MANHATTAN ASSOCIATES INC
Form 10-Q
August 06, 2008

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

(Mark One)

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

For the quarterly period ended June 30, 2008

OR

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

For the transition period from __________ to __________

Commission File Number: 0-23999

MANHATTAN ASSOCIATES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Georgia	**58-2373424**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
2300 Windy Ridge Parkway, Suite 1000 Atlanta, Georgia	**30339**
(Address of Principal Executive Offices)	(Zip Code)

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

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

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

Large accelerated filer þ	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The number of shares of the Registrant s class of capital stock outstanding as of August 4, 2008, the latest practicable date, is as follows: 24,520,142 shares of common stock, $0.01 par value per share.

MANHATTAN ASSOCIATES, INC.
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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements.

MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	June 30, 2008 (unaudited)	December 31, 2007
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 76,928**	$ 44,675
Short term investments		17,904
Accounts receivable, net of allowance of $5,136 and $6,618 in 2008 and 2007, respectively	**77,098**	72,534
Deferred income taxes	**6,642**	6,602
Prepaid expenses and other current assets	**8,297**	8,646
Total current assets	**168,965**	150,361
Property and equipment, net	**25,090**	24,421
Long-term investments	**6,532**	10,193
Acquisition-related intangible assets, net	**7,966**	9,691
Goodwill, net	**62,300**	62,285
Deferred income taxes	**9,845**	9,846
Other assets	**4,042**	4,863
Total assets	**$ 284,740**	$ 271,660
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	**$ 8,974**	$ 9,112
Accrued compensation and benefits	**16,536**	19,357
Accrued and other liabilities	**12,224**	10,040
Deferred revenue	**34,572**	31,817
Income taxes payable	**9,903**	8,156
Total current liabilities	**82,209**	78,482
Other non-current liabilities	**7,848**	7,473
Shareholders equity:		
Preferred stock, no par value; 20,000,000 shares authorized, no shares issued or outstanding in 2008 or 2007		
Common stock, $.01 par value; 100,000,000 shares authorized; 24,681,791 and 24,899,919 shares issued and outstanding at June 30, 2008 and December 31,	**245**	249

2007, respectively		
Additional paid-in capital	**12,041**	17,744
Retained earnings	**181,700**	165,189
Accumulated other comprehensive income	**697**	2,523
Total shareholders equity	**194,683**	185,705
Total liabilities and shareholders equity	**$ 284,740**	$ 271,660

See accompanying Notes to Condensed Consolidated Financial Statements.

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Item 1. Financial Statements (continued)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	**2008**	2007
	(unaudited)		**(unaudited)**	
Revenue:				
Software license	**$ 19,365**	$ 23,398	**$ 37,677**	$ 37,151
Services	**62,289**	55,863	**122,126**	110,663
Hardware and other	**8,836**	10,368	**19,011**	20,005
Total Revenue	**90,490**	89,629	**178,814**	167,819
Costs and Expenses:				
Cost of license	**1,641**	1,303	**2,785**	2,446
Cost of services	**29,856**	27,284	**61,136**	53,283
Cost of hardware and other	**7,317**	8,864	**15,583**	17,225
Research and development	**11,711**	12,278	**24,365**	23,429
Sales and marketing	**14,676**	14,491	**28,248**	27,098
General and administrative	**8,867**	8,383	**17,938**	16,529
Depreciation and amortization	**3,158**	3,354	**6,406**	6,855
Total costs and expenses	**77,226**	75,957	**156,461**	146,865
Operating income	**13,264**	13,672	**22,353**	20,954
Other income, net	**650**	298	**2,951**	1,390
Income before income taxes	**13,914**	13,970	**25,304**	22,344
Income tax provision	**4,835**	4,959	**8,793**	7,932
Net income	**$ 9,079**	$ 9,011	**$ 16,511**	$ 14,412
Basic earnings per share	**$ 0.37**	$ 0.34	**$ 0.68**	$ 0.53
Diluted earnings per share	**$ 0.37**	$ 0.32	**$ 0.66**	$ 0.51
Weighted average number of shares:				
Basic	**24,259**	26,555	**24,341**	26,953
Diluted	**24,826**	27,761	**24,833**	28,149

See accompanying Notes to Condensed Consolidated Financial Statements.

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Item 1. Financial Statements (continued)

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

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
	(unaudited)	
Operating activities:		
Net income	**$ 16,511**	$ 14,412
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**6,406**	6,855
Stock compensation	**4,337**	3,155
Loss/(gain) on disposal of equipment	**32**	(3)
Tax benefit of stock awards exercised/vested	**119**	1,188
Excess tax deficiency from stock based compensation	**(76)**	(519)
Unrealized foreign currency gains	**(1,292)**	(52)
Changes in operating assets and liabilities:		
Accounts receivable, net	**(3,840)**	(9,439)
Other assets	**1,126**	2,321
Accounts payable, accrued and other liabilities	**(193)**	(4,633)
Income taxes	**1,791**	(65)
Deferred revenue	**2,196**	2,988
Net cash provided by operating activities	**27,117**	16,208
Investing activities:		
Purchase of property and equipment	**(5,560)**	(6,467)
Net maturities of investments	**21,533**	45,239
Net cash provided by investing activities	**15,973**	38,772
Financing activities:		
Purchase of common stock	**(12,351)**	(52,768)
Excess tax benefits from stock based compensation	**76**	519
Proceeds from issuance of common stock from options exercised	**2,187**	6,100
Net cash used in financing activities	**(10,088)**	(46,149)
Foreign currency impact on cash	**(749)**	923
Net change in cash and cash equivalents	**32,253**	9,754
Cash and cash equivalents at beginning of period	**44,675**	18,449

Cash and cash equivalents at end of period	**$ 76,928**	$ 28,203
Supplemental disclosures of cash flow information noncash investing activity:		
Tenant improvements funded by landlord	**$**	$ 7,918

See accompanying Notes to Condensed Consolidated Financial Statements.

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MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
June 30, 2008
(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Manhattan Associates, Inc. and its subsidiaries (the Company) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required for complete financial statements. In the opinion of management, these condensed consolidated financial statements contain all normal recurring adjustments considered necessary for a fair presentation of our financial position at June 30, 2008, the results of operations for the three and six months ended June 30, 2008 and 2007 and cash flows for the six months ended June 30, 2008 and 2007. The results for the three and six months ended June 30, 2008 are not necessarily indicative of the results to be expected for the full year. These statements should be read in conjunction with our audited consolidated financial statements and management s discussion and analysis included in our annual report on Form 10-K for the year ended December 31, 2007.

2. Principles of Consolidation

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

3. Revenue Recognition

The Company s revenue consists of revenues from the licensing and hosting of software, fees from implementation and training services (collectively, professional services), plus customer support and software enhancements, and sales of hardware and other revenues (other revenues consists of reimbursements of out-of-pocket expenses incurred in connection with its professional services). All revenue is recognized net of any related sales taxes.

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

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

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MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (continued)
June 30, 2008
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collectibility is probable, and the Company could be required to defer the recognition of revenue until the Company receives customer payments.

The Company s services revenue consists of fees generated from professional services and customer support and software enhancements related to the Company s software products. Fees from professional services performed by the Company are generally billed on an hourly basis, and revenue is recognized as the services are performed. Professional services are sometimes rendered under agreements in which billings are limited to contractual maximums or based upon a fixed-fee for portions of or all of the engagement. Revenue related to fixed-fee based contracts is recognized on a proportional performance basis based on the hours incurred on discrete projects within an overall services arrangement. Project losses are provided for in their entirety in the period in which they become known. Revenue related to customer support services and software enhancement is generally paid in advance and recognized ratably over the term of the agreement, typically 12 months.

Hardware and other revenue is generated from the resale of a variety of hardware products, developed and manufactured by third parties, that are integrated with and complementary to the Company s software solutions. As part of a complete solution, the Company s customers periodically purchase hardware from the Company in conjunction with the licensing of software. These products include computer hardware, radio frequency terminal networks, radio frequency identification (RFID) chip readers, bar code printers and scanners and other peripherals. Hardware revenue is recognized upon shipment to the customer when title passes. The Company generally purchases hardware from the Company s vendors only after receiving an order from a customer. As a result, the Company does not maintain significant hardware inventory.

In accordance with the Financial Accounting Standard Board s (FASB s) Emerging Issues Task Force (EITF) Issue No. 01-14 (EITF No. 01-14), Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred, the Company recognizes amounts associated with reimbursements from customers for out-of-pocket expenses as revenue. Such amounts have been classified to hardware and other revenue. The total amount of expense reimbursement recorded to revenue was $3.4 million and $6.4 million for the three and six months ended June 30, 2008, respectively and $3.1 million and $6.1 million for the three and six months ended June 30, 2007, respectively.

4. Investments

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS No. 157), which establishes a framework for reporting fair value and expands disclosures required for fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS No. 157 does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. However, in February 2008, the FASB issued FASB Staff Position No. 157-2, Effective Date of FASB Statement No. 157 , which delayed for one year the applicability of SFAS No. 157 s fair-value measurements to nonfinancial assets and liabilities recognized or disclosed at fair value on a non-recurring basis without material impact to the financial statements. On January 1, 2008, the Company partially adopted SFAS No. 157 related to all financial assets and liabilities and non-financial assets and liabilities recognized or disclosed at fair value on a recurring basis. The Company is currently assessing the potential impact this statement will have on the Consolidated Financial Statements once it is adopted for nonfinancial assets and liabilities recognized or disclosed at fair value on a non-recurring basis.

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SFAS No. 157 establishes a fair value hierarchy disclosure framework that prioritizes and ranks the level of market price observability used in measuring assets and liabilities at fair value. Market price observability is impacted by a number of factors, including the type of asset or liability and their characteristics. This hierarchy prioritizes the inputs into three broad levels as follows:

Level 1 Quoted prices in active markets for identical instruments.

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

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

The Company s investments in marketable securities consist principally of debt instruments of state and local government agencies and U.S. corporate commercial paper. These investments are categorized as available-for-sale securities and recorded at fair market value, as defined by SFAS No. 157. Investments with maturities of 90 days or less from the date of purchase are classified as cash equivalents; investments with maturities of greater than 90 days from the date of purchase but less than one year are generally classified as short-term investments; and investments with maturities of greater than one year from the date of purchase are generally classified as long-term investments. The Company s long-term investments consist of corporate or U.S. government debt instruments with maturities between one year and five years. The Company holds investments in Auction Rate Securities, which have original maturities greater than one year, but which have auctions to reset the yield every 7 to 35 days. Certain auctions failed during the second quarter of 2008 and the underlying securities were not called by the issuer. The Company classified $6.5 million of auction rate securities that failed as long-term investments as of June 30, 2008. In determining the fair values of these auction rate securities, the Company considered the credit worthiness of the counterparty, estimates of interest rates, expected holding periods, and the timing and value of expected future cash flows. The Company uses quoted prices from active markets which are classified at level 1 as a highest level observable input in the disclosure hierarchy framework as defined by SFAS No. 157 for all other available-for-sale securities. Unrealized holding gains and losses are reflected as a net amount in a separate component of shareholders equity until realized. For the purposes of computing realized gains and losses, cost is determined on a specific identification basis.

The following table provides the assets and liabilities carried at fair value measured on a recurring basis at June 30, 2008 (in thousands):

	Fair Value Measurements at June 30, 2008 Using			
	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Available-for-sale securities	$ 55,518	$	$ 6,506	$ 62,024
Total investments	$ 55,518	$	$ 6,506	$ 62,024

MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (continued)
June 30, 2008
(unaudited)

SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of SFAS 115 (SFAS No. 159), permits but does not require the Company to measure financial instruments and certain other items at fair value. The Company did not elect to measure at fair value any of its financial instruments under the provisions of SFAS No. 159, thus the Company s adoption of this statement effective January 1, 2008 did not have an impact on the Company s consolidated financial statements.

5. Stock-Based Compensation

During the three months ended June 30, 2008 and 2007, the Company granted options to purchase 32,600 shares and 20,750 shares of common stock, respectively. The Company recorded stock option expense of $1.4 million and $1.1 million during the three months ended June 30, 2008 and 2007, respectively. During the six months ended June 30, 2008 and 2007, the Company granted options to purchase 621,336 shares and 600,113 shares of common stock, respectively. The Company recorded stock option expense of $2.7 million and $2.3 million during the six months ended June 30, 2008 and 2007, respectively.

The Company also granted 10,864 and 5,665 shares of restricted stock during the three months ended June 30, 2008 and 2007, respectively. The Company recorded restricted stock expense of $0.9 million and $0.5 million during the three months ended June 30, 2008 and 2007, respectively. The Company granted 198,571 and 195,599 shares of restricted stock during the six months ended June 30, 2008 and 2007, respectively. The Company recorded restricted stock expense of $1.7 million and $0.9 million during the six months ended June 30, 2008 and 2007, respectively.

6. Income Taxes

The Company adopted the provisions of FASB Interpretation No 48, Accounting for Uncertainty in Income Taxes (FIN 48), on January 1, 2007. During the three and six months ended June 30, 2008 there have been no material changes in the amount of the Company s unrecognized tax benefits. Further, there have been no material changes in the Company s expectations within the next 12 months regarding significant increases or decreases to unrecognized tax benefits as a result of positions taken.

The Company recognizes potential accrued interest and penalties to unrecognized tax benefits within its global operations as income tax expense.

The Company conducts business globally and, as a result, files income tax returns in the United States Federal jurisdiction and in many state and foreign jurisdictions. The Company is no longer subject to U.S. Federal, state and local, or non-U.S. income tax examinations for the years before 1999.

7. Comprehensive Income

Comprehensive income includes net income, foreign currency translation adjustments and unrealized gains and losses on investments that are excluded from net income and reflected in shareholders equity.

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MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (continued)
June 30, 2008
(unaudited)

The following table sets forth the calculation of comprehensive income (in thousands):

	For Three Months Ended June 30,		For Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Net income	**$ 9,079**	$ 9,011	**$ 16,511**	$ 14,412
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustment	**(820)**	1,121	**(1,794)**	1,330
Unrealized (loss) on investments	**(1)**	(26)	**(32)**	(21)
Other comprehensive (loss) income	**(821)**	1,095	**(1,826)**	1,309
Comprehensive income	**$ 8,258**	$ 10,106	**$ 14,685**	$ 15,721

8. Net Income Per Share

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
	(in thousands, except per share data)			
Net income	**$ 9,079**	$ 9,011	**$ 16,511**	$ 14,412
Earnings per share:				
Basic	**$ 0.37**	$ 0.34	**$ 0.68**	$ 0.53
Effect of CESs		(0.02)	**(0.02)**	(0.02)
Diluted	**$ 0.37**	$ 0.32	**$ 0.66**	$ 0.51
Weighted average number of shares:				
Basic	**24,259**	26,555	**24,341**	26,953
Effect of CESs	**567**	1,206	**492**	1,196
Diluted	**24,826**	27,761	**24,833**	28,149

Weighted average shares issuable upon the exercise of stock options that were not included in the calculation of diluted earnings per share were 3,515,818 shares and 1,421,516 shares for the three months ended June 30, 2008 and 2007, respectively, and 3,816,752 shares and 1,462,266 shares for the six months ended June 30, 2008 and 2007, respectively. Such shares were not included because they were anti-dilutive.

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MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (continued)
June 30, 2008
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9. Contingencies

From time to time, the Company may be involved in litigation relating to claims arising out of its ordinary course of business. Many of the Company s installations involve products that are critical to the operations of its clients businesses. Any failure in a product could result in a claim for substantial damages against the Company, regardless of its responsibility for such failure. Although the Company attempts to limit contractually its liability for damages arising from product failures or negligent acts or omissions, there can be no assurance that the limitations of liability set forth in the Company s contracts will be enforceable in all instances. The Company is not presently involved in any material litigation. However, it is involved in various legal proceedings. The Company believes that any liability that may arise as a result of these proceedings will not have a material adverse effect on its financial condition, results of operations, or cash flows. The Company expenses legal costs associated with loss contingencies as such legal costs are incurred.

10. Operating Segments

The Company operates its business in three geographical segments: the Americas (North America and Latin America), Europe, Middle East and Africa (EMEA) and Asia Pacific (APAC). The information for the periods presented below reflects these segments. All segments derive revenue from the sale and implementation of the Company s supply chain execution and planning solutions. The individual products sold by the segments are similar in nature, and are all designed to help companies manage the effectiveness and efficiency of their supply chain. The Company uses the same accounting policies for each operating segment. The Chief Executive Officer and Chief Financial Officer evaluate performance based on revenue and operating results for each region.

The Americas segment charges royalty fees to the EMEA and APAC segments based on software licenses sold by those operating segments. The royalties, which totaled approximately $1.0 million and $1.1 million for the three months ended June 30, 2008 and 2007, respectively, and $2.2 million and $1.2 million for the six months ended June 30, 2008 and 2007, respectively, are included in cost of revenue in EMEA and APAC with a corresponding reduction in the Americas cost of revenue. The revenues represented below are from external customers only. The geographical-based costs consist of costs of personnel, direct sales and marketing expenses, and general and administrative costs to support the business. There are certain corporate expenses included in the Americas region that are not charged to the other segments including research and development, certain marketing and general and administrative costs that support the global organization and the amortization of acquired developed technology. Included in the Americas costs are all research and development costs including the costs associated with the Company s India operations.

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MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (continued)
June 30, 2008
(unaudited)

The following table presents the revenues, expenses and operating income (loss) by reporting segment for the three and six months ended June 30, 2008 and 2007 (in thousands):

	For the Three Months ended June 30, 2008				For the Three Months ended June 30, 2007			
	Americas	**EMEA**	**APAC**	**Total**	**Americas**	**EMEA**	**APAC**	**Total**
Revenue:								
License	**$ 15,252**	**$ 2,448**	**$ 1,665**	**$ 19,365**	$ 18,946	$ 3,967	$ 485	$ 23,398
Services	**50,166**	**9,120**	**3,003**	**62,289**	46,791	5,475	3,597	55,863
Hardware and other	**8,133**	**393**	**310**	**8,836**	9,862	367	139	10,368
Total revenue	**73,551**	**11,961**	**4,978**	**90,490**	75,599	9,809	4,221	89,629
Costs and Expenses:								
Cost of revenue	**29,585**	**6,250**	**2,979**	**38,814**	29,301	5,265	2,885	37,451
Operating expenses	**30,380**	**3,340**	**1,534**	**35,254**	30,922	3,142	1,088	35,152
Depreciation and amortization	**2,943**	**156**	**59**	**3,158**	3,038	257	59	3,354
Total costs and expenses	**62,908**	**9,746**	**4,572**	**77,226**	63,261	8,664	4,032	75,957
Operating income	**$ 10,643**	**$ 2,215**	**$ 406**	**$ 13,264**	$ 12,338	$ 1,145	$ 189	$ 13,672

	For the Six Months ended June 30, 2008				For the Six Months ended June 30, 2007			
	Americas	**EMEA**	**APAC**	**Total**	**Americas**	**EMEA**	**APAC**	**Total**
Revenue:								
License	**$ 28,679**	**$ 6,019**	**$ 2,979**	**$ 37,677**	$ 32,346	$ 4,266	$ 539	$ 37,151
Services	**99,317**	**17,152**	**5,657**	**122,126**	92,639	10,703	7,321	110,663
Hardware and other	**17,684**	**818**	**509**	**19,011**	19,060	684	261	20,005
Total revenue	**145,680**	**23,989**	**9,145**	**178,814**	144,045	15,653	8,121	167,819
Costs and Expenses:								
Cost of revenue	**60,862**	**12,850**	**5,792**	**79,504**	57,928	9,287	5,739	72,954
Operating expenses	**61,147**	**6,542**	**2,862**	**70,551**	58,862	5,994	2,200	67,056
Depreciation and amortization	**5,963**	**327**	**116**	**6,406**	6,183	548	124	6,855
	127,972	**19,719**	**8,770**	**156,461**	122,973	15,829	8,063	146,865

Total costs and expenses								
Operating income (loss)	**$ 17,708**	**$ 4,270**	**$ 375**	**$ 22,353**	$ 21,072	$ (176)	$ 58	$ 20,954

Our services revenue consists of fees generated from professional services and customer support and software enhancements related to our software products for the three and six months ended in June 30, 2008 and 2007 are as follows (in thousands):

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MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (continued)
June 30, 2008
(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Professional services	**$ 42,866**	$ 39,865	**$ 84,584**	$ 78,696
Customer support and software enhancements	**19,423**	15,998	**37,542**	31,967
Total services revenue	**$ 62,289**	$ 55,863	**$ 122,126**	$ 110,663

License revenues related to our warehouse and non-warehouse product groups for the three and six months ended in June 30, 2008 and 2007 are as follows (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Warehouse	**$ 10,515**	$ 10,527	**$ 19,678**	$ 18,318
Non-Warehouse	**8,850**	12,871	**17,999**	18,833
Total license revenue	**$ 19,365**	$ 23,398	**$ 37,677**	$ 37,151

11. New Accounting Pronouncements

In September 2006, FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157), which establishes a framework for reporting fair value and expands disclosures required for fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS No. 157 does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. However, in February 2008, the FASB issued FASB Staff Position No. 157-2, Effective Date of FASB Statement No. 157, which delayed for one year the applicability of SFAS No. 157 s fair-value measurements to nonfinancial assets and liabilities recognized or disclosed at fair value on a non-recurring basis. The Company partially adopted SFAS No. 157 on January 1, 2008 related to all financial assets and liabilities and non-financial assets and liabilities recognized or disclosed at fair value on a recurring basis. The Company is currently assessing the potential impact this statement will have on the Consolidated Financial Statements once it is adopted for nonfinancial assets and liabilities recognized or disclosed at fair value on a non-recurring basis. See Note 4, *Investments*, for further discussion of the adoption.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS No. 159 does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in SFAS No. 157, Fair Value Measurements, and FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments. SFAS 159 is effective for the entity s fiscal year that begins after November 15, 2007. The Company did not elect to measure at fair value any of its financial instruments under the provisions of SFAS No. 159, thus the adoption of this statement effective January 1, 2008 did not have an impact on the Company s consolidated financial statements.

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MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (continued)
June 30, 2008
(unaudited)

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations, (SFAS No. 141(R)) which amends SFAS No. 141 and provides revised guidance for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed, and any noncontrolling interest in the acquiree. It also provides disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008 and is to be applied prospectively. The Company will adopt SFAS No. 141(R) effective January 1, 2009 and apply it to any business combinations on or after that date.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB 51, (SFAS No. 160) which establishes accounting and reporting standards pertaining to ownership interests in subsidiaries held by parties other than the parent, the amount of net income attributable to the parent and to the noncontrolling interest, changes in a parent s ownership interest, and the valuation of any retained noncontrolling equity investment when a subsidiary is deconsolidated. SFAS No. 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. The Company does not expect that the implementation of SFAS No. 160 will have a material impact on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS No. 161,) an amendment of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133). SFAS No. 161 requires enhanced disclosures about an entity s derivative and hedging activities, including (1) how and why an entity uses derivative instruments, (2) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (3) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company does not expect that the implementation of SFAS No. 161 will have a material impact on its consolidated financial statements.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking Statements

Certain statements contained in this filing are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including but not limited to statements related to plans for future business development activities, anticipated costs of revenues, product mix and service revenues, research and development and selling, general and administrative activities, and liquidity and capital needs and resources. When used in this report, the words expect, anticipate, intend, plan, believe, seek, estimate, and similar expressions are gener intended to identify forward-looking statements. You should not place undue reliance on these forward-looking statements, which reflect our opinions only as of the date of this quarterly report. Such forward-looking statements are subject to risks, uncertainties

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and other factors that could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. For further information about these and other factors that could affect our future results, please see Risk Factors in Item 1A of our annual report on Form 10-K for the year ended December 31, 2007. Investors are cautioned that any forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements. The following discussion should be read in conjunction with the condensed consolidated financial statements for the three and six months ended June 30, 2008 and 2007, including the notes to those statements, included elsewhere in this quarterly report (the Condensed Consolidated Financial Statements). We also recommend the following discussion be read in conjunction with management s discussion and analysis and consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2007.

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

Business

We are a leading developer and provider of supply chain solutions that help organizations optimize the effectiveness, efficiency, and strategic advantages of their supply chains. Our business is organized into three geographical reporting segments: Americas, EMEA, and APAC. Our solutions consist of software, services and hardware, which coordinate people, workflows, assets, events and tasks holistically across the functions linked in a supply chain from planning through execution. These solutions also help coordinate the actions, data exchange and communication of participants in supply chain ecosystems, such as manufacturers, suppliers, distributors, trading partners, transportation providers, channels (such as catalogers, store retailers and Web outlets) and consumers.

Our solutions are designed to help organizations optimize their supply chain operations holistically, from planning through execution. We call our portfolio of supply chain software solutions Manhattan SCOPE™ (**S**upply **C**hain **O**ptimization from **P**lanning through **E**xecution). SCOPE includes our five supply chain solution suites: Planning and Forecasting, Inventory Optimization, Order Lifecycle Management, Transportation Lifecycle Management and Distribution Management. For all of our solution suites, we offer services such as design, configuration, implementation, product assessment and training plus customer support and software enhancement subscriptions.

For additional information regarding our supply chain software solutions, please refer to the Software Solutions section under Item 1, *Business* of our annual report on Form 10-K for the year ended December 31, 2007.

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

Highlights of Second Quarter 2008 Condensed Consolidated Financial Results

Summarized highlights of the 2008 second quarter results, as compared to the 2007 second quarter, follow:

- Consolidated revenue increased 1% to $90.5 million.
  - License revenue decreased 17% to $19.4 million.

  - Services revenue totaled $62.3 million, increasing 12%;

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Operating income decreased 3% to $13.3 million;

Diluted earnings per share increased 16% to $0.37 per share;

Cash Flow from Operations increased 58% to $21.0 million;

Cash and Investments on hand was $83.5 million and $72.8 million at June 30, 2008 and December 31, 2007, respectively;

The Company did not execute any share repurchases in the second quarter of 2008. The Company has $12.6 million of remaining share repurchase authority.

Results of Operations

The following table summarizes our consolidated results for the three and six months ended June 30, 2008 and 2007.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
	(in thousands, except per share data)			
Revenue	**$ 90,490**	$ 89,629	**$ 178,814**	$ 167,819
Costs and expenses	**77,226**	75,957	**156,461**	146,865
Operating income	**13,264**	13,672	**22,353**	20,954
Other income, net	**650**	298	**2,951**	1,390
Income before taxes	**13,914**	13,970	**25,304**	22,344
Net income	**$ 9,079**	$ 9,011	**$ 16,511**	$ 14,412
Diluted net income per share	**$ 0.37**	$ 0.32	**$ 0.66**	$ 0.51
Diluted weighted average number of shares	**24,826**	27,761	**24,833**	28,149

We manage our business based on three geographic regions: the Americas, EMEA, and APAC. Geographic revenue information is based on the location of sale. During the three and six months ended June 30, 2008 and 2007, we derived the majority of our revenues from sales to customers within our Americas region. The following table summarizes revenue and operating profit by region:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2008	2007	% Change 2008 to 2007	2008	2007	% Change 2008 to 2007
	(in thousands)			(in thousands)		
Revenue:						
License						
Americas	$ 15,252	$ 18,946	-19%	$ 28,679	$ 32,346	-11%
EMEA	2,448	3,967	-38%	6,019	4,266	41%
APAC	1,665	485	243%	2,979	539	453%
Total license	$ 19,365	$ 23,398	-17%	$ 37,677	$ 37,151	1%
Services						
Americas	$ 50,166	$ 46,791	7%	$ 99,317	$ 92,639	7%
EMEA	9,120	5,475	67%	17,152	10,703	60%
APAC	3,003	3,597	-17%	5,657	7,321	-23%
Total services	$ 62,289	$ 55,863	12%	$ 122,126	$ 110,663	10%
Hardware and other						
Americas	$ 8,133	$ 9,862	-18%	$ 17,684	$ 19,060	-7%
EMEA	393	367	7%	818	684	20%
APAC	310	139	123%	509	261	95%
Total hardware and other	$ 8,836	$ 10,368	-15%	$ 19,011	$ 20,005	-5%
Total Revenue						
Americas	$ 73,551	$ 75,599	-3%	$ 145,680	$ 144,045	1%
EMEA	11,961	9,809	22%	23,989	15,653	53%
APAC	4,978	4,221	18%	9,145	8,121	13%
Total revenue	$ 90,490	$ 89,629	1%	$ 178,814	$ 167,819	7%
Operating income (loss):						
Americas	$ 10,643	$ 12,338	-14%	$ 17,708	$ 21,072	-16%
EMEA	2,215	1,145	93%	4,270	(176)	2526%
APAC	406	189	115%	375	58	547%
Total operating income	$ 13,264	$ 13,672	-3%	$ 22,353	$ 20,954	7%

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Three Months Ended June 30, 2008 Compared to Three Months Ended June 30, 2007

The results of our operations for second quarter 2008 and 2007 are discussed below.

Revenue

	Three Months Ended June 30,				
			% Change 2008 to	% of Total Revenue	
	2008	2007	2007	2008	2007
	(in thousands)				
License	**$ 19,365**	$ 23,398	-17%	**21%**	26%
Services	**62,289**	55,863	12%	**69%**	62%
Hardware and other	**8,836**	10,368	-15%	**10%**	12%
Total revenue	**$ 90,490**	$ 89,629	1%	**100%**	100%

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

License revenue. License revenue decreased $4.0 million or 17% in the quarter ended June 30, 2008 over the prior year primarily driven by record license revenue in our Americas and EMEA in the second quarter 2007 as well as the impact of the current macro economic environment which somewhat lengthened the sales cycles in the Americas market in 2008. The Americas and EMEA license revenues decreased $3.7 million and $1.5 million, respectively compared to the prior year. This decrease was partially offset by an increase in APAC license revenue of $1.2 million in the second quarter of 2008.

License sales mix across our product suite remained well-balanced in the quarter with 54% of sales in our warehouse management solutions and 46% in non-warehouse management solutions. Our core warehouse management solutions were flat in the second quarter of 2008 compared to the same quarter in the prior year and non-warehouse management solutions decreased 31% compared to the same quarter in the prior year.

Services revenue. Services revenue increased $6.4 million or 12% in the second quarter of 2008 compared to the same quarter in the prior year principally due to $3.0 million or 8% increase in professional services revenue from larger implementation projects, increased license sales and $3.4 million or 21% increase in revenue from customer support and software enhancements. The Americas and EMEA segments had record services revenue for the quarter with an increase of $3.4 million or 7% and $3.6 million or 67%, respectively, from the second quarter of 2008 compared to the second quarter of 2007 largely due to implementation services for license deals signed during 2007. These increases were partially offset by a decrease in APAC services revenue of $0.6 million, or 17%, from the second quarter of 2008 compared to the second quarter of 2007 largely because license sales, which drive services revenues, were lower from mid 2006 to mid 2007.

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

Hardware and other. Hardware sales decreased by 25% to $5.4 million in the second quarter of 2008 compared to $7.3 million in the second quarter of 2007. Sales of hardware are largely dependent upon customer-specific desires, which fluctuate from quarter to quarter. Reimbursements for out-of-pocket expenses are required to be classified as revenue and are included in hardware and other revenue. For the quarters ended June 30, 2008 and 2007, reimbursements by customers for out-of-pocket expenses were approximately $3.4 million and $3.1 million, respectively.

Cost of Revenue

	Three Months Ended June 30,		
			% Change 2008 to
	2008	**2007**	**2007**
	(in thousands)		
Cost of license	**$ 1,641**	$ 1,303	26%
Cost of services	**29,856**	27,284	9%
Cost of hardware and other	**7,317**	8,864	-17%
Total cost of revenue	**$ 38,814**	$ 37,451	4%

Cost of license. Cost of license consists of the costs associated with software reproduction; hosting services; funded development; media, packaging and delivery, documentation and other related costs; and royalties on third-party software sold with or as part of our products. Cost of license increased $0.3 million or 26% in the second quarter of 2008 compared to second quarter of 2007, due to license product mix driving higher third party software costs associated with embedded software sold as part of our solutions.

Cost of services. Cost of services consists primarily of salaries and other personnel-related expenses of employees dedicated to professional and technical services and customer support services. The $2.6 million increase in cost of services in the quarter ended June 30, 2008 was principally due to (i) a $2.2 million increase in salary-related costs resulting from a 17% increase in the average number of personnel dedicated to the delivery of professional services and annual compensation increases for 2008 and (ii) a $0.5 million increase in travel expense.

Services gross margin increased 90 basis points to 52.1% in the second quarter of 2008 from 51.2% in the second quarter of 2007. The increase in margin is primarily contributed by record service revenue in the quarter.

Cost of hardware and other. Cost of hardware decreased $1.6 million to approximately $3.9 million in the second quarter of 2008 from approximately $5.6 million in the second quarter of 2007. Cost of hardware and other includes out-of-pocket expenses to be reimbursed by customers of approximately $3.4 million and $3.3 million for the quarters ended June 30, 2008 and 2007, respectively.

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Operating Expenses

	Three Months Ended June 30,		
			% Change 2008 to
	2008	2007	2007
	(in thousands)		
Research and development	**$ 11,711**	$ 12,278	**-5%**
Sales and marketing	**14,676**	14,491	**1%**
General and administrative	**8,867**	8,383	**6%**
Depreciation and amortization	**3,158**	3,354	**-6%**
Operating expenses	**$ 38,412**	$ 38,506	**0%**

Research and development. Research and development expenses primarily consist of salaries and other personnel-related costs for personnel involved in our research and development activities. Research and development expenses for the quarter ended June 30, 2008 decreased $0.6 million compared to the same quarter of the prior year. This decrease was mainly attributable to a $0.3 million decrease in salary-related costs and a $0.2 million decrease in professional fees related to translation services and visa permits.

Our principal research and development activities have focused on the expansion and integration of new products acquired and new product releases and expanding the product footprint of our supply chain optimization solutions called **S**upply **C**hain **O**ptimization from **P**lanning through **E**xecution. The Manhattan SCOPE Platform provides not only a sophisticated service oriented architecture based application framework, but a platform that facilitates the integration with Enterprise Resource Planning (ERP) and other supply chain solutions. For the quarters ended June 30, 2008 and 2007, we did not capitalize any research and development costs.

Sales and marketing. Sales and marketing expenses include salaries, commissions, travel and other personnel-related costs and the costs of our marketing and alliance programs and related activities. Sales and marketing expenses increased slightly by $0.2 million or 1% in the second quarter of 2008 compared to the same quarter of the prior year.

General and administrative. General and administrative expenses consist primarily of salaries and other personnel-related costs of executive, financial, human resources, information technology and administrative personnel, as well as facilities, legal, insurance, accounting and other administrative expenses. The $0.5 million increase in general and administrative expenses during the quarter ended June 30, 2008 was primarily attributable to a $0.7 million reduction in recoveries of previously expensed sales tax.

Depreciation and amortization. Depreciation expense amounted to $2.3 million and $2.2 million for the quarters ended June 30 2008 and 2007, respectively. Amortization of intangibles associated with various acquisitions totaled $0.9 million and $1.2 million for the quarters ended June 30, 2008 and 2007, respectively.

Operating Income

Income from Operations. Operating income for the second quarter of 2008 decreased by $0.4 million or 3% while consolidated revenue grew 1%. Operating margins decreased to 14.7% for the second quarter of 2008 from 15.3% for the second quarter of 2007. Operating income and margins declined $0.4 million due to lower license revenues and a decrease of $0.7 million in sales tax accrual recoveries.

Other Income and Taxes