing expenses, cost of infrastructure to support the employees and customer base, billing and financial systems, management and general and administrative support. There are certain corporate expenses included in the Americas region that are not charged to the other segments, including research and development, certain marketing and general and administrative costs that support the global organization, and the amortization of acquired developed technology. Included in the Americas costs are all research and development costs including the costs associated with the Company's India operations.

Table of Contents**Notes to Condensed Consolidated Financial Statements****(Unaudited)**

The following table presents the revenues, expenses and operating income by reportable segment for the three and six months ended June 30, 2014 and 2013 (in thousands):

	Three Months Ended June 30,							
	2014				2013			
	Americas	EMEA	APAC	Consolidated	Americas	EMEA	APAC	Consolidated
Revenue:								
License	\$ 14,498	\$ 1,621	\$ 1,870	\$ 17,989	\$ 13,462	\$ 1,118	\$ 1,556	\$ 16,136
Services	73,884	13,851	5,784	93,519	62,510	10,477	5,216	78,203
Hardware and other	10,251	439	332	11,022	7,628	369	180	8,177
Total revenue	98,633	15,911	7,986	122,530	83,600	11,964	6,952	102,516
Costs and Expenses:								
Cost of revenue	41,385	7,551	3,634	52,570	34,435	6,212	3,371	44,018
Operating expenses	30,766	4,049	1,156	35,971	26,592	2,939	1,321	30,852
Depreciation and amortization	1,355	72	62	1,489	1,317	77	65	1,459
Total costs and expenses	73,506	11,672	4,852	90,030	62,344	9,228	4,757	76,329
Operating income	\$ 25,127	\$ 4,239	\$ 3,134	\$ 32,500	\$ 21,256	\$ 2,736	\$ 2,195	\$ 26,187

	Six Months Ended June 30,							
	2014				2013			
	Americas	EMEA	APAC	Consolidated	Americas	EMEA	APAC	Consolidated
Revenue:								
Software license	\$ 25,956	\$ 6,071	\$ 3,069	\$ 35,096	\$ 24,991	\$ 2,437	\$ 2,953	\$ 30,381
Services	144,788	24,715	10,929	180,432	123,790	20,240	9,060	153,090
Hardware and other	19,244	804	517	20,565	14,639	718	289	15,646
Total revenue	189,988	31,590	14,515	236,093	163,420	23,395	12,302	199,117
Costs and Expenses:								
Cost of revenue	78,034	15,027	7,061	100,122	68,249	12,372	6,435	87,056
Operating expenses	59,986	8,119	2,338	70,443	54,289	6,383	2,598	63,270
Depreciation and amortization	2,708	147	122	2,977	2,662	151	130	2,943

Total costs and expenses	140,728	23,293	9,521	173,542	125,200	18,906	9,163	153,269
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Operating income	\$ 49,260	\$ 8,297	\$ 4,994	\$ 62,551	\$ 38,220	\$ 4,489	\$ 3,139	\$ 45,848
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License revenues related to the Company's warehouse and non-warehouse product groups for the three and six months ended June 30, 2014 and 2013 are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Warehouse	\$ 9,373	\$ 9,375	\$ 20,041	\$ 18,626
Non-Warehouse	8,616	6,761	15,055	11,755
Total software license revenue	\$ 17,989	\$ 16,136	\$ 35,096	\$ 30,381

The Company's services revenues, which consist of fees generated from professional services and customer support and software enhancements related to its software products, for the three and six months ended June 30, 2014 and 2013 are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Professional services	\$ 65,702	\$ 52,492	\$ 125,124	\$ 101,643
Customer support and software enhancements	27,817	25,711	55,308	51,447
Total services revenue	\$ 93,519	\$ 78,203	\$ 180,432	\$ 153,090

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Notes to Condensed Consolidated Financial Statements

(Unaudited)

9. New Accounting Pronouncement

In May 2014, the FASB issued guidance codified in ASC 606, *Revenue Recognition - Revenue from Contracts with Customers*, which will replace substantially all current revenue recognition guidance once it becomes effective. The new standard provides accounting guidance for all revenue arising from contracts with customers and affects all entities that enter into contracts to provide goods or services to their customers unless the contracts are in the scope of other standards. This guidance is effective for annual and interim periods beginning after December 15, 2016. The Company is currently evaluating the impact of the provisions of ASC 606.

Table of Contents**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 expectations about global macroeconomic trends and industry developments, 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. Undue reliance should not be placed on these forward-looking statements, which reflect 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, 2013. Investors are cautioned that forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements. The following discussion should be read in conjunction with the condensed consolidated financial statements for the three and six months ended June 30, 2014 and 2013, including the notes to those statements, included elsewhere in this quarterly report. 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, 2013.

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

Business Overview

We are a leading developer and implementer of supply chain commerce software solutions that help organizations optimize their supply chain operations from planning through execution. Our platform-based supply chain software solution portfolios Manhattan SCOPE® and Manhattan SCALE™ are designed to deliver both business agility and total cost of ownership advantages to customers. Manhattan SCOPE (Supply Chain Optimization, Planning through Execution) leverages our Supply Chain Process Platform (SCPP) to unify the full breadth of the supply chain, while Manhattan SCALE (Supply Chain Architected for Logistics Execution) leverages Microsoft's .NET® platform to unify logistics functions.

Early in the Company's history, our offerings were heavily focused on warehouse management solutions. As the Company grew in size and scope, our offerings expanded across the entire supply chain, while still maintaining a significant presence in, and a relatively strong concentration of revenues from warehouse management solutions, which is a component of our distribution management solution suite. Over time, as our non-warehouse management solutions have proliferated and increased in capability, the Company's revenue concentration in its warehouse management solutions has correspondingly decreased.

Our business model is singularly focused on the development and implementation of complex supply chain commerce software solutions that are designed to optimize supply chain effectiveness and efficiency for our customers. We have three principal sources of revenue:

licenses of our supply chain software;

professional services, including solutions planning and implementation, related consulting, customer training, and customer support services and software enhancements (collectively, services); and

hardware sales and other revenue.

In the three and six months ended June 30, 2014, we generated \$122.5 million and \$236.1 million, in total revenue, respectively, with a revenue mix of: license revenue 15%; services revenue 76%; and hardware and other revenue 9% for the three and six months ended June 30, 2014.

We manage our business based on three geographic regions: the Americas, Europe, the Middle East and Africa (EMEA), and Asia-Pacific (APAC). Geographic revenue is based on the location of the sale. Our international revenue was

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approximately \$37.5 million and \$70.4 million for the three and six months ended June 30, 2014, respectively, which represents approximately 31% and 30% of our total revenue for the three and six months ended June 30, 2014, respectively. International revenue includes all revenue derived from sales to customers outside the United States. At June 30, 2014, we employed approximately 2,700 employees worldwide, of which 1,280 employees are based in the Americas, 180 in EMEA, and 1,240 in APAC (including India). We have offices in Australia, China, France, India, Japan, the Netherlands, Singapore, and the United Kingdom, as well as representatives in Mexico and reseller partnerships in Latin America, Eastern Europe, the Middle East, South Africa, and Asia.

Global Economic Trends and Industry Factors

Global macroeconomic trends, technology spending, and supply chain management market growth are important barometers for our business. In both the three and six months ended June 30, 2014, approximately 70% of our total revenue was generated in the United States, 13% in EMEA, and the remaining balance in APAC, Canada, and Latin America. In addition, Gartner Inc., an information technology research and advisory company, estimates that nearly 73% of every supply chain software solutions dollar invested is spent in the United States (46%) and Western Europe (27%); consequently, the health of the U.S. and Western European economies has a meaningful impact on our financial results.

We sell technology-based solutions with total pricing, including software and services, in many cases exceeding \$1.0 million. Our software often is a part of our customers' and prospects' much larger capital commitment associated with facilities expansion and business improvement. We believe that, given the lingering uncertainty in the global macro environment, the current sales cycles for large license deals of \$1.0 million or greater in our target markets have been extended. The current business climate within the United States and geographic regions in which we operate continues to affect customers' and prospects' decisions regarding timing of strategic capital expenditures. Delays with respect to such decisions can have a material adverse impact on our business, and may further intensify competition in our already highly competitive markets.

In July 2014, the International Monetary Fund (IMF) provided a World Economic Outlook (WEO) update lowering its previous 2014 world economic growth forecast to about 3.4 percent in 2014. The WEO update noted that the global growth projection for 2014 has been marked down by 0.3 percent to 3.4 percent, reflecting both the legacy of the weak first quarter, particularly in the United States, and a less optimistic outlook for several emerging markets. With somewhat stronger growth expected in some advanced economies next year, the global growth projection for 2015 remains at 4 percent. The WEO update projected that advanced economies, which represent our primary revenue markets, would grow at about 1.8 percent in 2014 and 2.4 percent in 2015, while the emerging and developing economies would continue to grow at a solid pace of about 4.6 percent in 2014 and 5.2 percent in 2015.

During 2013 and continuing into 2014, the overall trend has been steady for our large license deals, with recognized \$1.0 million or larger software license sales totaling fourteen for 2013 and totaling seven in the first half of 2014. However, the large deal flow has been inconsistent from quarter to quarter, reflecting what we believe to be ongoing lackluster macroeconomic growth in the United States and Western Europe. While we are encouraged by our 2013 and first half of 2014 results, we, along with many of our customers, still remain cautious regarding the pace of global economic recovery. With global GDP growth continuing to be well below pre-2008 levels, we believe global economic volatility likely will continue to shape customers' and prospects' enterprise software buying decisions, making it more difficult to forecast sales cycles for our products and the timing of large enterprise software license deals.

Revenue

License revenue. License revenue, a leading indicator of our business, is primarily derived from software license fees that customers pay for supply chain solutions. License revenue totaled \$18.0 million, or 15% of total revenue, with gross margins of 89.7% for the three months ended June 30, 2014, and \$35.1 million, or 15% of total revenue, with gross margins of 90.1% for the six months ended June 30, 2014. Prior to the 2009 global recession, our typical license revenue percentage mix of new to existing customers historically approximated 50/50. Post 2009, the percentage mix has fluctuated more. For the three and six months ended June 30, 2014, the percentage mix of new to existing customers was approximately 30/70. We anticipate that the new to existing customer mix will return to more historical levels on a more consistent basis in improved global economic conditions.

License revenue growth is influenced by the strength of general economic and business conditions and the competitive position of our software products. Our license revenue generally has long sales cycles and the timing of the closing of a few large license transactions can have a material impact on our quarterly license revenues, operating profit, operating margins, and earnings per share. For example, \$1.0 million of license revenue in the second quarter of 2014 equates to approximately one cent of diluted earnings per share impact.

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Our software solutions are singularly focused on the supply chain commerce planning and execution markets, which are intensely competitive and characterized by rapid technological change. We are a market leader in the supply chain management software solutions market as defined by industry analysts such as ARC Advisory Group and Gartner. Our goal is to extend our position as a leading global supply chain solutions provider by growing our license revenues faster than our competitors through investment in innovation. We expect to continue to face increased competition from Enterprise Resource Planning (ERP) and Supply Chain Management applications vendors and business application software vendors that may broaden their solution offerings by internally developing, or by acquiring or partnering with independent developers of supply chain planning and execution software. Increased competition could result in price reductions, fewer customer orders, reduced gross margins, and loss of market share.

Services revenue. Our services business consists of professional services (consulting and customer training) and customer support services and software enhancements (CSSE). Services revenue totaled \$93.5 million, or 76% of total revenue, with gross margins of 55.7% for the three months ended June 30, 2014, and \$180.4 million, or 76% of total revenue, with gross margins of 55.7% for the six months ended June 30, 2014. Professional services accounted for approximately 69% of total services revenue and approximately 53% of total revenue in the three and six months ended June 30, 2014. Our consolidated operating margin profile may be lower than those of various other technology companies due to our large services revenue mix as a percentage of total revenue. While we believe our services margins are very strong, they do lower our overall operating margin profile as services margins are inherently lower than license revenue margins.

At June 30, 2014, our professional services organization totaled approximately 1,730 employees, accounting for 64% of our total employees worldwide. Our professional services organization provides our customers with expertise and assistance in planning and implementing our solutions. To ensure a successful product implementation, consultants assist customers with the initial installation of a system, the conversion and transfer of the customer's historical data onto our system, and ongoing training, education, and system upgrades. We believe our professional services enable customers to implement our software rapidly, ensure the customer's success with our solution, strengthen our customer relationships, and add to our industry-specific knowledge base for use in future implementations and product innovations.

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

Typically, our professional services lag related license revenue by several quarters, as implementation services and related consulting are performed after the purchase of the software. Services revenue growth is contingent upon license revenue and customer upgrade cycles, which are influenced by the strength of general economic and business conditions and the competitive position of our software products. In addition, our professional services business has competitive exposure to offshore providers and other consulting companies. All of these factors potentially create the risk of pricing pressure, fewer customer orders, reduced gross margins, and loss of market share.

For CSSE, we offer a comprehensive 24 hours per day, 365 days per year program that provides our customers with software upgrades, when and if available, which include additional or improved functionality and technological advances incorporating emerging supply chain and industry initiatives. Our CSSE revenues totaled \$27.8 million and \$55.3 million for the three and six months ended June 30, 2014, respectively, representing approximately 31% of services revenue and approximately 23% of total revenue for both periods. The growth of CSSE revenues is influenced by: (1) new license revenue growth; (2) annual renewal of support contracts; (3) increase in customers through acquisitions; and (4) fluctuations in currency rates. Substantially all of our customers renew their annual

support contracts. Over the last three years, our annual revenue renewal rate of customers subscribing to comprehensive support and enhancements has been greater than 90%. CSSE revenue is generally paid in advance and recognized ratably over the term of the agreement, typically twelve months. CSSE renewal revenue is not recognized unless payment is received from the customer.

Hardware and other revenue. Our hardware and other revenue totaled \$11.0 million, representing 9% of total revenue with gross margins of 15.9% for the three months ended June 30, 2014, and \$20.6 million, representing 9% of total revenue with gross margins of 18.6% for the six months ended June 30, 2014. In conjunction with the licensing of our software, and as a convenience for our customers, we resell a variety of hardware products developed and manufactured by

