
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[Mark One]

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

For the quarterly period ended March 31, 2005

OR

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

For the transition period from _____ to _____

Commission File Number: 0-23999

MANHATTAN ASSOCIATES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Georgia

(State or Other Jurisdiction of Incorporation or Organization)

58-2373424

(I.R.S. Employer Identification No.)

2300 Windy Ridge Parkway, Suite 700

Atlanta, Georgia

(Address of Principal Executive Offices)

30339

(Zip Code)

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

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of the Registrant's class of capital stock outstanding as of May 6, 2005, the latest practicable date, is as follows: 29,315,767 shares of common stock, \$0.01 par value per share.

MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES

FORM 10-Q

Quarter Ended March 31, 2005

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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 amounts)

	<u>December 31,</u> <u>2004</u>	<u>March 31,</u> <u>2005</u> <u>(unaudited)</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 37,429	\$ 77,272
Short-term investments	88,794	55,052
Accounts receivable, net of allowance for doubtful accounts of \$4,171 and \$4,006 at December 31, 2004 and March 31, 2005, respectively	45,996	49,500
Deferred income taxes	4,257	6,377
Prepaid expenses and other current assets	7,087	8,580
Total current assets	<u>183,563</u>	<u>196,781</u>
Property and equipment, net	13,598	14,148
Long-term investments	46,433	43,067
Acquisition-related intangible assets, net	8,320	7,438
Goodwill, net	32,469	32,529
Deferred income taxes	3,583	2,629
Other assets	2,535	2,469
Total assets	<u>\$ 290,501</u>	<u>\$299,061</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 6,800	\$ 6,126
Accrued liabilities	6,079	5,256
Accrued compensation and benefits	6,639	6,702
Deferred revenue	22,710	24,912
Income taxes payable	2,233	5,717
Deferred rent	203	203
Current portion of capital lease obligations	139	141
Total current liabilities	<u>44,803</u>	<u>49,057</u>
Deferred income taxes	466	330
Deferred rent	457	406
Long-term portion of capital lease obligations	148	112
Shareholders' equity:		
Preferred stock, no par value; 20,000,000 shares authorized, no shares issued or outstanding at December 31, 2004 and March 31, 2005	—	—
Common stock, \$.01 par value; 100,000,000 shares authorized, 29,580,724 and 29,591,574 shares issued and outstanding at December 31, 2004 and March 31, 2005, respectively	296	296
Additional paid-in capital	138,074	137,988
Retained earnings	105,762	110,544
Accumulated other comprehensive income	882	624
Deferred compensation	(387)	(296)
Total shareholders' equity	<u>244,627</u>	<u>249,156</u>
Total liabilities and shareholders' equity	<u>\$ 290,501</u>	<u>\$299,061</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

Item 1. Financial Statements (continued)

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

	Three Months Ended	
	March 31,	
	2004	2005
Revenue:		
Software and hosting fees	\$ 12,306	\$ 13,814
Services	33,606	37,437
Hardware and other	5,381	5,056
Total revenue	<u>51,293</u>	<u>56,307</u>
Costs and Expenses:		
Cost of software and hosting fees	823	1,311
Amortization of acquired developed technology	493	554
Cost of services	15,096	17,822
Cost of hardware and other	4,578	4,518
Research and development	7,200	7,678
Sales and marketing	7,920	9,688
General and administrative	6,528	7,026
Amortization of acquisition-related intangibles	377	370
Total costs and expenses	<u>43,015</u>	<u>48,967</u>
Operating income	8,278	7,340
Other income, net	389	485
Income before income taxes	8,667	7,825
Income tax provision	2,990	3,043
Net income	<u>\$ 5,677</u>	<u>\$ 4,782</u>
Basic net income per share	<u>\$ 0.19</u>	<u>\$ 0.16</u>
Diluted net income per share	<u>\$ 0.18</u>	<u>\$ 0.16</u>
Weighted average number of shares:		
Basic	<u>30,135</u>	<u>29,620</u>
Diluted	<u>31,349</u>	<u>30,276</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

Item 1. Financial Statements (continued)

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

	Three Months Ended	
	March 31,	
	2004	2005
Operating activities:		
Net income	\$ 5,677	\$ 4,782
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,732	1,868
Amortization of acquisition-related intangibles	870	924
Stock compensation	93	91
Tax benefit of options exercised	2,963	(183)
Deferred income taxes	75	(752)
Unrealized foreign currency loss	10	430
Changes in operating assets and liabilities:		
Accounts receivable, net	(602)	(3,978)
Other assets	(351)	(1,471)
Accounts payable and accrued liabilities	(1,617)	(1,266)
Income taxes	(727)	2,999
Deferred rent	—	(51)
Deferred revenue	3,713	2,295
Net cash provided by operating activities	11,836	5,688
Investing activities:		
Purchase of property and equipment	(1,565)	(2,507)
Purchases of investments	(328,726)	(235,787)
Maturities and sales of investments	318,652	272,723
Payments in connection with various acquisitions	—	(132)
Net cash provided by (used in) investing activities	(11,639)	34,297
Financing activities:		
Payment of capital lease obligations	(47)	(34)
Proceeds from issuance of common stock from options exercised	1,180	97
Net cash provided by financing activities	1,133	63
Foreign currency impact on cash	(15)	(205)
Net change in cash and cash equivalents	1,315	39,843
Cash and cash equivalents at beginning of period	31,407	37,429
Cash and cash equivalents at end of period	<u>\$ 32,722</u>	<u>\$ 77,272</u>
Supplemental cash flow disclosures:		
Net cash paid for income taxes	<u>\$ 129</u>	<u>\$ 652</u>
Cash paid for interest	<u>\$ 4</u>	<u>\$ 4</u>
Non-cash transaction:		
Issuance of restricted stock	<u>\$ 1,375</u>	<u>\$ —</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES

**Notes to Condensed Consolidated Financial Statements
March 31, 2005
(unaudited)**

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required for complete financial statements. In the opinion of our management, these condensed consolidated financial statements contain all adjustments considered necessary for a fair presentation of the financial position at March 31, 2005, the results of operations for the three month periods ended March 31, 2004 and 2005 and changes in cash flows for the three month periods ended March 31, 2004 and 2005. The results for the three month period ended March 31, 2005 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 for the year ended December 31, 2004.

2. Principles of Consolidation

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

3. Revenue Recognition

Our revenue consists of revenues from the licensing and hosting of software, fees from consulting, implementation and training services (collectively, "professional services"), plus customer support services and software enhancement subscriptions, and sales of hardware.

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

Our services revenue consists of fees generated from professional services, customer support services and software enhancement subscriptions related to our software products. Fees from professional services performed by us are generally billed on an hourly basis, and revenue is recognized as the services are performed. Professional services are sometimes rendered under agreements in which billings are limited to contractual maximums or based upon a fixed-fee for portions of or all of the engagement. Revenue related to fixed-fee based contracts is recognized on a percent complete basis based on the hours incurred. 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 subscriptions are generally paid in advance and recognized ratably over the term of the agreement, typically 12 months.

3. Revenue Recognition (continued)

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

In accordance with the Financial Accounting Standard Board's ("FASB's") Emerging Issues Task Force ("EITF") Issue No. 01-14 ("EITF No. 01-14"), "Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred," we recognize amounts associated with reimbursements from customers for out-of-pocket expenses as revenue. Such amounts have been classified to hardware and other revenue. The total amount of expense reimbursement recorded to revenue was \$1.6 million and \$1.7 million for quarters ended March 31, 2004 and 2005, respectively.

4. Investments

Our investments in marketable securities consist of debt instruments of the U.S. Treasury, U.S. government agencies, state and local government agencies and corporate commercial paper. These investments are categorized as available-for-sale securities and recorded at fair market value, as defined by SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Investments with original maturities of 90 days or less are classified as cash equivalents; investments with original maturities of greater than 90 days but less than one year are classified as short-term investments; and investments with original maturities of greater than one year are classified as long-term investments. The long-term investments consist of debt instruments of U.S. government agencies and mature after one year through five years. We hold investments in Auction Rate Securities, which have original maturities greater than one year, but which have auctions to reset the yield every seven to 35 days. We have classified these assets as short-term investments. Unrealized holding gains and losses are reflected as a net amount in a separate component of shareholders' equity until realized. For the purposes of computing realized gains and losses, cost is identified on a specific identification basis.

5. Stock-Based Compensation

We account for our stock-based compensation plan for stock issued to employees under Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and, accordingly, record deferred compensation for options granted at an exercise price below the fair value of the underlying stock. The deferred compensation is presented as a component of equity in the accompanying consolidated balance sheets and is amortized over the periods to be benefited, generally the vesting period of the options. Effective in fiscal year 1996, we adopted the pro forma disclosure option for stock-based compensation issued to employees pursuant to Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123").

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5. Stock-Based Compensation (continued)

Pro forma information regarding net income and net income per share is required by SFAS No. 123, which requires that the information be determined as if we had accounted for our employee stock option grants under the fair value method required by SFAS No. 123. The fair value of each option grant has been estimated as of the date of grant using the Black-Scholes option pricing model. The following pro forma information adjusts the net income and net income per share of common stock for the impact of SFAS No. 123:

	Three Months Ended March 31,	
	2004	2005
	(in thousands)	
Net income (loss):		
As reported	5,677	4,782
Add: Stock-based employee compensation expense included in reported net income	93	91
Deduct: Stock-based employee compensation expense determined under the fair-value method for all awards	(7,693)	(5,405)
Pro forma in accordance with SFAS No. 123	(1,923)	(532)
Basic net income (loss) per share:		
As reported	0.19	0.16
Pro forma in accordance with SFAS No. 123	(0.06)	(0.02)
Diluted net income (loss) per share:		
As reported	0.18	0.16
Pro forma in accordance with SFAS No. 123	(0.06)	(0.02)

Our estimated forfeiture rate of unvested stock options used in the first two quarters of 2004 when determining the stock-based employee compensation expense determined under the fair-value method, net of taxes, used an incorrect assumption when determining the appropriate forfeiture rate. As a result, the pro forma information was restated to reflect the proper forfeiture rate. The impact of the restatement is presented below (in thousands):

	Three Months Ended March 31, 2004	
	As previously reported	As restated
Pro forma net income (loss)	\$ 7	\$ (1,923)
Pro forma net income (loss) per share:		
Basic	\$ 0.00	\$ (0.06)
Diluted	\$ 0.00	\$ (0.06)

6. Comprehensive Income

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

The following table sets forth the calculation of comprehensive income:

	Three Months Ended March 31,	
	2004	2005
	(in thousands)	
Net income	\$ 5,677	\$ 4,782
Other comprehensive income (loss), net of tax:		
Unrealized gain (loss) on investments, net of taxes	11	(112)
Foreign currency translation adjustment, net of taxes	105	(146)
Total other comprehensive income, net of taxes	116	(258)
Comprehensive income	\$ 5,793	\$ 4,524

7. 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 shares used in the computation of net income per share:

	Three Months Ended March 31, 2004		Three Months Ended March 31, 2005	
	Basic	Diluted	Basic	Diluted
	(in thousands)		(in thousands)	
Weighted Shares	30,135	30,135	29,620	29,620
Effect of CESs.	—	1,214	—	656
	<u>30,135</u>	<u>31,349</u>	<u>29,620</u>	<u>30,276</u>

Weighted average shares issuable upon the exercise of stock options that were not included in the calculation of diluted earnings per share were 1,356,296 and 5,345,130 for the three months ended March 31, 2004 and 2005, respectively. Such shares were not included because they were antidilutive.

8. Geographic Information

We conduct business in one operating segment: providing supply chain execution and optimization solutions. However, we prepare operating results for internal use on a geographic basis. The geographical-based costs consist of costs of professional services personnel, direct sales and marketing expenses, cost of infrastructure to support our employees and customer base, billing and financial systems and a management and support team. There are certain corporate expenses included in our Americas region that are not charged to the other segments including research and development, certain marketing and general and administrative costs that support our global organization, amortization of intangibles and costs that are one-time in nature, such as acquired in-process research and development.

We use the same accounting policies for each of our geographical regions. There are no inter-regional sales. Our chief executive officer and chief financial officer evaluate performance based on revenue and operating results from operations for each region.

In accordance with SFAS No. 131, “*Disclosures about Segments of an Enterprise and Related Information*,” we have included a summary of the regional financial information reported internally. Our geographic regions are the Americas, Europe, Middle East and Africa (“EMEA”), and Asia/Pacific. Included in the Americas costs are all research and development costs including the costs associated with our offshore development center in India.

8. Geographic Information (continued)

The following table presents our revenues, expenses and operating income (loss) by reportable geographic region (in thousands):

	As of and for the three months ended March 31, 2005			
	Americas	EMEA	Asia/Pacific	Total
Revenue:				
Software and hosting fees	\$ 11,740	\$ 656	\$ 1,418	\$ 13,814
Services	30,217	5,749	1,471	37,437
Hardware and other	4,819	221	16	5,056
Total revenue	46,776	6,626	2,905	56,307
Costs and Expenses:				
Cost of revenue	16,917	5,010	1,724	23,651
Operating expenses	21,079	2,930	1,307	25,316
Total costs and expenses	37,996	7,940	3,031	48,967
Operating income	\$ 8,780	\$ (1,314)	\$ (126)	\$ 7,340

	As of and for the three months ended March 31, 2004			
	Americas	EMEA	Asia/Pacific	Total
Revenue:				
Software and hosting fees	\$ 10,664	\$ 1,250	\$ 392	\$ 12,306
Services	27,279	6,051	276	33,606
Hardware and other	4,428	953	—	5,381
Total revenue	42,371	8,254	668	51,293
Costs and Expenses:				
Cost of revenue	15,024	5,800	169	20,993
Operating expenses	18,707	3,082	233	22,022
Total costs and expenses	33,731	8,882	402	43,015
Operating income	\$ 8,640	\$ (628)	\$ 266	\$ 8,278

9. Acquisition

On January 23, 2004, we acquired certain assets of Avere, Inc. (“Avere”), a provider of order management software. We completed the acquisition to enhance our product offering. We acquired substantially all of the assets of Avere for a purchase price of approximately \$305,000. The purchase price includes the earnout of approximately \$75,000 recorded through March 31, 2005, and will be further adjusted for additional potential earnout based upon the total Avere software fees recognized by us prior to December 31, 2005. The earnout payment will be calculated as the following percentages of all Avere software fees recognized during the earnout period: (i) 25% of the Avere software fees greater than \$200,000 and up to and including \$2 million; (ii) 30% of the Avere software fees greater than \$2 million and up to and including \$4 million; and (iii) 35% of the Avere software fees greater than \$4 million. The entire purchase price has been recorded as acquired developed technology and is being amortized over the greater of the amount computed using (a) the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product or (b) the straight-line method over the remaining five-year estimated economic life of the product, including the period being reported on. The operating results of Avere were included in our operations after January 23, 2004.

10. Reclassifications

Certain reclassifications were made to the prior year's financial statements to conform to the 2005 presentation.

11. New Accounting Pronouncements

In March 2004, the FASB approved the consensus reached on the EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." The objective of this Issue is to provide guidance for identifying impaired investments. EITF 03-1 also provides new disclosure requirements for investments that are deemed to be temporarily impaired. The accounting provisions of EITF 03-1 were effective for all reporting periods beginning after June 15, 2004, while the disclosure requirements were effective only for annual periods ending after June 15, 2004. The adoption of EITF 03-1 did not have a material effect on our Consolidated Statements of Income, financial position or liquidity.

In December 2004, the FASB issued FASB Statement No. 123 (revised 2004), *Share-Based Payment*, which is a revision of FASB Statement No. 123, *Accounting for Stock-Based Compensation*. Statement 123(R) supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends FASB Statement No. 95, *Statement of Cash Flows*. Generally, the approach in Statement 123(R) is similar to the approach described in Statement 123. However, Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative.

Statement 123(R) must be adopted no later than January 1, 2006. Early adoption will be permitted in periods in which financial statements have not yet been issued. Statement 123(R) permits public companies to adopt its requirements using one of two methods:

1. A "modified prospective" method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of Statement 123(R) for all share-based payments granted after the effective date, and (b) based on the requirements of Statement 123 for all awards granted to employees prior to the effective date of Statement 123(R) that remain unvested on the effective date.
2. A "modified retrospective" method, which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under Statement 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

We will adopt Statement 123(R) beginning on January 1, 2006 and are currently in the process of evaluating which method we will adopt. The impact of adoption of Statement 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future.

In December 2004, the FASB issued FASB Staff Position ("FSP") Financial Accounting Standard ("FAS") 109-1, "Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004 (the Act)", which provides tax relief to U.S. domestic manufacturers. The FSP states that the manufacturers' deduction provided for under the Act should be accounted for as a special deduction in accordance with Statement 109 rather than as a tax rate reduction. Also in December 2004, the FASB issued FSP FAS 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004," addressing accounting and disclosure guidance relating to a company's repatriation program. Both FSPs were effective upon issuance. We are currently evaluating the impact of these FSPs to determine the amount of tax benefit we are entitled to under the new regulations.

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

Forward-Looking Statements

Certain statements contained in this filing are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, including but not limited to statements related to plans for future business development activities, anticipated costs of revenues, product mix and service revenues, research and development and selling, general and administrative activities, and liquidity and capital needs and resources. When used in this report, the words “expect,” “anticipate,” “intend,” “plan,” “believe,” “seek,” “estimate,” and similar expressions are generally intended to identify forward-looking statements. You should not place undue reliance on these forward-looking statements, which reflect our opinions only as of the date of this Quarterly Report. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. For further information about these and other factors that could affect our future results, please see Exhibit 99.1 to our Annual Report on Form 10-K for the year ended December 31, 2004. 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.

Business

We are a global leader in providing supply chain execution and optimization solutions. Our integrated logistics solutions leverage a comprehensive set of applications that can be implemented as an integrated whole or as individual point solutions to better manage the supply chain. This platform for logistics is comprised of various applications including warehouse management, transportation management, distributed order management, reverse logistics and trading partner management along with Radio Frequency Identification (“RFID”) and performance management. Our solution offering is comprised of software, services, and hardware.

Our warehouse management solutions (“WMS”) manage the processes that take place within the distribution center, from receipt of goods to fulfillment of orders, and include applications for optimizing labor and slotting. With our transportation management solutions (“TMS”), companies can optimally procure, plan and execute transportation services across transportation modes, such as air, ship and ground. Our distributed order management solution enables companies to balance supply with demand and source goods to meet customer needs in a timely and cost effective manner. With our reverse logistics management solutions, companies can effectively manage the returns process and improve net asset recovery. Our trading partner management (“TPM”) solutions provide Web-based synchronization between trading partners, improving communication and visibility across the entire supply chain. Our RFID solutions offer a flexible, scalable and modular solution that provide an integration and reporting platform between RFID chip readers and supply chain execution and enterprise resource planning systems. Finally, our performance management applications include event management, alerting and reporting modules, which use analytic tools and alerting processes to monitor and proactively respond to events within the supply chain cycle, analyze historical and operational data and generate reports.

In addition to our software solutions, we also offer a variety of services to enhance the value we provide customers. Our offerings include design, configuration, implementation, training, product assessment, customer support, hardware, consulting services and software enhancement subscriptions.

Application of Critical Accounting Policies and Estimates

The Securities and Exchange Commission defines “critical accounting policies” as those that require application of management’s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

The condensed consolidated financial statements include accounts of both our subsidiaries and us. 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 estimates and judgments relating to certain amounts included in the financial statements. As a result, application of these accounting policies could cause actual results to differ from these estimates.

We have identified the following as our critical accounting policies:

Revenues and Revenue Recognition

Our revenue is derived from (i) Software and Hosting Fees, which consist of revenue from the licensing and hosting of software and revenue from funded research and development efforts; (ii) Services Revenue, which consist of fees from consulting, implementation and training services (collectively, “professional services”), plus customer support services and software enhancement subscriptions; and (iii) Hardware and Other Revenue, which consists of sales of hardware and reimbursed project expenses.

Revenue recognition rules for software companies are very complex. 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”). Although we follow very specific and detailed guidelines in measuring revenue, the application of those guidelines requires judgment including: (i) whether a software arrangement includes multiple elements, and if so, whether vendor-specific objective evidence of fair value exists for those elements; (ii) whether customizations or modifications of the software are significant; and (iii) whether collection of the software fee is probable. Additionally, we specifically evaluate any other elements in our license transactions, including but not limited to, options to purchase additional software at a future date, extended payment terms, functionality commitments not delivered with the software and existing outstanding receivable balances in making the determination of the amount and timing of revenue recognition.

Most of our software arrangements include professional services. Professional services revenues are generally accounted for separately from the software license revenues because the arrangements qualify as “service transactions” as defined by SOP 97-2. The most significant factors considered in determining whether the revenue should be accounted for separately include the nature of the services (i.e., consideration of whether the services are essential to the functionality of the licensed product), degree of risk, availability of services from other vendors and timing of payments. We provide our professional services under services agreements on a time and material basis or based on a fixed-price and/or fixed-time arrangement. The revenues from our time and material based professional consulting and implementation services are recognized as the work is performed, provided that the customer has a

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contractual obligation to pay, the fee is non-refundable and collection is probable. Delays in project implementation will result in delays in revenue recognition. For our professional consulting services under fixed-price and/or fixed-time arrangements, we recognize the related revenues using the percentage-of-completion method, with progress-to-completion measured by using labor costs input compared to estimated cost of completion. Revisions to the estimates are reflected in the period in which changes become known. Project losses are provided for in their entirety in the period they become known, without regard to the percentage-of-completion. If we do not accurately estimate the resources required or the scope of work to be performed, or if we do not manage our projects properly within the planned periods of time, then future consulting margins on our projects may be negatively affected or losses on existing contracts may need to be recognized.

Hardware revenue is generated from the resale of a variety of hardware products, developed and manufactured by third parties, which are integrated with and complementary to our software solutions. These products include computer equipment, radio frequency terminal networks, RFID chip readers, 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 an allowance for estimated credit losses based upon our historical experience and any specific customer collection issues that we have identified. Additions to the allowance for doubtful accounts generally represent a sales allowance on services revenue, which are recorded to operations as a reduction to services revenue. While such credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past. Our top five customers in aggregate accounted for 18% and 14% of total revenue for the quarters ended March 31, 2004 and 2005, respectively. No single customer accounted for more than 10% of revenue in the first quarters of 2004 or 2005.

Valuation of long-lived and intangible assets and goodwill

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

Annual tests or other future events could cause us to conclude that impairment indicators exist and that our goodwill is impaired. For example, if we had reason to believe that our recorded goodwill and intangible assets had become impaired due to decreases in the fair market value of the underlying business, we would have to take a charge to income for that portion of goodwill or intangible assets that we believed was impaired. Any resulting impairment loss could have a material adverse impact on our financial position and results of operations. At March 31, 2005, our goodwill balance was \$32.5 million and our intangible assets with definite lives balance was \$7.4 million, net of accumulated amortization.

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Income Taxes

We provide for the effect of income taxes on our financial position and results of operations in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*. Under this accounting pronouncement, income tax expense is recognized for the amount of income taxes payable or refundable for the current year and for the change in net deferred tax assets or liabilities resulting from events that are recorded for financial reporting purposes in a different reporting period than recorded in the tax return. Management must make significant assumptions, judgments and estimates to determine our current provision for income taxes and also our deferred tax assets and liabilities and any valuation allowance to be recorded against our net deferred tax asset. Our judgments, assumptions and estimates relative to the current provision for income tax take into account current tax laws, our interpretation of current tax laws, allowable deductions, projected tax credits and possible outcomes of current and future audits conducted by foreign and domestic tax authorities. Changes in tax law or our interpretation of tax laws and the resolution of current and future tax audits could significantly impact the amounts provided for income taxes in our financial position and results of operations. Our assumptions, judgments and estimates relative to the value of our net deferred tax asset take into account predictions of the amount and category of future taxable income. Actual operating results and the underlying amount and category of income in future years could render our current assumptions, judgments and estimates of recoverable net deferred taxes inaccurate, thus materially impacting our financial position and results of operations.

Results of Operations

Overview

Our primary goal is to expand our position as a leading provider of supply chain execution and optimization solutions by delivering integrated, modular solutions to our customers. With the addition and integration of new products resulting from the acquisitions completed during 2002, 2003 and 2004, along with the synchronized release of new versions of our product suite with enhanced functionality, we have been able to accomplish continued revenue growth.

We continue to experience many effects of a weak spending environment for information technology in the United States and Europe, in the form of delayed and cancelled buying decisions by customers for our software, services and hardware, deferrals by customers of service engagements previously scheduled and pressure by our customers and competitors to discount our offerings. We believe that a deterioration in the current business climates or continued delay in capital spending 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 future operations.

In 2005, we plan to continue to enhance our solutions, expand globally and further develop our sales and marketing, including strategic alliances and indirect sales channels. Our success could be limited by several factors, including spending on information technology, the timely release of quality new products and releases, continued market acceptance of our solutions and the introduction of new products by existing or new competitors.

Quarter Ended March 31, 2004 Compared to Quarter Ended March 31, 2005**Revenue**

	<u>Quarter Ended</u> <u>March 31, 2004</u>	<u>% Change</u> <u>2004 to 2005</u>	<u>Quarter Ended</u> <u>March 31, 2005</u>
	(unaudited and in thousands)		
Software and hosting fees	\$ 12,306	12%	\$ 13,814
Percentage of total revenue	24%		25%
Services	33,606	11%	37,437
Percentage of total revenue	66%		66%
Hardware and other	5,381	(6%)	5,056
Percentage of total revenue	10%		9%
Total revenue	<u>\$ 51,293</u>	10%	<u>\$ 56,307</u>

Our revenue consists of fees generated from the licensing and hosting 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. We believe our revenue growth from 2004 to 2005 is attributable to several factors, including, among others, increased sales of our expanded product suite, 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.

Software and hosting fees. The increase in software and hosting fees from the quarter ended March 31, 2004 to the quarter ended March 31, 2005 was primarily due to increased sales of newer products, relating primarily to our TMS and TPM solution groups. Sales of our solution groups other than our warehouse management solution group increased by \$2.5 million, or 62%, from the first quarter of 2004 to the first quarter of 2005, while sales of our warehouse management solution group decreased by \$1.0 million, or 12%, from the first quarter of 2004 to the first quarter of 2005. We continue to see an increase in the diversity of products purchased from us by new and existing customers as our newer products gain greater market acceptance. This is contributing to the fluctuations in the sales mix of our solutions groups.

Services revenue. The increase in services revenue from the quarter ended March 31, 2004 to the quarter ended March 31, 2005 was principally due to: (i) an increase of 17% in the number of active engagements required to implement the increased amount of software sold and to upgrade existing customers to more current versions of our offerings; and (ii) renewals of customer support services and software enhancement subscription agreements on a growing installed base. Revenue from software enhancement subscription agreements increased by 21% in the first quarter of 2005. During the economic downturn, we have experienced some pricing pressures with regard to our services. We believe that the pricing pressures are attributable to global macro-economic conditions and competitive pressures. Our services revenue growth has been and will likely continue to be affected by the mix of products sold. The individual engagements involving our newer products, including our TMS, RFID and TPM solutions, typically require less implementation services; however, the number of engagements continue to grow.

Hardware and other. Sales of hardware are non-strategic and largely dependent upon customer-specific desires, which fluctuate from quarter to quarter. Sales of hardware decreased by 11% to

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approximately \$3.3 million in the first quarter of 2005 from approximately \$3.8 million in the first quarter of 2004. The decrease in hardware sales was attributable to customers' desires in the current macro-economic environment to buy hardware from other suppliers offering greater discounts, combined with increased sales of our optimization and transportation products, which require less hardware than our core warehouse management products. 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 March 31, 2004 and 2005, reimbursements by customers for out-of-pocket expenses were approximately \$1.6 million and \$1.7 million, respectively.

Geographic regions.

Geographic revenue information is based on the location of where the revenue is recorded. During 2004 and 2005, we derived the majority of our revenues from sales to customers within our Americas region. Revenues by region represented the following percentages of total revenues for the periods indicated:

	Three Months Ended March 31,	
	2004	2005
Americas	83%	83%
EMEA	16%	12%
Asia/Pacific	1%	5%

Revenues in EMEA decreased both as a percentage of total revenue and in absolute dollars. Revenues in EMEA are being negatively impacted by the delayed commitments for capital investments and the overall weakness of the European economy. Additional financial data for each geographic region can be found in Note 8 to the Condensed Consolidated Financial Statements.

Costs and Expenses

	Quarter Ended March 31, 2004	% Change 2004 to 2005	Quarter Ended March 31, 2005
	(unaudited and in thousands)		
Cost of software and hosting fees	\$ 823	59%	\$ 1,311
Percentage of software and hosting fees	7%		9%
Amortization of acquisition-related intangibles	493	12%	554
Percentage of software and hosting fees	4%		4%
Cost of services	15,096	18%	17,822
Percentage of services revenue	45%		48%
Cost of hardware and other	4,578	(1%)	4,518
Percentage of hardware and other revenue	85%		89%
Research and development	7,200	7%	7,678
Percentage of total revenue	14%		14%
Sales and marketing	7,920	22%	9,688
Percentage of total revenue	15%		17%
General and administrative	6,528	8%	7,026
Percentage of total revenue	13%		12%
Amortization of acquisition-related intangibles	377	(2%)	370
Percentage of total revenue	1%		1%

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Cost of Software and Hosting Fees. Cost of software and hosting fees consists of the costs associated with software reproduction; hosting services; funded development; media, packaging and delivery, documentation and other related costs; royalties on third-party software sold with or as part of our products; and the amortization of capitalized research and development costs. The increase in cost of software fees, as a percentage of software and hosting fees and in absolute dollars, in the first quarter of 2005 is principally attributable to an increase in costs of approximately \$300,000 relating to funded development arrangements. In addition, sales of our open systems products as a percentage of total revenue from all products sold increased from approximately 74% in the first quarter of 2004 to approximately 88% in the first quarter of 2005, which resulted in higher royalties paid to third parties during 2005.

Amortization of Acquired Developed Technology. Amortization of acquired developed technology increased from \$493,000 in the first quarter of 2004 to \$554,000 in the first quarter of 2005. The slight increase was the result of the earnouts recorded relating to the acquisitions of ReturnCentral, Inc. in June 2003, Streamsoft, L.L.C. in October 2003 and Avere in January 2004.

Cost of Services. Cost of services consists primarily of salaries and other personnel-related expenses of employees dedicated to professional and technical services and customer support services. The increase in cost of services in the quarter ended March 31, 2005 was principally due to increases in salary-related costs resulting from: (i) an increase of 15% in the average number of personnel dedicated to the delivery of professional and technical services; and (ii) annual compensation increases. The decrease in the services gross margin from 55% in the first quarter of 2004 to 52% during the first quarter of 2005 was attributable to the continued shift in product mix to open systems, fixed price contracts and increased costs due to international expansion and training. The implementation of our warehouse management open systems products is more costly than the implementation of our legacy warehouse management product, the iSeries or AS400, due to the lower maturity level of the product and limited experience of the services personnel and integration requirements with multiple third party hardware and software products.

Cost of Hardware and other. Cost of hardware decreased from approximately \$3.0 million in the first quarter of 2004 to approximately \$2.8 million in the first quarter of 2005 as a direct result of lower sales of hardware. The increase in the cost of hardware and other as a percentage of hardware and other revenue is principally due to an increase in the percentage of hardware products sold with relatively lower gross margins, a decrease in hardware maintenance revenue recognized during the first quarter of 2005, which has a margin higher than the average hardware margin, and an increase in the relative percentage of reimbursed out-of-pocket expenses with no gross margin during the quarter ended March 31, 2005, as compared to the quarter ended March 31, 2004. Cost of hardware and other includes out-of-pocket expenses to be reimbursed by customers of approximately \$1.6 million and \$1.7 million for the quarters ended March 31, 2004 and 2005, respectively.

Research and Development. Research and development expenses primarily consist of salaries and other personnel-related costs for personnel involved in our research and development activities. The increase in research and development expenses in the quarter ended March 31, 2005 was attributable to an increase in personnel dedicated to ongoing research and development activities at our offshore development center in India. The number of research and development personnel related to our offshore development center increased from 176 at March 31, 2004 to 296 at March 31, 2005. Our principal research and development activities during 2004 and the first quarter of 2005 focused on the expansion and integration of new products acquired and the synchronized product release, which included expanded product functionality, interoperability and testing.

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Computer software development costs are charged to research and development expense until technological feasibility is established, after which remaining software production costs are capitalized. We have defined technological feasibility as the point in time at which we have a detailed program design or a working model of the related product, depending upon the type of development effort. For the quarters ended March 31, 2004 and 2005, we capitalized no research and development costs because the costs incurred following the attainment of technological feasibility for the related software product through the date of general release were insignificant.

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 and alliance programs and related activities. The increase in sales and marketing expenses from the first quarter of 2004 to the first quarter of 2005 was principally attributable to: (i) an increase in salary-related costs resulting from a 30% increase in the average number of international and domestic sales and marketing personnel in the first quarter of 2005 compared to the first quarter of 2004; (ii) greater incentive compensation paid on 12% higher license and hosting fees in the first quarter of 2005; and (iii) continued global expansion of our sales and marketing programs.

General and Administrative. General and administrative expenses consist primarily of salaries and other personnel-related costs of executive, financial, human resources, information technology and administrative personnel, as well as facilities, depreciation, legal, insurance, accounting and other administrative expenses. The increase in general and administrative expenses during the quarter ended March 31, 2005 was principally attributable to an increase in salary-related costs resulting from an increase of approximately 26% in the number of general and administrative personnel, primarily from our international expansion. Depreciation expense is included in general and administrative expenses and amounted to \$1.7 million and \$1.9 million during the quarters ended March 31, 2004 and 2005, respectively.

Amortization of Acquisition-Related Intangibles. We have recorded goodwill and other acquisition-related intangible assets as part of the purchase accounting associated with various acquisitions, including the acquisitions of Logistics.com, Inc. in December 2002, ReturnCentral, Inc. in June 2003, Streamsoft, L.L.C. in October 2003, Avere in January 2004, and eebiznet in July 2004. Amortization of acquisition-related intangibles was consistent from the first quarter of 2004 to the first quarter of 2005.

	<u>Quarter Ended</u> <u>March 31, 2004</u>	<u>% Change</u> <u>2004 to 2005</u>	<u>Quarter Ended</u> <u>March 31, 2005</u>
	(unaudited and in thousands)		
Income from operations	\$ 8,278	(11%)	\$ 7,340
Percentage of total revenue	16%		13%
Other income, net	389	25%	485
Percentage of total revenue	1%		1%
Income tax provision	2,990	2%	3,043
Percentage of income before income taxes	35%		39%

Income from Operations. The decrease in operating income from the quarter ended March 31, 2004 to the quarter ended March 31, 2005 was the result of the decrease in our services gross margin and increased expenses from the continued investment in global expansion initiatives and the further development of our product suite.

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Other Income, Net. Other income, net includes interest income and interest expense and foreign currency gains and losses. Interest income increased from approximately \$400,000 in the first quarter of 2004 to approximately \$900,000 in the first quarter of 2005 due to an overall increase in market interest rates along with an increase in the cash available to invest. The weighted-average interest rate on investment securities at March 31, 2004 and March 31, 2005 was approximately 1.0% and 2.7%, respectively. We recorded net foreign currency losses of \$10,000 and \$400,000 during the three months ended March 31, 2004 and 2005, respectively. The foreign currency losses resulted from losses on intercompany transactions denominated in U.S. dollars with subsidiaries due to the strengthening of the U.S. dollar since year-end relative to other foreign currencies, primarily the British Pound and Euro.

Income Tax Provision. Our effective income tax rates were 34.5% and 38.9% in the quarters ended March 31, 2004 and 2005, 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 increase in the tax rate in 2005 was attributable to losses in certain foreign locations, including Germany and China, where the expectation of realizing the tax benefit of those losses is not yet probable. The provision for income taxes for the quarter ended March 31, 2004 does not include the \$3.0 million of tax benefit realized from stock options exercised during the quarter. This tax benefit reduces our income tax liability and is included in additional paid-in capital. There was no tax benefit realized from stock options exercised during the quarter ended March 31, 2005.

Liquidity and Capital Resources

We have funded our operations primarily through cash generated from operations. As of March 31, 2005, we had approximately \$175.4 million in cash, cash equivalents and investments, as compared to approximately \$172.7 million at December 31, 2004.

Our operating activities provided cash of approximately \$11.8 million for the three months ended March 31, 2004 and \$5.7 million for the three months ended March 31, 2005. Cash from operating activities for the three months ended March 31, 2005 arose principally from operating income, increases in prepayments of professional services, customer support services and software enhancement subscriptions, and an increase in income taxes payable, offset by an increase in accounts receivable and other assets. Days sales outstanding increased to 79 days at March 31, 2005 from 76 days at December 31, 2004, as a result of slower collections associated with international revenues.

Our investing activities used cash of approximately \$11.6 million for the three months ended March 31, 2004 and provided cash of approximately \$34.3 million for the three months ended March 31, 2005. Cash from investing activities for the three months ended March 31, 2005 arose from the net sales and maturities of investments of approximately \$36.9 million, off-set by the purchases of approximately \$2.5 million of capital equipment to support our business and infrastructure.

Our financing activities provided cash of approximately \$1.1 million and \$60,000 for the three months ended March 31, 2004 and 2005, respectively. The source of cash provided by financing activities was from the proceeds of the issuance of common stock pursuant to the exercise of stock options, partially off-set by the repayment of capital lease obligations.

We believe there are opportunities to grow our business through the acquisition of complementary and synergistic companies, products and technologies. Any material acquisition could result in a decrease to our working capital depending on the amount, timing and nature of the consideration to be paid. In April 2005, we incurred legal and financial due diligence costs of approximately \$700,000 relating to an acquisition that did not close. In February 2005, our Board of

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Directors authorized us to purchase up to \$20 million of our common stock, including the amount that had previously been approved but not yet repurchased, over a period ending no later than February 3, 2006. We expect to fund purchases under the program through existing cash, cash equivalents and investments.

We believe that our existing liquidity and expected cash flows from operations will satisfy our capital requirements for normal operations for the foreseeable future. We believe that existing balances of cash, cash equivalents and short-term investments will be sufficient to meet our working capital and capital expenditure needs at least for the next twelve months, although there can be no assurance that this will be the case.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Foreign Business

Our international business is subject to risks typical of an international business, including, but not limited to: differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions, and foreign exchange rate volatility. Our international operations currently include business activity out of offices in the United Kingdom, the Netherlands, Germany, France, Australia, Japan, China, Singapore and India. When the U.S. dollar strengthens against a foreign currency, the value of our sales and expenses in that currency converted to U.S. dollars decreases. When the U.S. dollar weakens, the value of our sales and expenses in that currency converted to U.S. dollars increases.

We recognized foreign exchange rate losses of approximately \$10,000 and \$400,000 during the three months ended March 31, 2004 and 2005, respectively. Foreign exchange rate transaction gains and losses are classified in "Other income, net" on our Condensed Consolidated Statements of Income. A fluctuation of 10% in the period end exchange rates at March 31, 2005 relative to the U.S. dollar would result in approximately a \$0.8 million change in the reported foreign currency loss for the three months ended March 31, 2005.

Interest Rates

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

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

Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates, or we may suffer losses in principal if forced to sell securities that have seen a decline in market value due to changes in interest rates. The weighted-average interest rate on investment securities held at March 31, 2004 and March 31, 2005 was approximately 1.0% and 2.7%, respectively.

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The fair value of cash equivalents and investments held at March 31, 2005 was approximately \$169.0 million. Based on the average investments outstanding during the quarter ended March 31, 2005, an increase or decrease of 25 basis points would result in an increase or decrease to interest income of approximately \$100,000 from the reported interest income for the three months ended March 31, 2005.

Item 4. Controls and Procedures.

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

The following changes in our internal controls over financial reporting occurred during the period covered by this report relating to monitoring vendor-specific objective evidence ("VSOE") of fair value as it relates to revenue recognition:

- we established a quarterly procedure of comparing actual professional services billing rates and rates for maintenance renewals to management's assessment of VSOE of fair value for those services to ensure that VSOE of fair value still exists for our consulting and maintenance services, and
- we provided additional training and documentation of our internal pricing policies to our sales, services and product management personnel.

As of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer evaluated, with the participation of management, the effectiveness of our disclosure controls and procedures. Based on the evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective.

**PART II
OTHER INFORMATION**

Item 1. 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 currently having challenging discussions with a large customer regarding their delayed implementation of our warehouse management system, although no legal claims have been filed by either party to date. We believe that our contractual obligations to date have been met and we are entitled to the outstanding receivables of approximately \$3 million from the customer at March 31, 2005. We are in discussions with this customer regarding resolution of this matter as well as payment; however, no such resolution has been reached at this time. While no assurance can be given regarding the outcome of the matter discussed, because of the nature

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and inherent uncertainties of disputes, should the outcome of this matter be unfavorable, our business, financial condition, results of operations and cash flows could be materially adversely affected.

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

In February 2005, our Board of Directors authorized us to purchase up to \$20 million of our common stock, including the amount that had previously been approved but not yet repurchased, over a period ending no later than February 3, 2006. There were no stock repurchases during the quarter ended March 31, 2005.

Item 3. Defaults Upon Senior Securities.

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

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

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

Item 5. Other Information.

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

Item 6. Exhibits.

Exhibit 31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* In accordance with Release No. 34-47986, this Exhibit is hereby furnished to the SEC as an accompanying document and is not deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that Section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MANHATTAN ASSOCIATES, INC.

Date: May 10, 2005

/s/ Peter F. Sinisgalli

Peter F. Sinisgalli

Chief Executive Officer, President and Director (Principal Executive Officer)

Date: May 10, 2005

/s/ Steven R. Norton

Steven R. Norton

Senior Vice President, Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

Exhibit 31.1	Certification pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certification pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO RULE 13a-14(a)/15d-14(a), AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Peter F. Sinisgalli, Chief Executive Officer of Manhattan Associates, Inc. (the "registrant"), certify that:

1. I have reviewed this quarterly report on Form 10-Q of the registrant;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated this 10th day of May, 2005.

/s/ Peter F. Sinisgalli

Peter F. Sinisgalli, Chief Executive Officer

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO RULE 13a-14(a)/15d-14(d), AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Steven R. Norton, Chief Financial Officer of Manhattan Associates, Inc. (the "registrant"), certify that:

1. I have reviewed this quarterly report on Form 10-Q of the registrant;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated this 10th day of May, 2005.

/s/ Steven R. Norton

Steven R. Norton, Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

This Certificate is being delivered pursuant to the requirements of Section 1350 of Chapter 63 (Mail Fraud) of Title 18 (Crimes and Criminal Procedures) of the United States Code and shall not be relied on by any person for any other purpose.

The undersigned, who are the Chief Executive Officer and Chief Financial Officer, respectively, of Manhattan Associates, Inc. (the "Company"), hereby each certify that, to the undersigned's knowledge:

The Quarterly Report on Form 10-Q of the Company for the quarterly period ended March 31, 2005 (the "Report"), which accompanies this Certification, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and all information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated this 10th day of May, 2005.

/s/ Peter F. Sinisgalli

Peter F. Sinisgalli, Chief Executive Officer

/s/ Steven R. Norton

Steven R. Norton, Chief Financial Officer