MANHATTAN ASSOCIATES INC
Form 10-K405
April 01, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO
SECTIONS 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

(MARK ONE)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

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: 000-23999

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 700 ATLANTA, GEORGIA (Address of Principal Executive Offices)	30339 (Zip Code)

Registrant's telephone number, including area code: (770) 955-7070

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EXCHANGE ON WHICH REGISTERED
NONE	NONE

Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK, $.01 PAR VALUE PER SHARE

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 [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based upon the closing sales price of the Common Stock on March 31, 2002 as reported by the Nasdaq Stock Market, was approximately $604,993,748. The shares of Common Stock held by each officer and director and by each person known to the Registrant who owns 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. As of March 31, 2002, the Registrant had outstanding 28,508,482 shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

The Registrant's definitive Proxy Statement for the Annual Meeting of Shareholders to be held May 17, 2002 is incorporated by reference in Part III of this Form 10-K to the extent stated herein.

FORWARD-LOOKING STATEMENTS

In addition to historical information, this Annual Report may contain "forward-looking statements" relating to Manhattan Associates, Inc. Prospective investors are cautioned that any such 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. Among the important factors that could cause actual results to differ materially from those indicated by such forward-looking statements are delays in product development, undetected software errors, competitive pressures, technical difficulties, market acceptance, availability of technical personnel, changes in customer requirements and general economic conditions. Additional factors are set forth in "Safe Harbor Compliance Statement for Forward-Looking Statements" included as Exhibit 99.1 to this Annual Report on Form 10-K. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes in future operating results.

PART I

ITEM 1. BUSINESS

We are a leading global provider of technology-based solutions to improve the effectiveness of and the efficiencies within the extended supply chain. Our solutions, which consist of software, services and hardware, enhance distribution efficiencies through the real-time integration of extended supply chain constituents, including manufacturers, distributors, retailers, suppliers, transportation providers and consumers. Our software provides solutions for the three principal elements of extended supply chain execution, or "x-SCE": collaboration, execution and optimization. Collaboration solutions provide real-time synchronization of key processes and their associated information flows across the extended supply chain, including customer process synchronization, trading partner personalization, supplier process enablement, carrier compliance and communication, global inventory visibility and supply chain event management. Execution solutions include the performance of the many processes that take place in the warehouse and distribution center, beginning with the placement of an order by a customer and ending with the fulfillment and delivery of the order to the end customer. Optimization solutions use analytic tools and techniques to improve the efficiency of distribution center operations through the use of either rules-based or algorithm-based models to solve problems that are too complex or too time consuming for manual processing. We also provide services, including design, configuration, implementation and training services, plus customer support services and software enhancement subscriptions.

Our software products allow organizations to manage the receiving, stock locating, stock picking, order verification, assembly, order packing and shipment of products in complex distribution centers and to provide better visibility between our customers and their trading partners. Our software products are designed to optimize the operation of a distribution center and to facilitate supply chain collaboration by:

- reducing inventory levels and increasing inventory turnover;

- improving inventory and order accuracy;

- reducing response times;

- facilitating the requirements of multi-channel fulfillment, including complying with industry shipping standards, unique pallet configuration and customer-specific marketing, labeling and packaging;

- improving visibility of inventory, order status and delivery status;

- improving communication with other participants in the supply chain;

- enabling and facilitating distribution through multiple delivery channels;

- increasing the productivity of labor, facilities and materials-handling equipment; and

- lowering transportation costs.

We currently provide our solutions to manufacturers, distributors, retailers and transportation providers primarily in the following markets: retail, consumer goods, direct-to-consumer, food and grocery, third-party logistics, industrial and wholesale, high technology and electronics, and healthcare and pharmaceuticals. As of December 31, 2001, our software was licensed for use by approximately 800 customers including Abbott Laboratories, Calvin Klein, ClientLogic Corporation, Columbia Sportswear, Exel Logistics, KBToys.com, Kmart Corporation, Mary Kay Incorporated, Newell Rubbermaid, Nordstrom, Patagonia, Rain Bird Distribution Corp., Sara Lee Corporation, SEIKO Corporation of America, Sainsbury's Supermarkets Ltd., Siemens Energy and Automations, The Sports Authority and Tibbett & Britten Group Plc.

We are a Georgia corporation formed in March 1998 to acquire all of the assets and liabilities of Manhattan Associates Software, LLC. References in this filing to the "Company," "Manhattan," "Manhattan Associates," "we," "our," and "us" refer to Manhattan Associates, Inc., our predecessors, and our whollyowned and consolidated subsidiaries. Our principal executive offices are located at 2300 Windy Ridge Parkway, Suite 700, Atlanta, Georgia 30339, and our telephone number is 770-955-7070.

INDUSTRY BACKGROUND

Effective x-SCE solutions allow organizations to enhance customer satisfaction and reduce the cost of operating distribution centers. In the current environment, supplier complexity, customer demands and volumes of transactions continue to increase. Consequently, many companies are required to operate larger, more complex distribution centers, which support multiple distribution methods. In addition, the volume of shipments in most distribution centers has increased tremendously with the change from large palette shipments to smaller customer-specific shipments. These trends, the advent of the Internet and the rapid growth of e-commerce have altered the relative value propositions of effective and efficient distribution. As a result, many organizations are required to redefine their supply chain and automate many processes in order to improve the effectiveness of the supply chain and to improve customer satisfaction and loyalty. In recent years, many businesses have employed technologies to improve the flow of goods and information among supply chain participants, which include manufacturers, suppliers, distributors, retailers and transportation providers. These technologies have helped businesses to reduce inventory levels, improve inventory turnover and, most importantly, improve customer satisfaction. The efficient management of a distribution center now requires collecting and processing increasing amounts of key information. This information includes customer orders, inbound shipments of products, products available on-site, product storage locations, weights and sizes, customer- or store-specific shipping requirements, routing data, carrier requirements and order status. Manufacturers, distributors, retailers, and transportation providers must continuously exchange this information with other participants in the supply chain in order to effectively integrate the operation of their distribution centers with the extended supply chain. In this increasingly competitive environment, effective x-SCE technology solutions have become critical to success in order to handle the very sophisticated distribution services required today, including:

- more frequent store-specific inventory replenishments;

- distribution through multiple delivery channels;

- more customized packing of goods within each delivery to reduce in-store unpacking times;

- more sophisticated packaging and labeling of goods to meet merchandising strategies;

- compliance with unique, customer-specific and industry-specific shipping standards; and

- the exchange of trading information electronically.

The Internet and the rapid growth of e-commerce have increased the demands on participants in the supply chain. For example, many retailers, suppliers and manufacturers are selling their products through a broader range of distribution channels, including directly to consumers, either through the Internet or catalog sales operations. These new multi-channel distribution models present significant challenges to traditional distribution centers that were primarily designed to replenish "bricks and mortar" establishments, such as retail stores and distributors, where orders are typically large and undifferentiated. Selling products in direct-to-consumer environments requires these participants to provide additional services, such as individual packaging, labeling and shipping of orders directly to the consumer, as well as other value-added services such as apparel monogramming and gift-wrapping.

As a result of these additional demands, distribution centers have increased in size, complexity and cost. Distribution centers today can comprise one million square feet or more with thousands of stock keeping units, or "SKUs," multi-million dollar investments in automated materials-handling equipment, and software solutions that can manage and provide access to huge amounts of real-time data. The efficient management of a distribution center operation now requires collecting information regarding:

- customer orders and the specific contents in each order;

- inbound shipments of products;

- products available on-site;

- product storage locations;

- weights and sizes;

- outbound shipping data including customer- or store-specific shipping requirements, routing data and carrier requirements;

- electronic communication with other supply chain participants; and

- personalization for direct-to-consumer shipping.

Distribution center management systems must be able to analyze dynamically the information to determine the most efficient use of the distribution center's labor, materials handling equipment, packaging equipment and shipping, storage and receiving areas. These systems must interface, in real-time, directly with Enterprise Resource Planning ("ERP") and other host systems to exchange business information. Their mission-critical function within a distribution center requires that these systems operate with high reliability and efficiency, while supporting very high transaction volumes and multiple users. Suppliers, manufacturers, distributors and retailers must exchange information in real time with other participants in the supply chain in order to effectively integrate their operations with the extended supply chain. Additionally, front-office Internet business software applications require real-time access to data provided by these distribution center management systems to provide a dynamic view of a company's extended supply chain.

Traditionally, distribution center management systems have been highly customized, difficult to upgrade and have required costly and lengthy implementations. Furthermore, these systems have not readily supported the increased volumes and complexities associated with recent advances in supply chain re-engineering initiatives. Specifically, they have failed to quickly incorporate dynamic changes to industry- and customer-specific shipping standards. Most legacy distribution center management systems are unable to effectively manage operations in an increasingly multi-channel distribution environment. In addition, legacy distribution center management systems are unable to provide the real-time access to supply chain data to interact with Internet-based supply chain optimization, procurement and commerce applications.

THE MANHATTAN ASSOCIATES SOLUTION

Our solutions feature modular software systems that employ leading database technology to address a full range of requirements of modern, complex distribution centers and the extended supply chain, including collaboration, execution and optimization. Our collaboration solutions provide real-time synchronization of key processes and their associated information flows across the extended supply chain, including customer process synchronization, trading partner personalization, supplier process enablement, carrier compliance and communication, global inventory visibility and supply chain event management, which includes real-time monitoring and alerting and real-time intelligent execution. Our execution solutions include the performance of the many processes that take place in the warehouse and distribution center, beginning with the execution of an order by a customer and ending with the fulfillment and delivery of the order to the end customer. Our

optimization solutions use analytic tools and techniques to improve the efficiency of distribution center operations through the use of either rules-based or algorithm-based models to solve problems that are too complex or too time consuming for manual processing. Our software products, together with our professional services capabilities, enable our customers to optimize their supply chain effectiveness and efficiencies by:

- reducing inventory levels and increasing inventory turnover;

- improving inventory and order accuracy;

- reducing response times;

- facilitating the requirements of multi-channel fulfillment, including complying with industry shipping standards, unique pallet configuration and customer-specific marketing, labeling and packaging;

- improving visibility of inventory, order status and delivery status;

- improving communication with other participants in the supply chain;

- enabling and facilitating distribution through multiple delivery channels;

- increasing the productivity of labor, facilities and materials-handling equipment; and

- lowering transportation costs.

Our collaboration solutions consist of the MA Collaborate Suite, which includes two versions of our infolink(TM) product, infolink-Order and infolink-Source. MA Collaborate provides our customers with:

- Supplier Integration -- infolink is designed to improve an organization's visibility to inbound shipments, which can facilitate (i) reduced transportation costs, through the consolidation of inbound shipments, (ii) improved planning, through real-time status and content management of inbound shipments to allow more effective labor management and improved order fulfillment, and (iii) improved fill rates, through allocation of in-transit inventory.

- Customer Integration -- infolink provides improved sharing of information between a supplier and its customers through the synchronization of processes and information.

- Global Inventory Visibility -- infolink enables visibility across the extended supply chain from the point of production to the point of consumption.

- Supply Chain Event Management -- infolink allows an organization to monitor its supply chain in real-time and provides immediate notifications or alerts of failures or important events.

Our execution solutions consist of the MA Fulfill Suite and the MA Deliver Suite. MA Fulfill features PkMS(R), our flagship product, and PkMS Pronto. MA Deliver features Logistics PRO(R) TMS. Together, MA Fulfill and MA Deliver provide our customers with:

- Comprehensive Warehouse Management System Functionality -- Our execution products address a full range of requirements of modern, complex distribution centers with a defined, prepackaged product rather than custom-designed and developed applications. Our execution products provide comprehensive functionality that manages the processes associated with receiving, put-away, replenishment, picking, packing and shipping for specific vertical markets, incorporating industry-wide initiatives.

- Ease of Implementation -- The modular design of our execution products, along with our knowledge of specific vertical markets and expertise in planning and installation, allows our solutions to be implemented more rapidly than highly-customized distribution center management systems. Typical implementations can be completed within four to six months. Our PRISM methodology allows for a full implementation of the MA Fulfill Suite within two months.

- Timely Response to Industry Initiatives -- Our execution products feature a comprehensive program to provide our customers with timely software upgrades offering increased functionality and technological advances that address emerging supply chain initiatives that are often industry specific.

5

- Flexibility and Configurability -- Our execution products are designed to be easily configured to meet a distribution center's specific requirements and reconfigured to meet changing customer and industry requirements. Because of their modular design, our execution products can be implemented in phases to meet specific customer demands.

- Scaleability -- Our execution products are designed to facilitate the management of evolving distribution center systems to accommodate increases in the number of system users, complexity and distribution volume.

- Multi-Channel Distribution -- Our execution products, with their robust design and superior functionality over competitive offerings, allow for distribution through multiple channels, including traditional means, the Internet and mail order. Moves to additional channels can be made with speed and ease of implementation.

- Transportation Management -- Our MA Deliver suite of products is designed to facilitate the shipping process and reduce costs through planning, integrated shipping rate tables and built in audit processes.

Our optimization solutions consist of the MA Optimize Suite, which includes three modular products: SlotInfo(TM), WorkInfo(TM) and SmartInfo(TM).

- SlotInfo -- enables the optimal configuration of distribution facilities to maximize existing space, achieve greater throughput and reduce replenishment costs.

- WorkInfo -- a comprehensive productivity tracking and labor-planning tool to help maximize the utilization and productivity of human resources within the distribution center.

- SmartInfo -- provides real-time monitoring of distribution center activities and determines trends based on historical data.

STRATEGY

Our objective is to be the leading provider of technology-based x-SCE solutions. We aim to achieve this objective by providing operational excellence to our customers through collaboration, execution and optimization solutions to targeted vertical markets. Our solutions are advanced, highly functional, highly scaleable applications that allow our customers to improve relationships with suppliers and customers, leverage their investments in distribution centers and meet dynamically changing customer requirements. Our strategies to accomplish our objective include the following:

Develop and Enhance Software Solutions. We intend to continue to focus our product development resources on the development and enhancement of our software solutions. We offer what we believe to be the broadest solution set in the x-SCE marketplace, founded upon software products, as described herein, to address all aspects of collaboration, execution and optimization. In order to provide additional functionality and value to our solutions, we plan to continue to provide enhancements to existing products and to introduce new products to address evolving industry standards and market needs. We identify further enhancements to our solutions and opportunities for new products through our customer support organization as well as ongoing customer consulting engagements and implementations, interactions with our user groups and participation in industry standards and research committees.

Expand International Sales. We believe that our solutions offer significant benefits for customers in international markets. We have approximately 100 employees outside the United States, primarily in the United Kingdom and the Netherlands, focused on international sales and servicing our international clients. In addition to offices in the United Kingdom, Netherlands and Japan, we have a direct presence in Germany, France and Australia and an established reseller partnership in Latin America and the Pacific Rim. Our international strategy includes leveraging the strength of our relationships with current customers that also have significant overseas operations and the pursuit of strategic marketing partnerships with international systems integrators and third-party software application providers.

6

Develop Indirect Sales Channels. We currently sell our products primarily through our direct sales personnel. In addition to expanding our direct sales organization, we plan to invest in the expansion and development of our indirect sales channels through reseller agreements, marketing agreements and agreements with third-party logistics providers.

Expand Our Strategic Alliances. We have established strategic alliances with industry-leading consultants and software systems implementers, including most of the "Big Five" consulting firms, other systems consulting firms specializing in our targeted industries and IBM Global Services among others, to supplement our direct sales force and professional services organization. These alliances help extend our market coverage and provide us with new business leads and access to trained implementation personnel. We have strategic alliances with complementary software vendors including Microsoft, JDA Software, Manugistics and Intentia.

Acquire or Invest in Complementary Businesses. We intend to pursue strategic acquisitions of technologies, products and businesses that enable us to enhance and expand our x-SCE software products and service offerings. More specifically, we intend to pursue acquisitions that will provide us with complementary products and technologies, expand our geographic presence and distribution channels, extend our presence into other vertical markets with similar challenges and requirements of those we currently exploit and/or further solidify our leadership position within the three primary components of x-SCE: collaboration, execution and optimization.

PRODUCTS AND SERVICES

Products. Our software products are designed to enable our customers to manage the operations of their distribution centers and improve collaboration between supply chain partners to achieve greater effectiveness and efficiency. Our software products operate across the iSeries (AS/400), Unix and Windows NT computing platforms. Our products operate on multiple hardware platforms utilizing various hardware systems and inter-operate with many third-party software applications and legacy systems. This interfacing and open system capability enables customers to continue using their existing computer resources and to choose among a wide variety of existing and emerging computer hardware and peripheral technologies. We provide interface toolkits for most ERP systems to enhance communication and reduce implementation costs between our core products and our clients' host systems. We currently offer interface toolkits to systems developed by Oracle, SAP, J.D. Edwards, Lawson, Essentus/Richter and Intentia.

We categorize our software products according to their focus and value proposition within x-SCE. Our solution set is comprised of five suites of applications: MA Fulfill; MA Deliver; MA Optimize; MA Collaborate and MA Connect. MA Fulfill consists of PkMS, our flagship product, and PkMS Pronto. MA Deliver consists of Logistics PRO TMS. MA Optimize consists of SlotInfo, WorkInfo and SmartInfo. MA Collaborate consists of infolink-Order and infolink-Source. MA Connect consists of ComLink and SystemLink. The following table lists and provides descriptions of our products categorized by offering suite:

MA FULFILL SUITE
PKMS

MODULE	DESCRIPTION
INVENTORY MANAGEMENT SYSTEM ("IMS")....................	Manages the receipt, put-away and movement of all inventory throughout the distribution center
Receiving....................	- Verifies the accuracy of incoming shipments against the advanced shipping notice - Designates incoming inventory for quality audit and immediate out-going shipment (cross-docking) - Manages receiving yard by scheduling time, dock location and priority of shipments

MODULE	DESCRIPTION
Stock Locator	- Enhances inventory movement efficiency by directing put-away, minimizing travel distances and optimizing storage capacity - Tracks movement of inventory by allowing real-time inquiries by location, SKU and other criteria
Cycle Count	- Enables more efficient inventory counts by permitting specific zones of a distribution center to be "frozen" without interrupting ongoing operations - Automatically generates cycle count tasks for specific SKUs, locations or other user-designated criteria
Work Order Management	- Directs the assembly of finished goods within a distribution center to match customer demands
Radio Frequency Functions for the IMS	- Allows the real-time collection of inventory product information and location with remote, hand-held mobile devices for integration with the IMS - Communicates real-time task assignments to workers in remote locations of the distribution center
Task Management System for the IMS	- Coordinates the sequence of distribution center tasks to optimize labor efficiency
OUTBOUND DISTRIBUTION SYSTEM ("ODS")	Manages the picking, packing and shipping of orders in efficient release waves
Wave Management	- Selects, prioritizes and groups outgoing orders in manageable increments based upon user-defined criteria - Routes picktickets based upon retailer requirements and pre-determines carton contents to minimize the number of outgoing cartons - Facilitates stock replenishment for active picking and packing locations
Verification	- Provides automatic verification of orders and identifies order shortages and overages to maximize shipping accuracy at several different points within the order fulfillment process
Radio Frequency Functions for the ODS	- Allows the real-time collection of shipment information, including actual carton contents, and location with remote, hand-held mobile devices - Communicates real-time task assignments to workers in remote locations of the distribution center
Freight Management System	- Sorts orders by specific freight carriers, calculates shipping charges and controls load sequencing based upon truck routes - Generates all documentation required for shipping such as bills of lading and retailer compliant required manifests
Parcel Shipping System	- Calculates all shipping charges for parcel shipments, generates tracking numbers and provides appropriate documentation for parcel carriers

8

MODULE	DESCRIPTION

PKALLOCATE....................	- Prioritizes and allocates orders based on current aggregate inventory levels for customers whose host system is unable to perform this function
PKCOST........................	- Tracks effort and cost for activities in the distribution center - Provides critical billing information for third party logistics companies
PKVIEW........................	- Provides online graphs and e-mail notification for PkMS on the iSeries (AS/400) and Unix platforms

PKMS PRONTO

MODULE	DESCRIPTION
Inbound Execution.............	- Enables the receipt, location and put-away of inbound shipments
Work..........................	- Allows the real-time collection of inventory product information and location with remote, hand-held mobile devices - Communicates real-time task assignments to workers in remote locations of the distribution center
Inventory Control.............	- Enables more efficient inventory counts by permitting specific zones of a distribution center to be "frozen" without interrupting ongoing operations - Automatically generates cycle count tasks for specific SKUs, locations or other user-designated criteria
Outbound Execution............	- Comprehensive, multi-step order entry functionality - Selects, prioritizes and groups outgoing orders in manageable increments based upon user-defined criteria - Determines the most efficient carrier - Facilitates load planning and optimization - Generates the most effective shipping plan
Asset Management..............	- Real-time data accumulation of key warehouse functions - Productivity tracking
Warehouse Control Center......	- Graphical representations of key operational data
Pronto Exchange...............	- Web-based information on inbound status, order entry, order status and delivery confirmation, inventory status, inbound statistics, outbound statistics and item statistics
Management Reporting..........	- Standardized reports to improve management visibility

9

MA DELIVER SUITE
LOGISTICS PRO TMS

MODULE	DESCRIPTION
Outbound Planning.............	- Determines the most efficient carrier - Generates the most effective shipping plan - Facilitates load planning and optimization
International Compliance......	- Translates document headings into local languages to meet

	requirements of destination countries
Audits........................	- Verifies each freight bill for accuracy to prevent duplicate payments and incorrect charges

MA OPTIMIZE SUITE

PRODUCT	DESCRIPTION
SmartInfo.....................	- Enables the optimization and analysis of a distribution center via the real-time monitoring of warehouse activities and determines trends based on historical data contained within PkMS
WorkInfo......................	- Provides employee performance tracking information to distribution center managers, while supplying the distribution center employee estimated task durations prior to starting the task and their individual employee performance throughout the day
SlotInfo......................	- Optimizes inventory physical location within a distribution center based on volume, seasonal demands, location of products and size - May be used with PkMS or as a stand-alone product

MA COLLABORATE SUITE

PRODUCT	DESCRIPTION
infolink-Order................	- An Internet-based application that enables real-time communication and collaboration between retailers and their suppliers - Provides real-time visibility into production status and shipment information - Provides real-time status of product availability - Generates bar-coded shipping labels at the user's facilities to facilitate and streamline receiving at user's distribution centers - May be integrated with PkMS, other warehouse management systems and ERP Systems
infolink-Source...............	- An Internet-based application that facilitates collaboration between a warehouse and its factories or a company and its suppliers - Provides real-time visibility into production status - Provides real-time shipment information, including advanced ship notice and UCC 128 labels for streamlined receiving

10

MA CONNECT SUITE *

PRODUCT DESCRIPTION

-------	-----------
ComLink*......................	- A standardized communication tool for communication among all Manhattan solutions as well as between Manhattan solutions and external systems - Provides an adaptable interface as new technologies emerge
SystemLink*...................	- A toolkit standardized for interfaces between PkMS and major ERP systems - Interfaces to ERP systems include Oracle Applications, Essentus Sourcing and Demand, Lawson Insight and Intentia Movex

----

* The products comprising the MA Connect Suite are designed to work exclusively with other products and solutions of Manhattan Associates. These products are neither sold stand-alone nor can they be used stand-alone, but are always sold as part of a total solution.

Professional Services. Our professional services provide 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 that our professional services enable the customer to implement our software rapidly, ensure the customer's success with our solution, strengthen the relationship with the customer, and adds to our industry-specific knowledge base for use in future implementations and product development efforts.

Although our professional services are optional, substantially all of our customers use at least some portion of these services for the implementation and ongoing support of our software products. Professional services are typically rendered under time and materials based contracts, with services billed on an hourly basis. Professional services are sometimes rendered under fixed-fee based contracts, but only in instances when we believe the scope of the project is reasonably quantifiable. We believe that increased sales of our software products will drive higher demand for our consulting services. Accordingly, we plan to continue to increase the number of consultants to support anticipated growth in product implementations and software upgrades. We anticipate that our internal growth will be balanced with our success in achieving our strategy of alliances expansion.

Our professional services group consists of business consultants, systems analysts and technical personnel devoted to assisting customers in all phases of the implementation of our systems, including planning and design, customer-specific configuring of modules, and on-site implementation or conversion from existing systems. Our consulting personnel undergo extensive training on distribution center operations and our products. We believe that this training, together with the ease of implementation of our products, enables us to productively use newly-hired consulting personnel. At times, we use third-party consultants, such as those from major systems integrators, to assist our customers in certain implementations.

We have developed a proprietary, standardized implementation methodology, called PRISM, which leverages our products' architecture with the knowledge and expertise gained from completing more than 1,100 installations worldwide. The modular design of our products significantly reduces the complexities associated with integrating to existing systems, including ERP, SCM, CRM, e-business systems and complex material handling systems. As a result, we have been able to deploy a fully automated inbound and outbound system in less than two months.

Customer Support Services and Software Enhancements. We offer a comprehensive program that provides our customers with timely software upgrades that offer additional or improved functionality and technological advances incorporating emerging supply chain and industry initiatives. As of December 31, 2001, over 80% of our customers since our formation have subscribed to our comprehensive support and enhancements agreements. We have the ability to remotely access the customer's system in order to perform

diagnostics, on-line assistance and assist in software upgrades. We offer 24x7 customer support plus software upgrades for fees of 16% and 20% of the software license fee, depending on the level of service needed by the customer.

Training. We offer training in a structured environment for new and existing users. Training programs are provided on a per-person, per-class basis at fixed fees. We currently have thirteen courses available to provide training on product use, configuration, implementation and system administration. We have also developed several computer-based training programs that can be purchased for a fixed fee for use at client sites.

Hardware. In conjunction with the licensing of our software, we resell a variety of hardware products developed and manufactured by third parties in order to provide our customers with an integrated supply chain execution solution. These products include computer hardware, radio frequency terminal networks, bar code printers and scanners, and other peripherals. We resell all third-party hardware products pursuant to agreements with manufacturers or through distributor-authorized reseller agreements pursuant to which we are entitled to purchase hardware products at discount prices and to receive technical support in connection with product installations and any subsequent product malfunctions. We generally purchase hardware from our vendors only after receiving an order from a customer. As a result, we do not maintain significant hardware inventory.

SALES AND MARKETING

We employ multiple discipline sales teams that consist of professionals with industry experience in sales and technical sales support. To date, we have generated the majority of our revenue from sales of software through our direct sales force. We plan to continue to invest significantly to expand our sales, services and marketing organizations within the United States, Europe and other international locations and to pursue strategic marketing partnerships. We conduct comprehensive marketing programs that include advertising, public relations, trade shows, joint programs with vendors and consultants and ongoing customer communication programs. The sales cycle typically begins with the generation of a sales lead, through in-house telemarketing efforts, trade shows or other means of referral, or the receipt of a request for proposal from a prospective customer. The sales lead or request for proposal is followed by the qualification of the lead or prospect, an assessment of the customer's requirements, a formal response to the request for proposal, presentations and product demonstrations, site visits to an existing customer using our supply chain execution system and contract negotiation. The sales cycle can vary substantially from customer to customer, but typically requires three to six months.

In addition to sales to new customers, we intend to continue to leverage our existing customer base to provide for system upgrades, sales of additional licenses of purchased products and sales of new or add-on products. We also plan to further develop and expand our indirect sales channels, including sales through reseller agreements, marketing agreements and agreements with third-party logistics providers. To extend our market coverage and to provide us with new business leads and access to trained implementation personnel, we further intend to develop and expand our strategic alliances with systems integrators capable of performing implementations of our solutions. Business referrals and leads helping us to grow our business continue to be positively influenced by systems integrators, which include most of the Big Five consulting firms and other systems consulting firms specializing in our targeted industries. We believe that our leadership position in providing x-SCE solutions perpetuates the willingness of systems integrators to recommend our solutions where appropriate.

During 2000, we formalized a program intended to foster joint sales and marketing efforts with our business partners. In some cases, this included joint development work to make our products and our partner's

products interface seamlessly. Among others, partnerships arising from our Manhattan Associates Partner Program (MAP2) include:

- Manugistics Group, Inc., a leading global provider of enterprise profit optimization solutions;

- JDA Software Group, Inc., a leading global provider of integrated software and professional services to retailers and their suppliers;

- Vastera, Inc., a leading international trade logistics company;

- Intentia International AB, a leading global supplier of ERP solutions;

- ProClarity Corporation (formerly Knosys, Inc.), a provider of analytic front-end technology designed specifically for Microsoft SQL Server 2000 Analysis Services;

- Siemens Dematic, a world leader, providing system solutions from concept through implementation in manufacturing, automotive, distribution, parcel and freight, postal, air cargo, baggage handling and software applications; and

- FKI Logistex, a global automated material-handling firm specializing in distribution, freight and parcel, baggage handling and manufacturing automated material flow solutions.

CUSTOMERS

To date, our customers have been suppliers, manufacturers, distributors, retailers and transportation providers in a variety of industries. The following table sets forth a representative list of our customers and the industries as of December 31, 2001, that have purchased products and services from us.

Consumer Goods	Healthcare
ARAMARK Uniform and Career Apparel, Inc.	Abbott Laboratories, Inc.
Calvin Klein, Inc.	AmerisourceBergen
Elizabeth Arden	Banta Healthcare
Jockey International	F. Dohmen Company
Newell Rubbermaid	Ocular Sciences, Ltd.

SEIKO Corp. of America	Pfizer Canada, Inc.
The Stride Rite Corporation	Stiefel Laboratories, Inc.
Waterford Wedgewood, USA, Inc.	Stryker Endoscopy
Direct-to-Consumer	Retail
Cabela's	American Eagle Outfitters
Coldwater Creek	Debenhams Retail Plc
Columbia Sportswear	Kmart Corporation
Cornerstone Brands, Inc.	Mary Kay, Inc.
J. Jill Group	Nordstrom
KBToys.com	The Children's Place
Nordstrom.com	The Limited
Patagonia	The Sports Authority
Food and Grocery	Industrial & Wholesale
Alliant Atlantic Foodservice	AGFA/Bayer
American Italian Pasta Company	Liberty Hardware Manufacturing
Ben E. Keith Company	Loctite Corporation
Burns Philip Food/Tone Brothers	Motors & Armatures, Inc.
Hiram Walker & Sons Limited	O'Reilly Automotive
Orefield Cold Storage	PPG Architectural Finishes, Inc.
Sainsbury's Supermarkets Ltd.	Rain Bird Distribution Corp.
Sara Lee Corporation	Strauss Discount Tire
Third Party Logistics	High Tech & Electronics
APL	Belkin Components
ClientLogic Corporation	Canon (UK) Limited
Exel Logistics	EGS Electrical Group
Langham Logistics	Festo Corporation
SalesLink	Metatec Corporation
Tibbett and Britten Ltd.	Microwarehouse, Inc.
	Olympus America
	Siemens Energy and Automation, Inc.

Our top five customers in aggregate accounted for 21%, 22% and 10% of total revenue for each of the years ended December 31, 2001, 2000 and 1999, respectively. Revenue from one customer ("the significant customer") during 2001 accounted for approximately 10% of revenue for the year ended December 31, 2001. No single customer accounted for more than 10% of revenue in 2000 or 1999. On January 22, 2002, the significant customer, an international discount retailer, filed for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. As a result of the bankruptcy filing, the uncertainties around the bankruptcy proceedings and the ultimate timing of payment, if any, we reduced 2001 revenues by $4.3 million. The $4.3 million Allowance for Bankrupt Customer, recorded as a separate line item within the revenues section of our Statement of Income for the year ended December 31, 2001, principally defers revenues arising from the significant customer in the fourth quarter of 2001.

PRODUCT DEVELOPMENT

Our development efforts are focused on adding new functionality to existing products, enhancing the operability of our products across distributed and alternative hardware platforms, operating systems and database systems and developing new products. We believe that our future success depends in part upon our ability to continue to enhance existing products, to respond to dynamically changing customer requirements and to develop new or enhanced products that incorporate new technological developments and emerging extended supply chain and industry standards. To that end, our development efforts frequently focus on base system enhancements and the incorporation into our products of new user requirements and features identified and created through customer and industry interactions and systems implementations. As a result, we are able to continue to offer our customers a packaged, highly configurable product with increasing functionality rather than a custom-developed software program. We have also developed interface toolkits for most major ERP systems to enhance communication and improve data flows between our core products and our clients' host systems.

We plan to principally conduct our development efforts internally in order to retain development knowledge and promote the continuity of programming standards; however, some projects that can be performed separately and/or require special skills may be outsourced. In 2001, we used a third-party research and development company to localize our products into Japanese, German, French and Spanish. We have also announced plans to establish an off-shore development center (ODC) in Bangalore, India. The ODC will employ several Indian citizens currently working for and holding extensive development experience with us.

We will continue to spend a portion of our research and development efforts on the development and enhancement of our infolink product. Infolink is an Internet-based application that enables real-time collaboration between users and both their customers and suppliers regarding customer order entry and order/inventory status. Real-time communication will be facilitated via infolink through Internet-based XML technology. Microsoft Corporation is collaborating with us to provide expertise in the XML document definition, which will be based on the BizTalk(TM) Framework. We released the first version of infolink, called infolink-Order, in September 2000. Infolink-Order provides information allowing for real-time business decisions between customers and their suppliers. A second version of infolink was released in September 2001, called infolink-Source, which provides for similar types of communication between suppliers and their factories.

We continue to devote a significant portion of our research and development efforts to the enhancement of the N-Tier version of PkMS. Our N-Tier version of PkMS incorporates a distributed client/server architecture to allow different software applications and systems and hardware platforms to operate together more efficiently. N-Tier currently operates with desktops running Windows 95/98/2000/NT, standard radio frequency device clients and servers running either the Windows NT or the UNIX operating environments. Much of our development efforts in the second half of 2000 included the re-architecture of the N-Tier version of PkMS to improve the product's responsiveness and overall efficiency. The re-architected version of N-Tier was released in the first quarter of 2001.

We are also spending a portion of our research and development efforts on the development of PkMS Pronto. PkMS Pronto, formerly known as Logistics PRO NT, was acquired through the acquisition of Intrepa, L.L.C. in October, 2000. It is marketed to Tier 3 companies (i.e., companies with less than $250 million in revenues). Development efforts related to PkMS Pronto are directed toward building and enhancing functionality requirements of Tier 3 companies. We continue to develop new and enhanced functionality for PkMS. Additionally, we plan to dedicate significant resources to further develop and enhance our MA Optimize Suite, consisting of SlotInfo, WorkInfo and SmartInfo. Sales of MA Optimize products accounted for approximately 19% of our software fees in 2001. The integration of the significant functionality of Logistics PRO TMS, a transportation management system acquired through the acquisition of Intrepa, into PkMS was completed in the second half of 2001. We expect Logistics PRO TMS will continue to be sold as a separate product.

Our research and development expenses for the years ended December 31, 2001, 2000 and 1999 were $19.4 million, $16.1 million, and $10.2 million, respectively. We intend to continue to invest heavily in product development.

COMPETITION

Our products are targeted at the x-SCE market, which is highly fragmented, intensely competitive and characterized by rapid technological change. The principal competitive factors affecting the market for our products include:

- vendor and product reputation;

- compliance with industry standards;

- product architecture, functionality and features;

- ease and speed of implementation;

- return on investment;

- product quality, price and performance; and

- level of support.

We believe that we compete favorably with respect to each of these factors. Our competitors are diverse and offer a variety of solutions directed at various aspects of the extended supply chain, as well as the enterprise as a whole. Our existing competitors include:

- supply chain execution vendors, including Catalyst International, Inc., EXE Technologies, Inc., HighJump Software, Logistics & Internet Systems Limited, McHugh Software International, Inc., Optum, Inc. and Provia Software, Inc. among others;

- ERP or Supply Chain Management ("SCM") application vendors with products or modules of their product suite offering varying degrees of x-SCE functionality, such as Retek, Inc., J.D. Edwards & Company or SAP AG;

- the corporate information technology departments of current or potential customers capable of internally developing solutions; and

- smaller independent companies that have developed or are attempting to develop distribution center management software that competes with our x-SCE solutions.

We may face competition in the future from ERP and SCM applications vendors and business application software vendors that may broaden their product offerings by internally developing or by acquiring or partnering with independent developers of supply chain execution software. To the extent such ERP and SCM vendors develop or acquire systems with functionality comparable or superior to our products, their significant installed customer bases, long-standing customer relationships and ability to offer a broad solution could provide a significant competitive advantage over our products. In addition, it is possible that new competitors or alliances among current and new competitors may emerge and rapidly gain significant market share. Increased competition could result in price reductions, fewer customer orders, reduced gross margins and loss of market share. Both Oracle and SAP have announced plans to enter the market for SCM applications. We believe that the domain expertise required to compete provides us with a competitive advantage and is a significant barrier to market entry. However, some of our competitors have significant resources at their disposal, and the degree to which we will compete with these new products in the marketplace is still undetermined.

Many of our competitors and potential competitors have longer operating histories, significantly greater financial, technical, marketing and other resources, greater name recognition and a larger installed base of customers than we do. In order to be successful in the future, we must continue to respond promptly and effectively to technological change and competitors' innovations. We cannot assure you that our current or

potential competitors will not develop products comparable or superior in terms of price and performance features to those developed by us. In addition, we cannot assure you that we will not be required to make substantial additional investments in connection with our research, development, marketing, sales and customer service efforts in order to meet any competitive threat, or that we will be able to compete successfully in the future. Increased competition may result in reductions in market share, pressure for price reductions and related reductions in gross margins, any of which could materially and adversely affect our ability to achieve our financial and business goals. We cannot give assurance that in the future we will be able to successfully compete against current and future competitors.

INTERNATIONAL OPERATIONS

Our international revenue was approximately $26.1 million, $14.9 million and $5.5 million for the years ended December 31, 2001, 2000 and 1999, respectively, which represents approximately 17%, 11% and 7% of our total revenue for the years ended December 31, 2001, 2000 and 1999, respectively. International revenue includes all revenue derived from sales to customers outside the United States. We now have approximately 100 employees outside the United States, most of whom are located in the United Kingdom and the Netherlands. We recently installed our product in Asia and also began marketing our solutions in Australia, Latin America and the Pacific Rim.

We conduct our direct European operations principally out of an office in the United Kingdom, consisting of approximately 95 employees. We recently signed a multi-year agreement to occupy a facility in Utrecht, The Netherlands to accommodate our planned growth in continental Europe. Total revenue for European operations was approximately $22.1 million, $10.3 million and $3.8 million for the years ended December 31, 2001, 2000 and 1999, respectively, which represents approximately 15%, 8% and 5% of our total revenue for the years ended December 31, 2001, 2000 and 1999, respectively.

PROPRIETARY RIGHTS

We rely on a combination of copyright, trade secret, trademark, service mark and trade dress laws, confidentiality procedures and contractual provisions to protect our proprietary rights in our products and technology. We have a registered trademarks for SLOT-IT, Have/Needs Analysis, PTRS, PKMS PickTicket Management System, LogisticsPRO and the Manhattan Associates logo as a design mark. We have pending federal trademark applications for infolink Source, PKAllocate, PKCost, X-SCE, WorkInfo, infolink Order, PkMS Pronto, SlotInfo, SmartInfo, E-Fulfillnow, SystemLink, Driving the New E-Supply Chain, infolink and BizLink. We have no registered copyrights. We generally enter into confidentiality agreements with our employees, consultants, clients and potential clients and limit access to, and distribution of, our proprietary information. We license PkMS to our customers in source code format and restrict the customer's use for internal purposes without the right to sublicense the PkMS, SlotInfo, SmartInfo, WorkInfo, infolink or Logistics PRO products. However, we believe that this provides us only limited protection. Despite our efforts to safeguard and maintain our proprietary rights both in the United States and abroad, we cannot assure you that we will successfully deter misappropriation or independent third-party development of our technology or prevent an unauthorized third party from copying or obtaining and using our products or technology. In addition, policing unauthorized use of our products is difficult, and while we are unable to determine the extent to which piracy of our software products exist, software piracy could become a problem.

As the number of supply chain management applications in the industry increases and the functionality of these products further overlaps, companies that develop software may increasingly become subject to claims of infringement or misappropriation of intellectual property rights. Third parties may assert infringement or misappropriation claims against us in the future for current or future products. Any claims or litigation, with or without merit, could be time-consuming, result in costly litigation, divert management's attention and cause product shipment delays or require us to enter into royalty or licensing arrangements. Any royalty or licensing arrangements, if required, may not be available on terms acceptable to us, if at all, which could have a material adverse effect on our business, financial condition and results of operations. Adverse determinations in such claims or litigation could also have a material adverse effect on our business, financial condition and results of operations.

We may be subject to additional risks as we enter into transactions in countries where intellectual property laws are not well developed or are poorly enforced. Legal protections of our rights may be ineffective in such countries. Litigation to defend and enforce our intellectual property rights could result in substantial costs and diversion of resources and could have a material adverse effect on our business, financial condition and results of operations, regardless of the final outcome of such litigation. Despite our efforts to safeguard and maintain our proprietary rights both in the United States and abroad, we cannot assure that we will be successful in doing so, or that the steps taken by us in this regard will be adequate to deter misappropriation or independent third party development of our technology or to prevent an unauthorized third party from copying or otherwise obtaining and using our products or technology. Any of these events could have a material adverse effect on our business, financial condition and results of operations.

EMPLOYEES

As of December 31, 2001, we had 791 full-time employees. None of our employees are covered by a collective bargaining agreement. We consider our relations with our employees to be good. As of December 31, 2001, certain of our employees were employed pursuant to the H-1(B), non-immigrant work-permitted visa classification.

EXECUTIVE OFFICERS AND DIRECTORS

Our executive officers and directors and certain information about them are as follows:

NAME	AGE	POSITION
Alan J. Dabbiere.........................	40	Chairman of the Board of Directors(1)
Richard M. Haddrill......................	48	President, Chief Executive Officer and Director
Neil Thall...............................	55	Executive Vice President -- Professional Services
Deepak Raghavan..........................	35	Senior Vice President, Product Strategy and Director(1)
Jeffry W. Baum...........................	39	Senior Vice President -- International

		Operations
Thomas W. Williams, Jr.	45	Senior Vice President, Chief Financial Officer and Treasurer
Jeffrey S. Mitchell......................	34	Senior Vice President -- North American Sales
Brian J. Cassidy.........................	56	Director
John J. Huntz, Jr........................	51	Director(2)(3)
Thomas E. Noonan.........................	41	Director(2)(3)
John R. Hardesty.........................	62	Director(2)(3)

----

(1) Member of the Executive Committee.

(2) Member of the Compensation Committee.

(3) Member of the Audit Committee.

The Board of Directors is divided into three classes, each of whose members serve for a staggered three-year term. The Board is currently comprised of two Class I directors (Messrs. Dabbiere and Cassidy), two Class II directors (Messrs. Raghavan and Haddrill) and three Class III directors (Messrs. Huntz, Noonan and Hardesty). At each annual meeting of shareholders, a class of directors will be elected for a three-year term to succeed the directors of the same class whose terms are then expiring. The terms of the Class I directors, Class II directors and Class III directors will expire upon the election and qualification of successor directors at the 2002, 2003 and 2004 annual meetings of shareholders, respectively.

Alan J. Dabbiere, a founder of Manhattan, has served as Chairman of the Board since February 1998 and served as Chief Executive Officer and President of Manhattan from October 1990 until October 1999. From

18

1986 until 1990, Mr. Dabbiere was employed by Kurt Salmon Associates, a management consulting firm specializing in consumer products manufacturing and retailing, where he specialized in consulting for the retail and consumer products manufacturing industries. At Kurt Salmon Associates, Mr. Dabbiere participated in Quick Response pilot projects focused on the value of an integrated supply-chain initiative. Mr. Dabbiere serves on the American Apparel Manufacturer Association's Management Systems Committee.

Richard M. Haddrill has served as President and Chief Executive Officer of Manhattan since October 1999 and has served on the Board of Directors since October 1999. Prior to joining Manhattan, Mr. Haddrill served as President, CEO and a board member for Powerhouse Technologies, a successful technology, services and gaming company. He served Powerhouse as its Executive Vice President from December 1994 through September 1996 and served as President and Chief Executive Officer from September 1996 through June 1999. From 1992 until 1994, Mr. Haddrill was President of computer software company KnowledgeWare's international subsidiaries. During his employment at Ernst & Young, from 1975 until 1991, Mr. Haddrill held various positions within the company, including Managing Partner and Partner. Mr. Haddrill also serves on the Board of Directors of Danka, a publically-traded office products company.

Neil Thall has served as Executive Vice President -- Professional Services of Manhattan since January 2000. From August 1998 to January 2000, Mr. Thall served as Senior Vice President -- Supply Chain Strategy; and from January 1998 to August 1998, he served as Vice President -- Supply Chain Strategy of

Manhattan. From February 1997 through January 1998, Mr. Thall served as the Principal of Neil Thall Consulting. From January 1992 to July 1997, Mr. Thall served as President of Neil Thall Associates, a software development and management consulting subsidiary of HNC Software that specialized in inventory management, Quick Response and vendor managed inventory initiatives. Prior to 1992, Mr. Thall was employed by Kurt Salmon Associates as National Service Director -- Retail Consulting, where he specialized in the development and implementation of information systems for major department stores and specialty and mass merchant chains.

Deepak Raghavan, a founder of Manhattan, has served as Senior Vice President of Manhattan since August 1998 and as a Director since February 1998. Mr. Raghavan has served as Senior Vice President -- Product Strategy since January 2001, and he served as our Chief Technology Officer from 1990 until 2001. From 1987 until 1990, Mr. Raghavan was a Senior Software Engineer for Infosys Technologies Limited, a software development company, where he specialized in the design and implementation of information systems for the apparel manufacturing industry.

Jeffry W. Baum has served as Senior Vice President -- International Operations of Manhattan since January 2000. From March 1998 to January 2000, Mr. Baum served as Vice President, International Business Development. From January 1997 until February 1998, Mr. Baum served as Vice President, Sales and Marketing of Haushahn Systems & Engineers, a warehouse management systems and material handling automation provider. From March 1992 until December 1996, Mr. Baum served as Senior Account Manager at Haushahn. Prior to that, Mr. Baum served in a variety of business development, account management and marketing positions with Logisticon and Hewlett-Packard.

Thomas W. Williams, Jr. has served as Senior Vice President of Manhattan since January 2001 and Chief Financial Officer and Treasurer of Manhattan since February 2000. Mr. Williams served as a Vice President of Manhattan from February 2000 through January 2001. From February 1996 to February 2000, Mr. Williams served as Group Vice President, Finance and Administration for Sterling Commerce, a worldwide leader in providing e-business solutions for the Global 5000 companies. From December 1994 to February 1996, Mr. Williams served as Division Vice President, Finance and Administration for Sterling Software, one of the 20 largest independent software companies in the world. From June 1989 to December 1994, Mr. Williams held various senior management finance and accounting positions with KnowledgeWare, which was acquired by Sterling Software in 1994. Mr. Williams joined KnowledgeWare from Ernst & Young.

Jeffrey S. Mitchell has served as Senior Vice President, North American Sales of Manhattan since February 2001. Prior to that, Mr. Mitchell served in various sales management roles at Manhattan since April 1997, including Vice President, North American Sales from May 1999 through February 2001. From April 1995 until April 1997, Mr. Mitchell was a sales representative for Intrepa (formerly The Summit Group), a

provider of warehouse and transportation management packages that was acquired by Manhattan in October 2000. From May 1991 until April 1995, Mr. Mitchell served in various aspects of account management in the employer services division of ADP providing outsource payroll and human resources solutions.

Brian J. Cassidy has served as a Director of Manhattan since May 1998. Mr. Cassidy has served as the Vice-Chairman and Co-Founder of Webforia, formally known as LiveContent, a developer and supplier of computer software applications, since April 1996. Prior to joining Webforia, Mr. Cassidy served as Vice President of Business Development of Saros Corporation, a developer of document management software, from January 1993 to March 1996. Prior to joining Saros Corporation, Mr. Cassidy was employed by Oracle Corporation, as Joint Management Director of European Operations and a member of the Executive Management Board from 1983 to 1988 and as Worldwide Vice President of Business Development from 1988 to 1990.

John J. Huntz, Jr. has served as a Director of Manhattan since January 1999. Mr. Huntz has served as Managing Director of Fuqua Ventures, LLC, a private equity investment firm, since March 1998. Mr. Huntz served as Executive Vice President and Chief Operating Officer of Fuqua Enterprises, a company that manufactures health-care products, from August 1995 to March 1998 and as its Senior Vice President from March 1994 until August 1995. From September 1989 to January 1994, Mr. Huntz served as the Managing Partner of Noble Ventures International, a private international investment company. From 1984 to 1989, Mr. Huntz held the position of Director of Capital Resources for Arthur Young & Company, and from 1979 to 1984, Mr. Huntz was with Harrison Capital, Inc., a venture capital investment subsidiary of Texaco, Inc. Mr. Huntz founded and serves as President of the Atlanta Venture Forum, a risk capital network, and is a member of the National Association of Small Business Investment Companies. Mr. Huntz serves as a director and chairman of the compensation committee of GMP Companies, a developer of medical technologies.

Thomas E. Noonan has served as a Director of Manhattan since January 1999. Mr. Noonan has served as the President and as a Director of Internet Security Systems, Inc., a provider of network security monitoring, detection and response software, since June 1995, and as its Chief Executive Officer and Chairman of the Board of Directors since November 1996. Prior to joining Internet Security Systems, Mr. Noonan served as Vice President, Sales and Marketing with TSI International, Inc., an electronic commerce company, from September 1994 until August 1995. From November 1989 until October 1994, Mr. Noonan held high-level sales and marketing position at Dun & Bradstreet Software, a developer of enterprise business software.

John R. Hardesty has served as a Director of Manhattan since July 2000. Mr. Hardesty has been self-employed as an investor since March 1995. Since 1995, Mr. Hardesty has served as owner and Chairman of the Board of Directors of Thermo Dynamics, Inc., a quartz manufacturing company. From 1988 until 1995, Mr. Hardesty was the owner and chairman of Dixson, a manufacturer of electronic instruments for the heavy-duty truck market and process control market.

ITEM 2. PROPERTIES

Our principal administrative, sales, marketing, support and research and development facility is located in approximately 135,398 square feet of modern office space in Atlanta, Georgia. Substantially all of this space is leased to us through March 31, 2008. At this time, our office space is adequate to meet our immediate needs; however, we may expand into additional facilities in the future. We also occupy a facility under a multi-year agreement in Bracknell, United Kingdom, and have signed a multi-year agreement in the first quarter of 2002 to occupy a facility in Utrecht, The Netherlands. We also occupy offices under short-term agreements in other geographical regions.

ITEM 3. LEGAL PROCEEDINGS

Many of our installations involve products that are critical to the operations of our clients' businesses. Any failure in our products could result in a claim for substantial damages against us, regardless of our responsibility for such failure. Although we attempt to limit contractually our liability for damages arising from product failures or negligent acts or omissions, there can be no assurance the limitations of liability set forth in our contracts will be enforceable in all instances. We are not currently a party to any material legal proceeding that would require disclosure under this Item.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year ended December 31, 2001.

21

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

Our common stock is traded on the Nasdaq National Market under the symbol "MANH". The following table sets forth the high and low closing sales prices of the common stock as reported by the Nasdaq National Market for the periods indicated:

FISCAL PERIOD	HIGH PRICE	LOW PRICE
2000		
First Quarter	$34.25	$ 7.38
Second Quarter	31.75	18.69
Third Quarter	61.25	24.50
Fourth Quarter	71.31	32.63
2001		
First Quarter	$42.88	$15.56
Second Quarter	40.01	10.94
Third Quarter	39.43	12.90
Fourth Quarter	35.78	17.22

The closing sale price of our common stock as reported by the Nasdaq National Market on March 31, 2002 was $38.10. The number of shareholders of record of our common stock as of March 31, 2002 was approximately 62.

Prior to our initial public offering in April 1998, our predecessors historically made distributions to shareholders related to their limited liability company status and the resulting tax payment obligations imposed on its shareholders. We do not intend to declare or pay cash dividends in the foreseeable future. Our management anticipates that all earnings and other cash resources, if any, will be retained by us for investment in our business.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

You should read the following selected consolidated financial data in conjunction with our Financial Statements and related Notes thereto and with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Form 10-K. The statement of income data for the years ended December 31, 1999, 2000 and 2001, and the balance sheet data as of December 31, 2000 and 2001, are derived from, and are qualified by reference to, the audited financial statements included elsewhere in this Form 10-K. The statement of income data for the year ended December 31, 1997 and 1998, and the balance sheet data as of December 31, 1997, 1998 and 1999, are derived from the audited financial statements not included herein. Historical and pro forma results are not necessarily indicative of results to be expected in the future.

	YEAR ENDED DECEMBER 31,			
	1997	1998	1999	2000
	(IN THOUSANDS, EXCEPT PER SHARE DAT			
STATEMENT OF INCOME DATA:				
Revenue:				
Software fees	$ 7,160	$13,816	$14,578	$26,190
Services	14,411	32,358	52,889	81,085
Hardware	10,886	15,891	13,825	25,821
Allowance for bankrupt customer(3)	--	--	--	--
Total revenue	32,457	62,065	81,292	133,096
Costs and expenses:				
Cost of software fees	461	702	1,190	1,239
Cost of services	6,147	15,286	30,643	34,299
Cost of hardware	8,001	11,791	10,526	20,822
Research and development	3,025	7,429	10,201	16,106
Sales and marketing	3,570	9,045	14,344	18,051
General and administrative	2,842	6,577	12,849	15,123
In-process research and development and acquisition-related charges	--	1,602	--	3,001
Amortization of acquisition-related intangibles	133	372	1,102	1,165
Total costs and expenses	24,179	52,804	80,855	109,806
Income from operations	8,278	9,261	437	23,290
Other income, net	56	1,070	1,218	2,718
Income before income taxes	8,334	10,331	1,655	26,008
Income tax expense (benefit):				
Tax provision as a "C" corporation	--	3,329	554	9,740
Deferred tax adjustment	--	(316)	--	--
Net income	$ 8,334	$ 7,318	$ 1,101	$16,268
Diluted net income per share	$ 0.40	$ 0.29	$ 0.04	$ 0.53
Shares used in computing diluted net income per share	20,761	25,651	26,553	30,453
Income before pro forma income taxes	$ 8,334	$10,331		
Pro forma income taxes(1)	3,023	4,244		
Pro forma net income(1)	$ 5,311	$ 6,087		
Pro forma diluted net income per share(2)		$ 0.24		
Shares used in computing pro forma diluted net income per share(2)		25,686		

	DECEMBER 31,				
	1997	1998	1999	2000	
	(IN THOUSANDS)				
BALANCE SHEET DATA:					
Cash, cash equivalents and short-term investments	$ 3,194	$32,763	$39,915	$ 67,667	$
Working capital	6,268	44,561	46,948	70,192	
Total assets	15,006	67,775	80,923	152,375	
Total shareholders' equity	8,454	55,635	58,606	110,001	

----

(1) In connection with the conversion from limited liability company status on April 23, 1998, we became subject to federal and state corporate income taxes. Pro forma net income is presented as if we had been subject to corporate income taxes for all periods presented.
(2) See Note 1 of Notes to Consolidated Financial Statements.
(3) In connection with a significant customer filing for bankruptcy under Chapter 11 of the United States Bankruptcy Code, an allowance of $4.3 million was recorded to effectively defer revenues arising in the fourth quarter of 2001 from the significant customer, but unpaid at the time of the bankruptcy declaration. See Note 1 of Notes to Consolidated Financial Statements for further details.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

All statements, trend analyses and other information contained in the following discussion relative to markets for our products and trends in revenue, gross margins and anticipated expense levels, as well as other statements including words such as "anticipate," "believe," "plan," "estimate," "expect," and "intend" and other similar expressions constitute forward-looking statements. These forward-looking statements are subject to business and economic risks and uncertainties, and our actual results of operations may differ materially from those contained in the forward-looking statements.

OVERVIEW

We are a leading global provider of technology-based solutions to improve the effectiveness of and the efficiencies within the extended supply chain. Our solutions, which consist of software, services and hardware, enhance distribution efficiencies through the real-time integration of extended supply chain constituents, including manufacturers, distributors, retailers, suppliers, transportation providers and consumers. Our software provides solutions for the three principal elements of extended supply chain execution, or x-SCE: collaboration, execution and optimization. Collaboration solutions provide real-time synchronization of key processes and their associated information flows across the extended supply chain, including customer process synchronization, trading partner personalization, supplier process enablement, carrier compliance and communication, global inventory visibility and supply chain event management. Execution solutions include the performance of the many processes that take place in the warehouse and distribution center, beginning with the placement of an order by a customer and ending with the fulfillment and delivery of the order to the end customer. Optimization solutions use analytic tools and techniques to improve the efficiency of distribution center operations through the use of either rules-based or algorithm-based models to solve problems that are too complex or too time consuming for manual processing. We also provide services, including design, configuration, implementation and training services, plus customer support services and software enhancement subscriptions. We currently provide our solutions to manufacturers, distributors, retailers, suppliers and transportation providers primarily in the following markets: retail, consumer goods, direct-to-consumer, food and grocery, third-party logistics, industrial and wholesale, high technology and electronics, and healthcare and pharmaceuticals.

Critical Accounting Policies and Estimates

The consolidated financial statements include accounts of the company and all majority-owned subsidiaries. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements and related footnotes. In preparing these financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. We do not believe there is a great likelihood that materially different amounts would be reported related to the accounting policies described below. However, application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates.

Revenues and Revenue Recognition

Our revenues consist of fees from the licensing of software; fees from consulting, implementation and training services (collectively, "professional services"), plus customer support services and software enhancement subscriptions; and sales of complementary radio frequency and computer equipment.

We recognize software fees in accordance with 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"). Under SOP 97-2, we recognize software license revenue when the following criteria are met: (1) a signed contract is obtained; (2) shipment of the product has occurred; (3) the license fee is fixed or determinable; (4) collectibility is probable; and (5) remaining obligations under the license agreement are insignificant. 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. SOP 98-9 was effective for transactions entered into after March 15, 1999, and we adopted the residual method for such arrangements at that time. For those contracts that contain significant future obligations, license revenue is recognized under the percentage of completion method.

Fees from professional services performed by us are generally billed on an hourly basis, and revenue is recognized as the services are performed. From time to time, we will enter into professional services agreements in which billings are limited to contractual maximums for portions of or all of the engagement. Fees from customer support services and software enhancement subscriptions are generally paid in advance and recognized as revenue ratably over the term of the agreement, typically 12 months.

Hardware 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. These products include computer equipment, radio frequency terminal networks, bar code printers and scanners and other peripherals. We generally purchase hardware from our vendors only after receiving an order from a customer, and revenue is recognized upon shipment by the vendor to the customer.

Accounts Receivable

We continuously monitor collections and payments from our customers and maintain a provision for estimated credit losses based upon our historical experience and any specific customer collection issues that we have identified. 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. Our top five customers in aggregate accounted for 21%, 22% and 10% of total revenue for each of the years ended December 31, 2001, 2000, and 1999, respectively. Sales to one customer ("the significant customer") accounted for approximately 10% of total revenue for the year ended December 31, 2001. Most of the revenue from the significant customer in 2001 arose from purchases of hardware. No single customer accounted for more than 10% of revenue in 2000 or 1999. Accounts receivable from the significant customer on December 31, 2001 was approximately $4.3 million.

On January 22, 2002, the significant customer for 2001 filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code. As a result of the filing, the uncertainties around the bankruptcy proceedings and the ultimate timing of payment, we recorded an allowance of $4.3 million in 2001 to effectively defer revenues arising in the fourth quarter of 2001 from the significant customer, but unpaid at the time of the bankruptcy declaration. The allowance includes approximately $2.3 million of software fees, $1.6 million of fees for professional services and $0.4 million of hardware. Additionally, we billed the significant customer approximately $0.9 million for professional services during January 2002 prior to the Chapter 11 filing. These accounts receivable will be evaluated for collectibility in the first quarter of 2002.

Valuation of long-lived and intangible assets and goodwill

We assess the impairment of identifiable intangibles, long-lived assets and related goodwill and enterprise level goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;

- significant changes in the manner of our use of the acquired assets or the strategy for our overall business;

- significant negative industry or economic trends;

- significant decline in our stock price for a sustained period; and

- our market capitalization relative to net book value.

When we determine that the carrying value of intangibles, long-lived assets and related goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure any impairment based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model. Net intangible assets, long-lived assets, and goodwill amounted to $27.5 million as of December 31, 2001.

In 2002, Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" became effective and as a result, we will cease to amortize approximately $21.3 million of goodwill. We had recorded approximately $3.0 million of amortization on these amounts during 2001 and would have recorded approximately $3.0 million of amortization during 2002. In lieu of amortization, we are required to perform an initial impairment review of our goodwill in 2002 and an annual impairment review thereafter.

We currently do not expect to record an impairment charge upon completion of the initial impairment review. However, there can be no assurance that at the time the review is completed a material impairment charge will not be recorded.

Acquisition

On October 24, 2000, we acquired substantially all of the assets of Intrepa, L.L.C. ("Intrepa") for a purchase price of approximately $31.0 million. The purchase price consisted of a cash payment of $13.0 million, the issuance of approximately $10.0 million of our $.01 par value per share common stock (totaling 236,957 shares), and the issuance by us of a promissory note for $7.0 million. We also incurred approximately $0.9 million of transaction costs related to the acquisition. The purchase price included the assumption of substantially all of the liabilities of Intrepa, including immediate payment by us of the remaining $2.0 million of principal and up to $15,000 of interest on a promissory note previously issued by Intrepa. The acquisition has been accounted for under the purchase method of accounting. Based on an independent appraisal, the purchase price has been allocated to net liabilities assumed of $2.6 million, acquired research and development of $2.4 million, acquired developed technology of $7.5 million, and other intangible assets of $23.3 million. Acquired developed technology is being amortized over an estimated five-year useful life and other intangible assets are being amortized over a seven-year useful life. In connection with this acquisition, we realigned our resources, which resulted in severance-related expenses of $576,000 during the quarter ended December 31, 2000.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, the percentages of total revenues represented by certain items reflected in our consolidated statements of income:

	YEAR ENDED DECEMBER 31,		
	1999	2000	2001

STATEMENT OF INCOME DATA:			
Revenue:			
Software fees	17.9%	19.7%	23.4%
Services	65.1	60.9	64.5
Hardware	17.0	19.4	15.0
Allowance for bankrupt customer	--	--	(2.9)
Total revenue	100.0	100.0	100.0
Costs and expenses:			
Cost of software fees	1.5	0.9	1.0
Cost of services	37.7	25.8	28.0
Cost of hardware	12.9	15.6	11.9
Research and development	12.6	12.1	12.8
Sales and marketing	17.6	13.6	14.8
General and administrative	15.8	11.4	12.4
In-process research and development and acquisition-related charges	--	2.2	--
Amortization of acquisition-related intangibles	1.3	0.9	3.5
Total operating expenses	99.4	82.5	84.4
Income from operations	0.6	17.5	15.6
Other income, net	1.5	2.0	1.4
Income before income taxes	2.1	19.5	17.0
Income tax provision	0.7	7.3	6.3
Net income	1.4%	12.2%	10.7%

YEARS ENDED DECEMBER 31, 1999, 2000 AND 2001

REVENUE

Our revenue consists of fees generated from the licensing of software; fees from professional services, customer support services and software enhancement subscriptions; and sales of complementary radio frequency and computer equipment, which are considered non-strategic. Total revenue increased 63.7% from $81.3 million in 1999 to $133.1 million in 2000, reflecting an overall growth in demand for our x-SCE solutions. Total revenue increased 13.7% from $133.1 million in 2000 to $151.3 million in 2001, reflecting continued growth in fees from licensing software and professional services partially offset by a 12.3% decline in non-strategic hardware sales. We believe our revenue growth in 2001 is attributable to several factors, including, among others, geographic expansion, our market leadership positions as to breadth of product offerings and financial stability and a compelling return on investment proposition for our customers. In spite of the increase in software fees and services revenue over the prior year, we have experienced some effects from the deterioration of the United States' and European economies in the form of delayed and cancelled buying decisions by customers for our software, services and hardware, deferrals by customers of services engagements previously scheduled and pressure by our customers and competitors to discount our offerings. We believe that prolonged continuation of or further deterioration in the current macro-economic conditions and business climates within the United States and/or other geographic regions in which we operate, principally the United Kingdom and continental Europe, could have a material adverse impact on our operations. Our business plans consider a modest improvement in the United States' economy in the second half of 2002.

Software Fees. Software fees increased from $14.6 million in 1999 to $26.2 million in 2000, an increase of $11.6 million or 79.7%. Software fees increased from $26.2 million in 2000 to $35.4 million in 2001, an increase of $9.2 million or 35.3%. The increases in software fees were principally due to increases in: (i) sales of software licenses outside of the United States, which accounted for approximately 9%, 13% and 22% of software fees in 1999, 2000 and 2001, respectively; and (ii) sales of new, internally-developed products, including WorkInfo, SmartInfo and infolink, and acquired products from Intrepa, including PkMS Pronto and Logistics PRO TMS, all of which collectively accounted for approximately 3.2%, 10.3% and 19.6% of software fees in 1999, 2000 and 2001, respectively. Additionally, we have experienced an increase in sales of PkMS, our flagship product, due to growing market acceptance and increased product functionality. See the discussion below regarding Allowance for Bankrupt Customer.

Services. Services revenue increased from $52.9 million in 1999 to $81.1 million in 2000, an increase of $28.2 million or 53.3%. Services revenue increased from $81.1 million in 2000 to $97.5 million in 2001, an increase of $16.4 million or 20.2%. The increases in services revenue were principally due to: (i) an increase in the number of engagements required in order to implement the software sold; (ii) an increase in the number of engagements to upgrade existing customers to more current versions of our offerings; and (iii) increased revenue from customer support and software enhancement subscriptions on a growing installed base. The decline in the rate of services growth in 2001 is attributable to planned implementation efficiencies, a planned increase in the provision of work by systems integrators and greater sales of our optimization and collaboration products with less implementation requirements. See the discussion below regarding Allowance for Bankrupt Customer.

Hardware. Hardware revenue increased from $13.8 million in 1999 to $25.8 million in 2000, an increase of $12.0 million or 86.8%. Hardware revenue decreased from $25.8 million in 2000 to $22.7 million in 2001, a decrease of $3.1 million or 12.3%. Sales of hardware are non-strategic and largely dependent upon customer-specific desires. The increase in 2000 was attributable to PkMS implementations of larger scope, prompting customers seeking a unified solution to purchase more hardware from us. The decline in hardware sales in 2001 is principally attributable to customers' desires in the current macro-economic environment to buy hardware from other suppliers offering greater discounts.

Allowance for Bankrupt Customer. On January 22, 2002, a significant customer for 2001 filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code. As a result of the filing, the uncertainties around the bankruptcy proceedings and the ultimate timing of payment, we recorded an allowance of $4.3 million in 2001 to effectively defer revenues arising in the fourth quarter of 2001 from the significant customer, but unpaid at the time of the bankruptcy declaration. The allowance includes approximately $2.3 million of software fees, $1.6 million of fees for professional services and $0.4 million of hardware. Going forward, any additional charges and payments by the significant customer relative to the $4.3 million will be recorded against the allowance. The significant customer has requested us to proceed with the implementation of the software it purchased from us. Through March 31, 2002, our billings for implementation services rendered post-bankruptcy have been paid in ordinary course.

COSTS AND EXPENSES

Cost of Software Fees. Cost of software fees consists of the costs associated with software reproduction and delivery; media, packaging, documentation and other related costs; royalties on third-party software sold with or as part of our products; and the amortization of research and development costs capitalized prior to the third quarter of 1999. Cost of software fees was 8.2%, 4.7% and 4.1% of software fees for 1999, 2000 and 2001, respectively. Fiscal 1999 included approximately $472,000 of expenses from amounts previously capitalized on products discontinued, which were not present in 2000 and 2001. Lower royalties owed to third parties from sales of software licenses accounts for the decline in cost of software fees from 2000 to 2001.

Cost of Services. Cost of services revenue consists primarily of salaries and other personnel-related expenses of employees dedicated to professional services and customer support services. Cost of services revenue increased from $30.6 million in 1999, or 57.9% of services revenue, to $34.3 million in 2000, or 42.3% of services revenue, to $42.4 million in 2001, or 43.5% of services revenue. The increases in cost of services

28

revenue were directly related to increases in the number of employees and contracted personnel dedicated to the delivery of professional services. The decrease in cost of services revenue as a percentage of services revenue from 1999 to 2000 was due to: (i) increased efficiencies in the delivery of professional services; (ii) planned efficiency initiatives associated with implementations of our software; and (iii) increased revenue from customer support and software enhancement subscriptions, which generate a higher gross margin. The 1.2% increase in cost of services as a percent of services revenue in 2001 over 2000 is attributable to additional costs associated with our growing international business, including the temporary use of U.S. and contracted personnel on international engagements and the costs to hire and train our growing international services organization, coupled with market pricing pressures in a slower economy.

Cost of Hardware. Cost of hardware revenue increased from $10.5 million in 1999, or 76.1% of hardware revenue, to $20.8 million in 2000, or 80.6% of hardware revenue, and decreased to $18.0 million in 2001, or 79.4% of hardware revenue. Fluctuations in cost of hardware are directly related to the amount of hardware sold. Cost of hardware as a percentage of hardware sales fluctuates depending upon the type of equipment sold and the discount we are willing to provide.

Research and Development. Research and development expenses primarily consist of salaries and other personnel-related costs of personnel involved in our product development efforts. Our research and development expenses increased from $10.2 million in 1999, or 12.6% of total revenue, to $16.1 million in 2000, or 12.1% of total revenue, to $19.4 million in 2001, or 12.8% of total revenue. The increases in research and development expenses are principally due to an increase in the number of research and development personnel. As of December 31, 2001, we employed 184 research and development personnel, up from 89 at December 31, 1999. The increase in research and development expenses in 2000 over 1999 reflects the costs and expenses of a greater number of employees and contracted personnel dedicated to the development and enhancement of all versions of PkMS, as well as our Optimize Suite and infolink. Additionally, the fourth quarter 2000 acquisition of Intrepa provided research and development personnel, approximately 35 of whom we employed at December 31, 2001, dedicated to the development and enhancement of PkMS Pronto and Logistics PRO TMS. We capitalized $909,000 of internal research and development costs in 1999, of which approximately $150,000 of such capitalized costs remained as of December 31, 2001. During 2001, research and development activities included, among other things, the ongoing development and enhancement of the N-Tier version of PkMS, PkMS Pronto, our Optimize Suite and infolink. Additionally, during 2001, we made payments of approximately $717,000 to an outside research and development organization to internationalize PkMS into Japanese, German, French and Spanish. These payments have been classified as Other Assets and will be amortized over a three-year period beginning in January 2002.

Sales and Marketing. Sales and marketing expenses include salaries, commissions, travel and other personnel-related costs of sales and marketing personnel and the costs of our marketing programs and related activities. Sales and marketing expenses increased from $14.3 million in 1999, or 17.6% of total revenue, to $18.1 million in 2000, or 13.6% of total revenue, to $22.3 million in 2001, or 14.8% of total revenue. The increases in sales and marketing expenses are principally attributable to: (i) growth in the number of international and domestic sales and marketing personnel; (ii) greater incentive compensation paid on greater level of sales; and (iii) continued expansion of our sales and marketing programs around our x-SCE offerings. The increase in sales and marketing expenses as a percent of total revenue in 2001 over 2000 was principally attributable to increases in expenditures to staff, brand and launch newly developed and acquired products.

General and Administrative. General and administrative expenses consist primarily of salaries and other personnel-related costs of executive, financial, human resources and administrative personnel, as well as facilities, depreciation and amortization of tangible assets, legal, insurance, accounting and other administrative expenses. General and administrative expenses increased from $12.8 million in 1999, or 15.8% of total revenue, to $15.1 million in 2000, or 11.4% of total revenue, to $18.8 million in 2001, or 12.4% of total revenue. The increases in general and administrative expenses were principally attributable to increased depreciation and amortization expense and additional executive compensation, administrative costs and personnel needed to grow our business and improve our infrastructure. We were able to leverage our infrastructure substantially in 2000 with the growth in our business. Growth within our international operations, representing 17% of revenues in 2001 as compared to 11% of revenues in 2000, required additional investments in infrastructure in

2001. Depreciation expense included in general and administrative expenses was $3.2 million, $4.3 million and $5.7 million during 1999, 2000 and 2001, respectively.

In-Process Research and Development and Acquisition-Related Charges. On October 24, 2000, we acquired substantially all of the assets of Intrepa, L.L.C. ("Intrepa") for a purchase price of approximately $31.0 million. The purchase price consisted of a cash payment of $13.0 million, the issuance of approximately $10.0 million of our $.01 par value per share common stock (totaling 236,957 shares), and the issuance by us of a promissory note for $7.0 million. We also incurred approximately $0.9 million of transaction costs related to the acquisition. The purchase price included the assumption of substantially all of the liabilities of Intrepa, including immediate payment by us of the remaining $2.0 million of principal and up to $15,000 of interest on a promissory note previously issued by Intrepa. The acquisition has been accounted for under the purchase method of accounting. Based on an independent appraisal, the purchase price has been allocated to net liabilities assumed of $2.6 million, acquired research and development of $2.4 million, acquired developed technology of $7.5 million, and other intangible assets of $23.3 million. Acquired developed technology is being amortized over an estimated five-year useful life and other intangible assets are being amortized over a seven-year useful life. In connection with this acquisition, we realigned our resources, which resulted in severance-related expenses of $576,000 during the quarter ended December 31, 2000.

Amortization of Acquisition-Related Intangibles. We have recorded goodwill and other intangible assets as part of the purchase accounting associated with three acquisitions: (i) the acquisition of Performance Analysis Corporation in February 1998; (ii) the acquisition of certain assets of Kurt Salmon Associates in October 1998; and (iii) the acquisition of Intrepa in October 2000. Amortization of acquisition-related intangibles increased from $1.1 million in 1999, or 1.3% of total revenue, to $1.2 million in 2000, or 0.9% of total revenue, to $5.2 million in 2001, or 3.5% of total revenue, as a direct result of these acquisitions. The increases in 2000 and 2001 were attributable to amortization expense of $790,000 in 2000 and $4.9 million in 2001 associated with the acquisition of Intrepa. Effective January 1, 2002, the Company has adopted Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 142 requires that goodwill and certain intangible assets, including those recorded in past business combinations and existing as of June 30, 2001, no longer be amortized to earnings, but instead be tested for impairment at least annually.

Operating Income. Operating income increased from $437,000 in 1999, or 0.6% of total revenue, to $23.3 million in 2000, or 17.5% of total revenue, to $23.7 million in 2001, or 15.6% of total revenue. Operating income in 1999 reflects the costs and expenses of excessive personnel and charges to operations to recruit new members to our executive management team, to realign our resources and to write-off intangible assets associated with impaired and discontinued products. The substantial increases in operating income in 2000 and 2001 represent a combination of significant growth in higher margin software and services fees and improved efficiencies across all areas of our business. Operating income for 2000 reflects a non-recurring charge totaling $3.0 million associated with the acquisition of Intrepa and non-cash, acquisition-related intangible asset amortization totaling $1.2 million. Operating income for 2001 reflects an allowance for a bankrupt customer totaling $4.3 million and non-cash, acquisition-related intangible asset amortization totaling $5.2 million, all as discussed above. Excluding these items, operating income would be $27.5 million, or 20.6% of total revenues, in 2000 and $33.2 million, or 21.3% of total revenues, in 2001.

OTHER INCOME, NET

Other income, net, includes interest earnings on short-term investments, interest expense incurred for obligations under capital lease, interest expense on the note payable issued in connection with the acquisition of Intrepa and foreign exchange gains and losses. Other income, net, increased from $1.2 million in 1999, or 1.5% of total revenue, to $2.7 million in 2000, or 2.0% of total revenue, and decreased to $2.1 million in 2001, or 1.4% of total revenue. The increase in other income, net, in 2000 was primarily due to the increase in cash available for investment during the year, partially offset by approximately $100,000 of interest expense on the Intrepa note payable. The decrease in other income, net, in 2001 was due to an overall decline in market interest along with an increase in interest expense to $525,000 in 2001 on the note payable to Intrepa.

30

INCOME TAXES

Provision for Income Taxes. The provision for income taxes was $554,000 in 1999, compared to $9.7 million in 2000, and $9.5 million in 2001. The increase in the provision for income taxes for 2000 is attributable to the substantial increase in income before income taxes in 2000. The decrease in the provision for income taxes for 2001 is attributable to an increase in income generated in countries with lower tax rates. Our effective income tax rates were 33.5%, 37.5% and 37.0% in 1999, 2000 and 2001, respectively. Our effective income tax rate takes into account the source of taxable income, domestically by state and internationally by country, and available income tax credits. The provisions for income taxes for 1999, 2000 and 2001 do not include the $730,000, $13.5 million and $9.0 million of tax benefits realized from stock options exercised during the years, respectively. These tax benefits reduce our income tax liabilities and are included as an addition to additional paid-in capital.

EARNINGS PER SHARE

Net Income per Share. Net income was $1.1 million, or 1.4% of total revenue and $0.04 per diluted share for the year ended December 31, 1999. Net income was $16.3 million, or 12.2% of total revenue and $0.53 per diluted share for the year ended December 31, 2000. The increase in net income in 2000 over 1999 is principally attributable to 63.7% growth in revenue combined with improved efficiencies across all areas of our business. Net income was $16.2 million, or 10.7% of total revenue and $0.53 per diluted share for the year ended December 31, 2001. Net income for 2001 was negatively impacted by the $4.3 million allowance for the bankrupt customer, or approximately $.09 per diluted share, as discussed above. Excluding the effect of the non-recurring in-process research and development and acquisition-related charges of $3.0 million and amortization of acquisition-related intangibles of $1.2 million, net income for the year ended December 31, 2000 was $18.9 million, or 14.2% of total revenue and $0.62 per diluted share. Excluding the effect of the allowance for the bankrupt customer of $4.3 million and amortization of acquisition-related intangibles of $5.2 million, net income for the year ended December 31, 2001 was $22.2 million, or 14.3% of total revenue and $0.72 per diluted share.

31

PRO FORMA RESULTS OF OPERATIONS

The following summary of unaudited pro forma consolidated selected statement of income data presents our results of operations for the three years ended December 31, 2001, excluding: amortization of acquisition-related intangibles, the write-off of in-process research and development and other acquisition related charges associated with the acquisition of Intrepa and the allowance for a significant bankrupt customer. We believe the exclusion of these items provides a relevant summary of the results of our operations as they relate to our ongoing core business and we use these measures internally to evaluate our operating performance. This information is not to be construed as a measurement of profitability under generally accepted accounting principles and is not to be accepted or used as an alternative to net income. Additionally, the pro forma results of operations, as presented, may not be consistent with measures used by other companies.

	YEAR ENDED DECEMBER 31,		
	1999	2000	2001
	(IN THOUSANDS, EXCEPT PER SHARE DAT		
PRO FORMA STATEMENT OF INCOME DATA:			
Revenues	$81,292	$133,096	$155,59
Costs and expenses	79,753	105,640	122,37
Income from operations	1,539	27,456	33,21
Other income, net	1,218	2,718	2,05
Income before income taxes	2,757	30,174	35,27
Income tax expense:			
Tax provisions	923	11,302	13,06

Net income	$ 1,834	$ 18,872	$ 22,21
Diluted net income per share	$ 0.07	$ 0.62	$ 0.7
Shares used in computing diluted net income per share	26,553	30,453	30,74

THE ABOVE PRO FORMA AMOUNTS HAVE BEEN ADJUSTED TO EXCLUDE THE FOLLOWING ITEMS:

Allowance for bankrupt customer	$ --	$ --	$ 4,328
Amortization of acquisition-related intangibles	1,102	1,165	5,240
In-process research and development and other acquisition related charges	--	3,001	--
Income tax effect of excluded items	(369)	(1,562)	(3,540)
Net effect of pro forma adjustments	$ 733	$ 2,604	$ 6,028

QUARTERLY RESULTS OF OPERATIONS

The following