MANHATTAN ASSOCIATES INC
Form 10-Q
May 10, 2007

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

[Mark One]

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

For the quarterly period ended March 31, 2007

OR

o **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	**58-2373424**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
2300 Windy Ridge Parkway, Suite 700 **Atlanta, Georgia**	**30339**
(Address of Principal Executive Offices)	(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 þ No o

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 o Accelerated filer þ Non-accelerated filer o

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

The number of shares of the Registrant s class of capital stock outstanding as of May 4, 2007, the latest practicable date, is as follows: 26,963,953 shares of common stock, $0.01 par value per share.

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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)

	March 31, 2007 (unaudited)	December 31, 2006
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 14,224**	$ 18,449
Short term investments	**78,196**	90,570
Accounts receivable, net of a $5,384 and $4,901 allowance for doubtful accounts in 2007 and 2006, respectively	**62,700**	60,937
Deferred income taxes	**5,787**	5,208
Prepaid expenses and other current assets	**10,014**	11,939
Total current assets	**170,921**	187,103
Property and equipment, net	**16,558**	15,850
Long-term investments	**16,399**	22,038
Acquisition-related intangible assets, net	**13,150**	14,344
Goodwill	**70,367**	70,361
Deferred income taxes	**482**	481
Other assets	**5,295**	4,716
Total assets	**$ 293,172**	$ 314,893
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	**$ 7,520**	$ 11,716
Accrued compensation and benefits	**11,772**	16,560
Accrued and other liabilities	**9,966**	13,872
Deferred revenue	**33,322**	29,918
Income taxes payable	**8,229**	4,006
Total current liabilities	**70,809**	76,072
Other non-current liabilities	**2,006**	1,681
Shareholders equity:		
Preferred stock, no par value; 20,000,000 shares authorized, no shares issued or outstanding in 2007 or 2006		
	269	276

Common stock, $.01 par value; 100,000,000 shares authorized, 27,055,201 shares issued and outstanding in 2007 and 27,610,105 shares issued and outstanding in 2006		
Additional paid-in capital	**78,196**	98,704
Retained earnings	**139,839**	136,321
Accumulated other comprehensive income	**2,053**	1,839
Total shareholders equity	**220,357**	237,140
Total liabilities and shareholders equity	**$ 293,172**	$ 314,893

See accompanying Notes to Condensed Consolidated Financial Statements.

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Item 1. Financial Statements (continued)

MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited and in thousands, except per share data)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Revenue:		
License	**$ 13,753**	$ 11,076
Services	**54,800**	45,162
Hardware and other	**9,637**	6,547
Total revenue	**78,190**	62,785
Costs and Expenses:		
Cost of license	**1,143**	1,164
Cost of services	**25,999**	22,016
Cost of hardware and other	**8,361**	5,540
Research and development	**11,151**	10,111
Sales and marketing	**12,607**	10,136
General and administrative	**8,146**	6,708
Depreciation and amortization	**3,501**	3,275
Acquisition-related charges		722
Total costs and expenses	**70,908**	59,672
Operating income	**7,282**	3,113
Other income, net	**1,092**	846
Income before income taxes	**8,374**	3,959
Income tax provision	**2,973**	1,671
Net income	**$ 5,401**	$ 2,288
Basic earnings per share	**$ 0.20**	$ 0.08
Diluted earnings per share	**$ 0.19**	$ 0.08
Weighted average number of shares:		
Basic	**27,361**	27,298
Diluted	**28,528**	27,645

See accompanying Notes to Condensed Consolidated Financial Statements.

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Item 1. Financial Statements (continued)

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

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Operating activities:		
Net income	**$ 5,401**	$ 2,288
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**3,501**	3,275
Stock compensation	**1,570**	1,707
Gain on disposal of equipment		2
Tax benefit of options exercised	**548**	1,380
Excess tax benefits from stock based compensation	**(271)**	(1,145)
Deferred income taxes		(299)
Unrealized foreign currency loss	**(87)**	213
Changes in operating assets and liabilities:		
Accounts receivable, net	**(1,631)**	7,720
Other assets	**1,415**	319
Prepaid retention bonus		657
Accounts payable, accrued and other liabilities	**(13,129)**	(9,410)
Income taxes	**1,781**	(1,052)
Deferred revenue	**3,811**	4,201
Net cash provided by operating activities	**2,909**	9,856
Investing activities:		
Purchase of property and equipment	**(2,956)**	(2,195)
Net maturities (purchases) of available-for-sale investments	**18,018**	(12,630)
Net cash provided by (used in) investing activities	**15,062**	(14,825)
Financing activities:		
Payment of capital lease obligations		(35)
Purchase of common stock	**(25,000)**	
Excess tax benefits from stock based compensation	**271**	1,145
Proceeds from issuance of common stock from options exercised	**2,367**	1,102
Net cash (used in) provided by financing activities	**(22,362)**	2,212
Foreign currency impact on cash	**166**	(409)

Net change in cash and cash equivalents	**(4,225)**	(3,166)
Cash and cash equivalents at beginning of period	**18,449**	19,419
Cash and cash equivalents at end of period	**$ 14,224**	$ 16,253

See accompanying Notes to Condensed Consolidated Financial Statements.

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MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2007 (unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements 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 the financial position at March 31, 2007, the results of operations for the three months ended March 31, 2007 and 2006 and cash flows for the three months ended March 31, 2007 and 2006. The results for the three months ended March 31, 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 (other 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), 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. 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 collectibility is probable, and we could be required to defer the recognition of revenue until we receive customer payments.

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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 discreet 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 $3.0 million and $2.1 million for the three months ended March 31, 2007 and 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 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 that mature after one year through 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

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

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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.

6. Stock-Based Compensation

As of March 31, 2007, we have two stock-based employee compensation plans, which are accounted for under the fair value recognition provisions of Statement of Financial Accounting Standards No. 123(R), Share-Based Payment (SFAS 123(R)).

Effective January 1, 2006, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards 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 three months ended March 31, 2007 and 2006, we granted options for 579,363 and 551,500 shares of common stock, respectively. We recorded stock option expense of $1.1 million and $1.7 million during the three months ended March 31, 2007 and 2006, respectively.

We also issued 189,934 shares of restricted stock during the first quarter of 2007. No shares of restricted stock were issued during the first quarter of 2006. We recorded restricted stock expense of $0.4 million and $0.03 million during the three months ended March 31, 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 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 a subsidiary return for pre-acquisition tax year 2004. To date, no material adjustments have been proposed as a result of this examination. The IRS will commence an examination of the Company s U.S. Federal

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income tax return for 2005 in the second quarter of 2007. It is anticipated that the examinations will not be completed within the next twelve months.

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 March 31, 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:

	Three Months Ended March 31,	
	2007	**2006**
	(in thousands)	
Net income	$ 5,401	$ 2,288
Other comprehensive income (loss), net of tax:		
Unrealized gain on investments, net of taxes	5	43
Foreign currency translation adjustment, net of taxes	209	(157)
Total other comprehensive income (loss), net of taxes	214	(114)
Comprehensive income	$ 5,615	$ 2,174

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 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:

	Three Months Ended March 31,	
	2007	**2006**
	(in thousands, except per share amounts)	
Net income	$ 5,401	$ 2,288
Earnings per Share:		
Basic	$ 0.20	$ 0.08
Effect of CESs	($ 0.01)	
Diluted	$ 0.19	$ 0.08
Weighted average number of shares:		
Basic	27,361	27,298
Effect of CESs	1,167	347
Diluted	28,528	27,645

Weighted average shares issuable upon the exercise of stock options that were not included in the calculation of diluted earnings per share were 1,562,131 shares and 5,686,933 shares for the three months ended March 31, 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 its 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 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.

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, of which the individual products are similar in nature and 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 $0.1 million and $0.6 million for the three months ended March 31, 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 operating segment. The following table presents the revenues, expenses and operating income (loss) by operating segment for the three months ended March 31, 2007 and 2006 (in thousands):

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	For the three months ended March 31, 2007			
	Americas	EMEA	Asia Pacific	Total
Revenue:				
License	$ 13,400	$ 299	$ 54	$ 13,753
Services	45,848	5,228	3,724	54,800
Hardware and other	9,198	317	122	9,637
Total revenue	68,446	5,844	3,900	78,190
Costs and Expenses:				
Cost of revenue	28,627	4,022	2,854	35,503
Operating expenses	27,979	2,813	1,112	31,904
Depreciation and amortization	3,145	291	65	3,501
Total costs and expenses	59,751	7,126	4,031	70,908
Operating income (loss)	$ 8,695	$ (1,282)	$ (131)	$ 7,282

	For the three months ended March 31, 2006			
	Americas	EMEA	Asia Pacific	Total
Revenue:				
License	$ 8,557	$ 958	$ 1,561	$ 11,076
Services	36,342	5,748	3,072	45,162
Hardware and other	6,245	246	56	6,547
Total revenue	51,144	6,952	4,689	62,785
Costs and Expenses:				
Cost of revenue	21,692	4,021	3,007	28,720
Operating expenses	23,471	2,269	1,215	26,955
Depreciation and amortization	2,910	299	66	3,275
Acquisition-related charges	722			722
Total costs and expenses	48,795	6,589	4,288	59,672
Operating income	$ 2,349	$ 363	$ 401	$ 3,113

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 March 31,	
	2007	2006
	(in thousands)	
Professional services	38,831	31,801

Customer support and software enhancements	$ 15,969	$ 13,361
Total services revenue	$ 54,800	$ 45,162

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

	Three months ended March 31,	
	2007	**2006**
	(in thousands)	
Warehouse	$ 7,791	$ 6,567
Non-Warehouse	5,962	4,509
Total license revenue	$13,753	$11,076

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 is still evaluating the impact of SFAS No. 159 on its consolidated financial statements.

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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-look