

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 September 30, 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

58-2373424

(State or Other Jurisdiction of Incorporation or Organization)

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

2300 Windy Ridge Parkway, Suite 700
Atlanta, Georgia

30339

(Address of Principal Executive Offices)

(Zip Code)

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

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

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

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

The number of shares of the Registrant's class of capital stock outstanding as of November 7, 2005, the latest practicable date, is as follows: 27,680,175 shares of common stock, \$0.01 par value per share.

MANHATTAN ASSOCIATES, INC.
FORM 10-Q
Quarter Ended September 30, 2005

TABLE OF CONTENTS

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements.

	Page
Condensed Consolidated Balance Sheets as of December 31, 2004 and September 30, 2005 (unaudited)	3
Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2004 and 2005 (unaudited)	4
Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2004 and 2005 (unaudited)	5
Notes to Condensed Consolidated Financial Statements (unaudited)	6

<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.</u>	16
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk.</u>	32
<u>Item 4. Controls and Procedures.</u>	33
<u>PART II</u>	
<u>OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings.</u>	33
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.</u>	34
<u>Item 3. Defaults Upon Senior Securities.</u>	34
<u>Item 4. Submission of Matters to a Vote of Security Holders.</u>	34
<u>Item 5. Other Information.</u>	34
<u>Item 6. Exhibits.</u>	34
<u>Signatures.</u>	35
<u>EX-31.1 SECTION 302 CERTIFICATION OF THE CEO</u>	
<u>EX-31.2 SECTION 302 CERTIFICATION OF THE CFO</u>	
<u>EX-32 SECTION 906 CERTIFICATION OF THE CEO AND CFO</u>	

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, 2004</u>	<u>September 30, 2005</u> (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 37,429	\$ 23,190
Short-term investments	88,794	41,744
Accounts receivable, net of allowance for doubtful accounts of \$4,171 and \$4,716 at December 31, 2004 and September 30, 2005, respectively	45,996	54,336
Deferred income taxes	4,257	7,150
Prepaid expenses and other current assets	7,087	13,412
Total current assets	<u>183,563</u>	<u>139,832</u>
Property and equipment, net	13,598	15,271
Long-term investments	46,433	40,965
Acquisition-related intangible assets, net	8,320	20,713
Goodwill, net	32,469	69,491
Deferred income taxes	3,583	148
Other assets	2,535	2,551
Total assets	<u>\$ 290,501</u>	<u>\$ 288,971</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 6,800	\$ 8,198
Accrued liabilities	6,079	12,662
Accrued compensation and benefits	6,639	10,294
Deferred revenue	22,710	29,063
Income taxes payable	2,233	6,381
Deferred rent	203	506
Current portion of capital lease obligations	139	145
Total current liabilities	<u>44,803</u>	<u>67,249</u>
Deferred income taxes	466	3,417
Deferred rent, less current portion	457	777
Long-term portion of capital lease obligations	148	38
Shareholders' equity:		
Preferred stock, no par value; 20,000,000 shares authorized, no shares issued or outstanding at December 31, 2004 and September 30, 2005	—	—
Common stock, \$.01 par value; 100,000,000 shares authorized, 29,580,724 and 27,800,672 shares issued and outstanding at December 31, 2004 and September 30, 2005, respectively	296	278
Additional paid-in capital	138,074	98,754
Retained earnings	105,762	118,136
Accumulated other comprehensive income	882	556
Deferred compensation	(387)	(234)
Total shareholders' equity	<u>244,627</u>	<u>217,490</u>
Total liabilities and shareholders' equity	<u>\$ 290,501</u>	<u>\$ 288,971</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 September 30,		Nine Months Ended September 30,	
	2004	2005	2004	2005
Revenue:				
Software and hosting fees	\$ 10,257	\$ 12,531	\$ 36,347	\$ 40,978
Services	36,759	43,621	106,693	122,324
Hardware and other	4,853	6,155	16,092	16,681
Total revenue	<u>51,869</u>	<u>62,307</u>	<u>159,132</u>	<u>179,983</u>
Costs and Expenses:				
Cost of software and hosting fees	977	1,022	2,650	3,582
Amortization of acquired developed technology	521	731	1,532	1,844
Cost of services	17,009	19,952	48,628	55,905
Cost of hardware and other	4,211	5,078	13,860	14,180
Research and development	7,090	9,037	21,571	24,584
Sales and marketing	8,062	9,649	24,924	29,844
General and administrative	6,833	8,317	19,966	22,747
Amortization of acquisition-related intangibles	373	430	1,123	1,448
Severance, acquisition and accounts receivable charges	—	1,081	—	5,481
Total costs and expenses	<u>45,076</u>	<u>55,297</u>	<u>134,254</u>	<u>159,615</u>
Operating income	6,793	7,010	24,878	20,368
Other income, net	540	877	1,233	1,971
Income before income taxes	7,333	7,887	26,111	22,339
Income tax provision	2,683	3,068	9,164	9,965
Net income	<u>\$ 4,650</u>	<u>\$ 4,819</u>	<u>\$ 16,947</u>	<u>\$ 12,374</u>
Basic net income per share	<u>\$ 0.16</u>	<u>\$ 0.17</u>	<u>\$ 0.56</u>	<u>\$ 0.43</u>
Diluted net income per share	<u>\$ 0.15</u>	<u>\$ 0.17</u>	<u>\$ 0.54</u>	<u>\$ 0.42</u>
Weighted average number of shares and equivalent shares:				
Basic	<u>29,891</u>	<u>28,392</u>	<u>30,110</u>	<u>29,060</u>
Diluted	<u>30,787</u>	<u>29,055</u>	<u>31,214</u>	<u>29,686</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)

	Nine Months Ended September 30,	
	2004	2005
Operating activities:		
Net income	\$ 16,947	\$ 12,374
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,204	5,637
Amortization of acquisition-related intangibles and developed technology	2,655	3,292
Stock compensation	869	153
Accounts receivable charge	—	2,815
Tax benefit of options exercised	8,795	(47)
Deferred income taxes	(1,194)	40
Unrealized foreign currency loss	284	768
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	(3,443)	(7,522)
Other assets	(2,062)	(4,072)
Prepaid retention bonus	—	(2,303)
Accounts payable and accrued liabilities	48	7,118
Income taxes payable	(1,378)	4,108
Deferred rent	—	(165)
Deferred revenue	4,278	6,712
Net cash provided by operating activities	<u>31,003</u>	<u>28,908</u>
Investing activities:		
Purchase of property and equipment	(5,426)	(7,346)
Purchases of investments	(894,772)	(882,250)
Maturities and sales of investments	871,059	934,745
Payments in connection with various acquisitions	(1,491)	(48,743)
Net cash used in investing activities	<u>(30,630)</u>	<u>(3,594)</u>
Financing activities:		
Payment of capital lease obligations	(87)	(104)
Purchase of Manhattan Associates, Inc. common stock	(9,681)	(41,279)
Proceeds from issuance of common stock from options exercised	3,521	2,091
Net cash used in financing activities	<u>(6,247)</u>	<u>(39,292)</u>
Foreign currency impact on cash	(190)	(261)
Net change in cash and cash equivalents	(6,064)	(14,239)
Cash and cash equivalents at beginning of period	31,407	37,429
Cash and cash equivalents at end of period	<u>\$ 25,343</u>	<u>\$ 23,190</u>
Supplemental cash flow disclosures:		
Cash paid for income taxes	<u>\$ 1,911</u>	<u>\$ 5,254</u>
Cash paid for interest	<u>\$ 14</u>	<u>\$ 11</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
September 30, 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 normal recurring adjustments considered necessary for a fair presentation of the financial position at September 30, 2005, the results of operations for the three and nine-month periods ended September 30, 2004 and 2005 and cash flows for the nine-month periods ended September 30, 2004 and 2005. The results for the three-month and nine-month periods ended September 30, 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 periodically 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 \$5.5 million and \$5.8 million for the nine months ended September 30, 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 maturities of 90 days or less from the date of purchase are classified as cash equivalents; investments with maturities of greater than 90 days from the date of purchase but less than one year are generally classified as short-term investments; and investments with maturities of greater than one year from the date of purchase are generally classified as long-term investments. The long-term investments consist of 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, as they are available to support current operations and are highly liquid. Unrealized holding gains and losses are reflected as a net amount in a separate component of shareholders' equity until realized. For the purposes of computing realized gains and losses, cost is determined on a specific identification basis.

5. 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").

[Table of Contents](#)

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 September 30,		Nine Months Ended September 30,	
	2004	2005	2004	2005
	(in thousands)		(in thousands)	
Net income (loss):				
As reported	\$ 4,650	\$ 4,819	\$ 16,947	\$ 12,374
Add: Stock-based employee compensation expense included in reported net income, net of taxes	\$ 256	\$ 19	\$ 564	\$ 129
Deduct: Stock-based employee compensation expense determined under the fair-value method for all awards, net of taxes	\$ (8,759)	\$ (4,164)	\$ (24,810)	\$ (13,863)
Pro forma in accordance with SFAS No. 123	\$ (3,853)	\$ 674	\$ (7,299)	\$ (1,360)
Basic net income (loss) per share:				
As reported	\$ 0.16	\$ 0.17	\$ 0.56	\$ 0.43
Pro forma in accordance with SFAS No. 123	\$ (0.13)	\$ 0.02	\$ (0.24)	\$ (0.05)
Diluted net income (loss) per share:				
As reported	\$ 0.15	\$ 0.17	\$ 0.54	\$ 0.42
Pro forma in accordance with SFAS No. 123	\$ (0.13)	\$ 0.02	\$ (0.24)	\$ (0.05)

Our estimated forfeiture rate of unvested stock options used in each of the first three 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 September 30, 2004		Nine Months Ended September 30, 2004	
	As previously reported	As restated	As previously reported	As restated
	(in thousands)		(in thousands)	
Pro forma net income (loss)	\$ (6,370)	\$ (3,853)	\$ (6,819)	\$ (7,299)
Pro forma net income (loss) per share:				
Basic	\$ (0.21)	\$ (0.13)	\$ (0.23)	\$ (0.24)
Diluted	\$ (0.21)	\$ (0.13)	\$ (0.23)	\$ (0.24)

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 September 30,		Nine Months Ended September 30,	
	2004	2005	2004	2005
	(in thousands)		(in thousands)	
Net income	\$ 4,650	\$ 4,819	\$ 16,947	\$ 12,374
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on investments, net of taxes	4	3	(30)	(2)
Foreign currency translation adjustment, net of taxes	43	(120)	33	(324)
Total other comprehensive income (loss), net of taxes	47	(117)	3	(326)
Comprehensive income	\$ 4,697	\$ 4,702	\$ 16,950	\$ 12,048

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 September 30, 2004		Three Months Ended September 30, 2005	
	Basic	Diluted	Basic	Diluted
	(in thousands)		(in thousands)	
Weighted Shares	29,891	29,891	28,392	28,392
Effect of CESs	—	896	—	663
	29,891	30,787	28,392	29,055

	Nine Months Ended September 30, 2004		Nine Months Ended September 30, 2005	
	Basic	Diluted	Basic	Diluted
	(in thousands)		(in thousands)	
Weighted Shares	30,110	30,110	29,060	29,060
Effect of CESs	—	1,104	—	626
	30,110	31,214	29,060	29,686

Weighted average shares issuable upon the exercise of stock options that were not included in the calculation of diluted earnings per share were 4,051,544 shares and 4,998,858 shares for the three months ended September 30, 2004 and 2005, respectively, and 2,819,893 shares and 5,189,958 shares for the nine months ended September 30, 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 and the amortization of acquired developed technology.

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 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.

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

	For the three months ended September 30, 2005			
	<u>Americas</u>	<u>EMEA</u>	<u>Asia/Pacific</u>	<u>Total</u>
Revenue:				
Software and hosting fees	\$ 9,583	\$ 2,042	\$ 906	\$ 12,531
Services	34,208	5,806	3,607	43,621
Hardware and other	5,384	642	129	6,155
Total revenue	<u>49,175</u>	<u>8,490</u>	<u>4,642</u>	<u>62,307</u>
Costs and Expenses:				
Cost of revenue	18,374	4,972	2,705	26,051
Operating expenses	<u>24,957 (1)</u>	<u>2,828</u>	<u>1,461</u>	<u>29,246</u>
Total costs and expenses	<u>43,331</u>	<u>7,800</u>	<u>4,166</u>	<u>55,297</u>
Operating income	<u>\$ 5,844</u>	<u>\$ 690</u>	<u>\$ 476</u>	<u>\$ 7,010</u>
	For the three months ended September 30, 2004			
	<u>Americas</u>	<u>EMEA</u>	<u>Asia/Pacific</u>	<u>Total</u>
Revenue:				
Software and hosting fees	\$ 9,843	\$ 237	\$ 177	\$ 10,257
Services	27,568	7,981	1,210	36,759
Hardware and other	4,277	576	—	4,853
Total revenue	<u>41,688</u>	<u>8,794</u>	<u>1,387</u>	<u>51,869</u>
Costs and Expenses:				
Cost of revenue	14,838	6,593	766	22,197
Operating expenses	<u>19,471</u>	<u>2,802</u>	<u>606</u>	<u>22,879</u>
Total costs and expenses	<u>34,309</u>	<u>9,395</u>	<u>1,372</u>	<u>45,076</u>
Operating income (loss)	<u>\$ 7,379</u>	<u>\$ (601)</u>	<u>\$ 15</u>	<u>\$ 6,793</u>

8. Geographic Information (continued)

	For the nine months ended September 30, 2005			
	Americas	EMEA	Asia/Pacific	Total
Revenue:				
Software and hosting fees	\$ 34,038	\$ 3,566	\$ 3,374	\$ 40,978
Services	96,859	17,770	7,695	122,324
Hardware and other	14,627	1,704	350	16,681
Total revenue	145,524	23,040	11,419	179,983
Costs and Expenses:				
Cost of revenue	51,901	15,144	6,621	73,666
Operating expenses	68,751 (2)	13,175 (2)	4,023	85,949
Total costs and expenses	120,652	28,319	10,644	159,615
Operating income (loss)	\$ 24,872	\$ (5,279)	\$ 775	\$ 20,368

	For the nine months ended September 30, 2004			
	Americas	EMEA	Asia/Pacific	Total
Revenue:				
Software and hosting fees	\$ 30,155	\$ 5,004	\$ 1,188	\$ 36,347
Services	83,727	20,652	2,314	106,693
Hardware and other	13,832	2,258	2	16,092
Total revenue	127,714	27,914	3,504	159,132
Costs and Expenses:				
Cost of revenue	44,661	19,262	1,710	65,633
Operating expenses	58,358	8,805	1,458	68,621
Total costs and expenses	103,019	28,067	3,168	134,254
Operating income (loss)	\$ 24,695	\$ (153)	\$ 336	\$ 24,878

- (1) Included in operating expenses in the Americas for the three month period ended September 30, 2005 are \$1.1 million of charges related to the acquisition of Evant, Inc. ("Evant") which occurred on August 31, 2005.
- (2) Included in operating expenses for the nine month period ended September 30, 2005 are \$3.5 million of other charges in EMEA and \$2.0 million of other charges in the Americas, as described in Note 11.

9. Acquisitions

On August 31, 2005, we acquired all of the issued and outstanding stock of Evant, Inc. (“Evant”), and Evant became a wholly-owned subsidiary of the Company. Evant is a provider of demand planning and forecasting and replenishment solutions to more than 60 customers in the retail, manufacturing and distribution industries. The acquisition further diversifies our product suite and expands our customer base. We paid an aggregate of \$47.2 million in cash, and incurred \$0.3 million in acquisition costs and \$0.8 million of severance to eliminate duplicative functions. The \$47.2 million includes \$2.3 million of bonuses paid to employees not retained by us pursuant to an employee bonus plan approved by Evant’s management (the “Evant Bonus Plan”). In addition to the \$47.2 million cash paid, we paid \$2.8 million into escrow at closing for employee retention purposes pursuant to the Evant Bonus Plan. These funds will be distributed to employees upon completion of up to 12 months of service with us. The \$2.8 million has been recorded as a prepaid asset and will be expensed over the required employee retention period. Of the cash paid, \$4.0 million is being held in escrow for 14 months to compensate us, subject to certain limitations, for potential losses resulting from, among other things, breaches of representations, warranties or covenants in the merger agreement and certain pending and potential claims and other matters specified in the merger agreement; \$0.4 million is being held in escrow for six months to satisfy a potential customer obligation; and \$4.3 million is being held in escrow for dissenting shareholders until certain shareholder issues are resolved. The acquisition of Evant was accounted for using the purchase method of accounting in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 141, “Business Combinations.” The operating results of Evant were included in our operations beginning September 1, 2005.

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed, based on management estimates and a third party appraisal, at the date of acquisition, August 31, 2005 (in thousands):

Current assets	\$	7,101
Property and equipment		247
Other assets		26
Intangible assets subject to amortization:		
Core product technology (5 year life)		3,992
Current product technology (2 year life)		339
Customer contracts (6 year life)		<u>10,790</u>
		15,121
Goodwill		<u>37,202</u>
Total assets acquired	\$	59,697
Deferred revenue		1,422
Other current liabilities		3,814
Non-current liabilities		<u>6,116</u>
Total liabilities assumed	\$	11,352
Net assets acquired	\$	<u>48,345</u>

The allocation of purchase price is based on preliminary estimates of the fair value and the estimated useful life of the acquired assets and is subject to revision based upon the finalization of management’s assessment of the fair value of the acquired net assets.

The Goodwill will not be amortized, but will be reviewed for impairment on an annual basis.

9. Acquisitions (continued)

Unaudited pro forma operating results for the three and nine months ended September 30, 2004 and 2005, assuming that the Evant acquisition had occurred at the beginning of each respective year, is as follows (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2005	2004	2005
Revenues	\$ 57,370	\$ 68,171	\$ 173,254	\$ 197,543
Pro forma net income	2,726	2,658	9,284	6,785
Pro forma diluted net income per share	\$ 0.09	\$ 0.09	\$ 0.30	\$ 0.23

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 \$110,000 recorded through September 30, 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 beginning January 24, 2004. The Company has not disclosed pro forma consolidating operating results related to the Avere acquisition as the Avere acquisition is considered immaterial in consolidation.

10. Reclassifications

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

11. Severance, acquisition and accounts receivable charges ("other charges")

During the three months ended September 30, 2005, we recorded \$1.1 million of severance and other acquisition-related costs associated with the acquisition of Evant as a separate line item in the condensed consolidated statements of income. These costs were not included in the purchase accounting for the acquisition as they do not qualify for accrual as part of the purchase consideration. As of September 30, 2005, \$0.7 million of the \$1.1 million of severance and other acquisition-related costs has been paid and the remaining \$0.4 million will be paid over the next 15 months.

11. Severance, acquisition and accounts receivable charges (“other charges”) (continued)

During the nine months ended September 30, 2005, we recorded \$5.5 million of other charges as a separate line item in the condensed consolidated statements of income. Included in the other charges were: (i) a \$2.8 million bad debt provision for the entire amount of the accounts receivable due from a large customer with which we have had a challenging relationship and for which we consider collection to be doubtful; (ii) approximately \$1.1 million in severance-related costs associated with the consolidation of our European operations into the Netherlands, United Kingdom and France; (iii) \$1.1 million of severance and other acquisition-related costs associated with the acquisition of Evant; and (iv) \$0.5 million in acquisition related costs associated with an attempted acquisition that did not close. The \$2.8 million bad debt provision is our best estimate of costs to be incurred from the challenging relationship. However, this amount may change if the issue results in litigation or if a settlement is reached that is not covered by our corporate insurance policies. It is not possible at this time to estimate the amount of any such potential costs. As part of the restructuring in Europe, we eliminated 17 sales and professional services positions throughout Europe. We anticipate that there will be no further costs relating to the European restructuring in future quarters. The severance-related costs associated with Evant consisted primarily of one-time payments to employees not retained due to duplicative functions. These costs were not included in the purchase accounting for the acquisition as they do not qualify for accrual as part of the purchase consideration. As of September 30, 2005, \$1.7 million of the \$2.2 million of severance and other acquisition-related costs recorded in the second and third quarters of 2005 has been paid and the remaining \$0.5 million will be paid over the next 15 months. The acquisition-related costs incurred associated with an attempted acquisition consisted of outside legal and accounting due diligence expenses.

12. Shareholders’ Equity

During the three months ended September 30, 2005, we purchased 976,800 shares of our common stock for approximately \$21.3 million through open market transactions as part of a publicly-announced buy-back program. In addition, we issued 117,699 shares of common stock resulting from the exercise of stock options during the nine months ended September 30, 2005.

During the nine months ended September 30, 2005, we purchased 1,950,900 shares of our common stock for approximately \$41.3 million through open market transactions as part of a publicly-announced buy-back program. In addition, we issued 170,848 shares of common stock resulting from the exercise of stock options during the nine months ended September 30, 2005.

13. New Accounting Pronouncements

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.

13. New Accounting Pronouncements (continued)

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. While the pro forma information under SFAS No. 123 indicates that expensing of stock options will have a material impact on our financial results, the specific impact is not known as we are currently evaluating transition methods permitted under Statement 123(R).

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

Manhattan Associates is a leading provider of supply chain solutions. Our planning and execution solutions manage the entire demand and supply chain and are broken into five key areas—Demand Intelligence, Advanced Planning, Supply Chain Planning, Supply Chain Execution and Business Process Platform. Each area is comprised of a variety of solutions that include software, services, and hardware.

Our Demand Intelligence Solutions, which include Demand Forecasting and Promotion Forecasting, create accurate forecasts based on past demand history and other factors such as season, location and product type helping to optimize inventory levels and decrease costs.

Our Advanced Planning solutions allow multi-channel businesses to create financial, product and promotion plans as a single, integrated company by providing visibility by channel and across channels. Financial Planning enables top-down planning focused on defining sales and inventory financial targets. With Item Planning, companies can create bottom-up plans that determine the items needed to reach the financial goals. Catalog Planning supports the unique requirements of direct marketers by providing catalog specific measures, hierarchies, attributes and processes. Promotion Planning allows companies to define and manage promotion events and offers while receiving a forecasted lift from Promotion Forecasting.

Our Supply Chain Planning solutions help determine optimal inventory levels by finding the right balance between achieving service level goals with the cost of carrying inventory. Replenishment optimizes deployment of inventory across the distribution network while providing additional functionality for slow mover management, capacity constrained ordering, push allocations, investment buying and advanced reporting. Vendor Managed Inventory is a continuous replenishment

[Table of Contents](#)

program that helps cut costs and keep inventory low by giving suppliers access to their partners inventory data automating the process.

Our Supply Chain Execution Solutions manage the flow of goods through the supply chain. Warehouse Management manages the processes that take place within the distribution center, from receipt of goods to fulfillment of orders, and includes solutions for optimizing labor and slotting. Transportation Management enables companies to optimally procure, plan and execute transportation services across transportation modes, such as air, rail, ocean and ground. Distributed Order Management solution allows companies to balance supply with demand and source goods to meet customer needs in a timely and cost effective manner. With Reverse Logistics Management companies can effectively manage the returns process and improve net asset recovery. Trading Partner Management solution provides Web-based synchronization between trading partners, improving communication and visibility across the entire supply chain. Our RFID provide an integration and reporting platform between RFID chip readers and supply chain and enterprise resource planning systems.

Our Business Process Platform manages the flow of data among all of Manhattan Associates' solutions. This advanced engine gathers and coordinates data and provides alerts to problems if inconsistencies occur. It is comprised of Performance Management, ERP Integration Adapters and Enterprise Data Management.

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

[Table of Contents](#)

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 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. During the second quarter of 2005, we recorded a \$2.8 million bad debt provision for the entire amount of the accounts receivable due from a large customer with which we have had a challenging relationship and for which we consider collection to be doubtful. The provision was included in severance, acquisition and accounts receivable charges line item in the Condensed Consolidated Statement of Income. Our top five customers in aggregate accounted for 14% and 13% of

[Table of Contents](#)

total revenue for the nine months ended September 30, 2004 and 2005, respectively. No single customer accounted for more than 10% of revenue in the first nine months 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 September 30, 2005, our goodwill balance was \$69.5 million and our intangible assets with definite lives balance was \$20.7 million, net of accumulated amortization.

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 the last three years, along with releases 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, could have a material adverse impact on our future operations.

In 2005, we have continued 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 September 30, 2004 Compared to Quarter Ended September 30, 2005

Revenue

	<u>Quarter Ended</u> <u>September 30, 2004</u>	<u>% Change</u> <u>2004 to 2005</u>	<u>Quarter Ended</u> <u>September 30, 2005</u>
		(unaudited and in thousands)	
Software and hosting fees	\$ 10,257	22%	\$ 12,531
Percentage of total revenue	20%		20%
Services	36,759	19%	43,621
Percentage of total revenue	71%		70%
Hardware and other	4,853	27%	6,155
Percentage of total revenue	<u>9%</u>		<u>10%</u>
Total revenue	\$ 51,869	20%	\$ 62,307

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 position as to the 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 September 30, 2004 to the quarter ended September 30, 2005 was due to increased sales of our WMS solution group, which increased by \$2.1 million, sales of approximately \$0.5 million of our new demand forecasting and replenishment solutions obtained as part of the Evant acquisition, which was closed in the third quarter of 2005. The increases were partially offset by a slight decrease of approximately \$0.3 million of our other solution groups. From quarter to quarter, we continue to see an increase in the

[Table of Contents](#)

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 September 30, 2004 to the quarter ended September 30, 2005 resulted from: (i) a 12% increase in services personnel to support new and existing engagements required to implement the increased amount of software sold and to upgrade existing customers to more current versions of our offerings; (ii) approximately \$1.2 million of services revenue resulting from the Evant acquisition; and (iii) renewals of customer support services and software enhancement subscription agreements on a growing installed base. Revenue from software enhancement subscription agreements increased by 18% in the third quarter of 2005. Over the past several years, 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 continues to grow.

Hardware and other. Sales of hardware increased by 32% to approximately \$4.0 million in the third quarter of 2005 from approximately \$3.1 million in the third quarter of 2004. Sales of hardware are non-strategic and 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 September 30, 2004 and 2005, reimbursements by customers for out-of-pocket expenses were approximately \$1.8 million and \$2.1 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 September 30,	
	2004	2005
Americas	80%	79%
EMEA	17%	14%
Asia/Pacific	3%	7%

Revenues in EMEA decreased both as a percentage of total revenue and in absolute dollars. Revenues in EMEA during the third quarter of 2005 continue to be negatively impacted by the delayed commitments for capital investments, lower German revenues resulting from the challenging relationship with a large customer and the overall weakness of the European economy. All of these factors led to the reorganization and consolidation of our EMEA operations during the second quarter of 2005. We have realized an increase in revenues in Asia/Pacific as a result of the additional investments made in Australia, China and Japan. Additional financial data for each geographic region can be found in Note 8 to the Condensed Consolidated Financial Statements.

Costs and Expenses

	<u>Quarter Ended</u> <u>September 30, 2004</u>	<u>% Change</u> <u>2004 to 2005</u>	<u>Quarter Ended</u> <u>September 30, 2005</u>
		(unaudited and in thousands)	
Cost of software and hosting fees	\$ 977	5%	\$ 1,022
Percentage of software and hosting fees	10%		8%
Amortization of acquired developed technology	521	40%	731
Percentage of software and hosting fees	5%		6%
Cost of services	17,009	17%	19,952
Percentage of services revenue	46%		46%
Cost of hardware and other	4,211	21%	5,078
Percentage of hardware and other revenue	87%		83%
Research and development	7,090	27%	9,037
Percentage of total revenue	14%		15%
Sales and marketing	8,062	20%	9,649
Percentage of total revenue	16%		15%
General and administrative	6,833	22%	8,317
Percentage of total revenue	13%		13%
Amortization of acquisition-related intangibles	373	15%	430
Percentage of total revenue	1%		1%
Severance, acquisition and accounts receivable charges	—	100%	1,081
Percentage of total revenue	—		2%

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; and royalties on third-party software sold with or as part of our products. The increase in cost of software fees in the third quarter of 2005 is principally attributable to an increase in costs of approximately \$90,000 relating to funded software development arrangements. The decrease in cost of software fees as a percentage of software and hosting fees in the third quarter of 2005 is principally attributable to a decrease of approximately \$500,000 in sales of our open systems products, which resulted in lower royalties paid to third parties during 2005.

Amortization of Acquired Developed Technology. Amortization of acquired developed technology increased from \$521,000 in the third quarter of 2004 to \$731,000 in the third quarter of 2005. The increase was the result of capitalizing approximately \$15 million in definite-lived intangible assets in connection with the August 31, 2005 acquisition of Evant. The Evant purchase price allocation is preliminary as of September 30, 2005; therefore, the amount of assets being amortized in future periods may change once the allocation is finalized.

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 September 30, 2005 was principally due to increases in salary-related costs resulting from: (i) a 12% increase in the average number of personnel dedicated to the delivery of professional services; (ii) approximately \$0.6 million of personnel costs resulting from the Evant acquisition and its professional services personnel; (iii) approximately \$0.4 million of additional third party contractor expense in 2005 to help meet short-term customer needs; and (iv) annual compensation increases.

[Table of Contents](#)

Cost of Hardware and other. Cost of hardware increased to approximately \$3.0 million in the third quarter of 2005 from approximately \$2.4 million in the third quarter of 2004 as a direct result of higher sales of hardware. The decrease 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 higher gross margins during the quarter ended September 30, 2005, as compared to the quarter ended September 30, 2004. In addition, approximately \$0.2 million of incentives received from rebate programs were recorded during the third quarter of 2005. Cost of hardware and other includes out-of-pocket expenses to be reimbursed by customers of approximately \$1.8 million and \$2.1 million for the quarters ended September 30, 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 September 30, 2005 was attributable to: (i) an increase in personnel dedicated to ongoing research and development activities at our offshore development center in India; and (ii) the addition of approximately \$0.7 million in expenses during the third quarter of 2005 from personnel additions as a result of the Evant acquisition. The number of research and development personnel related to our offshore development center increased from 303 at September 30, 2004 to 452 at September 30, 2005. Our principal research and development activities during 2004 and 2005 focused on the expansion and integration of new products acquired and new product releases and expanding the product footprint of our comprehensive Integrated Logistics Solutions. In addition, during 2005, we have invested in our Logistics Event Management Architecture (“LEMA”) platform, which is designed to provide our customers with a comprehensive, services-oriented supply chain platform. LEMA delivers database independence, a common data model, single sign-on functionality and an event-driven, long-running transaction processing environment.

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 September 30, 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 third quarter of 2004 to the third quarter of 2005 was attributable to: (i) an increase in salary-related costs resulting from a 23% increase in the average number of international and domestic sales and marketing personnel in the third quarter of 2005 compared to the third quarter of 2004; (ii) greater incentive compensation paid on 22% higher license and hosting fees in the third quarter of 2005; and (iii) approximately \$0.2 million in personnel costs from personnel additions as a result of the Evant acquisition. These increases were partially offset by a decrease in the average cost per global sales and marketing employee resulting from additional international headcount in lower-cost markets and an increase in the number of non-direct sales roles to support the growing revenue and pipeline.

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 September 30, 2005 was attributable to: (i) an increase in salary-related costs resulting from an increase of approximately 12% in the number of general and administrative personnel, primarily from our international expansion; (ii) an increase of approximately \$0.25 million in fees relating to the audit of our financial statements and internal controls compliance; (iii) approximately \$0.2 million of additional

[Table of Contents](#)

expense to provide for sales tax audit exposure; and (iv) approximately \$0.3 million in additional expenses as a result of the Evant acquisition. These increases were partially offset by lower legal fees of approximately \$0.2 million. Depreciation expense is included in general and administrative expenses and amounted to \$2.0 million and \$1.9 million during the quarters ended September 30, 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, Inc. in January 2004, eebiznet in July 2004, and Evant in August 2005. The increase from the third quarter of 2004 to the third quarter of 2005 was attributable to the intangible asset amortization expense from the Evant acquisition. The Evant purchase price allocation is preliminary as of September 30, 2005; therefore, the amount of assets being amortized in future periods may change once the allocation is finalized.

Severance, Acquisition and Accounts Receivable Charges. During the third quarter of 2005, we recorded \$1.1 million of severance-related costs associated with the acquisition of Evant. These costs were primarily one-time payments to employees not retained due to duplicative functions. Approximately \$0.7 million has been paid as of September 30, 2005, with the remaining amount to be paid out over the next 15 months.

Income from Operations, Other Income and Taxes

	<u>Quarter Ended</u> <u>September 30, 2004</u>	<u>% Change</u> <u>2004 to 2005</u>	<u>Quarter Ended</u> <u>September 30, 2005</u>
		(unaudited and in thousands)	
Income from operations	\$ 6,793	3%	\$ 7,010
Percentage of total revenue	13%		11%
Other income, net	540	62%	877
Percentage of total revenue	1%		1%
Income tax provision	2,683	14%	3,068
Percentage of income before income taxes	37%		39%

Income from Operations. The increase in operating income from the quarter ended September 30, 2004 to the quarter ended September 30, 2005 was the result of the \$10.4 million increase in total revenue, partially off set by the increase in expenses from the Evant acquisition and our continued global expansion.

Other Income, Net. Other income, net includes interest income and interest expense and foreign currency gains and losses. Interest income increased from approximately \$0.6 million in the third quarter of 2004 to approximately \$1.0 million in the third 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 earned on investment securities during the three month periods ended September 30, 2004 and September 30, 2005 was approximately 1.4% and 3.1%, respectively. We recorded approximately \$0.25 million of interest expense in the third quarter of 2005 relating to interest resulting from state sales tax audits. We recorded a net foreign currency loss of \$40,000 during the three months ended September 30, 2004 and a net foreign currency gain of \$120,000 during the three months ended September 30, 2005. The foreign currency gains and losses resulted from gains or losses on intercompany balances with subsidiaries due to

[Table of Contents](#)

the fluctuation of the U.S. dollar relative to other foreign currencies, primarily the British Pound and the Euro.

Income Tax Provision. Our effective income tax rates were 36.6% and 38.9% in the quarters ended September 30, 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 the inability to recognize significant tax benefit from operating losses in certain foreign locations, including Germany, the Netherlands, Japan and China, where the expectation of realizing the tax benefit of those losses is not yet probable. The effective tax rate anticipated for the balance of 2005 is 38.9%. The provisions for income taxes for the quarters ended September 30, 2004 and 2005 do not include the \$2.5 million and \$0.3 million of tax benefits realized from stock options exercised during the respective quarters. The tax benefits reduce our income tax liability and are included in additional paid-in capital.

Nine Months Ended September 30, 2004 Compared to Nine Months Ended September 30, 2005

Revenue

	<u>Nine Months Ended September 30, 2004</u>	<u>% Change 2004 to 2005</u> (unaudited and in thousands)	<u>Nine Months Ended September 30, 2005</u>
Software and hosting fees	\$ 36,347	13%	\$ 40,978
Percentage of total revenue	23%		23%
Services	106,693	15%	122,324
Percentage of total revenue	67%		68%
Hardware and other	16,092	4%	16,681
Percentage of total revenue	<u>10%</u>		<u>9%</u>
Total revenue	\$ 159,132	13%	\$ 179,983

Software and hosting fees. The increase in software and hosting fees from the nine months ended September 30, 2004 to the nine months ended September 30, 2005 was due to: (i) an increase in sales of approximately \$2.0 million, or 13%, of our solution groups other than our WMS solution group; (ii) an increase of \$2.2 million, or 10%, in sales of our WMS solution group; and (iii) sales of approximately \$0.5 million of our new demand forecasting and replenishment solutions obtained as part of the Evant acquisition, which was closed in the third quarter of 2005. From period to period, 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 nine months ended September 30, 2004 to the nine months ended September 30, 2005 resulted from: (i) the 11% increase in services personnel to support the 9% increase 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; (ii) approximately \$1.2 million of services revenue resulting from the Evant acquisition; and (iii) renewals of customer support services and software enhancement subscription agreements on a growing installed base. Revenue from software enhancement subscription agreements increased by 20% in the first nine months of 2005.

[Table of Contents](#)

Hardware and other. Sales of hardware increased by 3% to approximately \$10.9 million in the first nine months of 2005 from approximately \$10.6 million in the first nine months of 2004. Sales of hardware are non-strategic and 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 nine months ended September 30, 2004 and 2005, reimbursements by customers for out-of-pocket expenses were approximately \$5.5 million and \$5.8 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:

	Nine Months Ended September 30,	
	2004	2005
Americas	80%	81%
EMEA	18%	13%
Asia/Pacific	2%	6%

Revenues in EMEA for the nine months ended September 30, 2005 decreased both as a percentage of total revenue and in absolute dollars. Revenues in EMEA were negatively impacted during 2005 by delayed commitments for capital investments in supply chain solutions, lower German revenues resulting from the challenging relationship with a large customer, and the overall weakness of the European economy. We have realized an increase in revenues in Asia/Pacific as a result of the additional investments made in Australia, China and Japan. Additional financial data for each geographical region can be found in Note 8 to the Condensed Consolidated Financial Statements.

[Table of Contents](#)**Costs and Expenses**

	<u>Nine Months Ended</u> <u>September 30, 2004</u>	<u>% Change</u> <u>2004 to 2005</u> (unaudited and in thousands)	<u>Nine Months Ended</u> <u>September 30, 2005</u>
Cost of software and hosting fees	\$ 2,650	35%	3,582
Percentage of software and hosting fees	7%		9%
Amortization of acquired developed technology	1,532	20%	1,844
Percentage of software and hosting fees	4%		5%
Cost of services	48,628	15%	55,905
Percentage of services revenue	46%		46%
Cost of hardware and other	13,860	2%	14,180
Percentage of hardware and other revenue	86%		85%
Research and development	21,571	14%	24,584
Percentage of total revenue	14%		14%
Sales and marketing	24,924	20%	29,844
Percentage of total revenue	16%		17%
General and administrative	19,966	14%	22,747
Percentage of total revenue	13%		13%
Amortization of acquisition-related intangibles	1,123	29%	1,448
Percentage of total revenue	1%		1%
Severance, acquisition and accounts receivable charges	—	100%	5,481
Percentage of total revenue	—		3%

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; and royalties on third-party software sold with or as part of our products. The increase in cost of software fees, as a percentage of software and hosting fees and in absolute dollars, in the first nine months of 2005 is principally attributable to an increase in costs of approximately \$640,000 relating to funded software development arrangements. In addition, sales of our open systems products increased by \$3.1 million from the first nine months of 2004 to the first nine months of 2005, which resulted in an approximately \$110,000 increase in royalties paid to third parties during 2005.

Amortization of Acquired Developed Technology. Amortization of acquired developed technology increased from \$1.5 million in the first nine months of 2004 to \$1.8 million in the first nine months of 2005. The increase was the result of capitalizing approximately \$15 million in definite-lived intangible assets in connection with the August 31, 2005 acquisition of Evant. The Evant purchase price allocation is preliminary as of September 30, 2005; therefore, the amount of assets being amortized in future periods may change once the allocation is finalized.

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 nine months ended September 30, 2005 was due to increases in salary-related costs resulting from: (i) an 11% increase in the average number of personnel dedicated to the delivery of professional services to support the 9% increase in the number of active engagements; (ii) approximately \$0.6 million of personnel costs resulting from the Evant acquisition and its professional services personnel; (iii) approximately \$0.4 million of additional third party contractor expense in 2005 to help meet short-term customer needs; and (iv) annual compensation increases. The services gross

[Table of Contents](#)

margin in the first nine months of 2004 was consistent with the services gross margin during the first nine months of 2005.

Cost of Hardware and other. Cost of hardware was consistent at \$8.4 million in the first nine months of 2004 and 2005. The slight decrease 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 higher gross margins during the nine months ended September 30, 2005, as compared to the nine months ended September 30, 2004. Cost of hardware and other includes out-of-pocket expenses to be reimbursed by customers of approximately \$5.5 million and \$5.8 million for the nine months ended September 30, 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 nine months ended September 30, 2005 was attributable to: (i) an increase in personnel dedicated to ongoing research and development activities at our offshore development center in India; (ii) the addition of approximately \$0.7 million in expenses during the third quarter of 2005 from personnel additions as a result of the Evant acquisition; and (iii) annual compensation increases. The number of research and development personnel related to our offshore development center increased from 303 at September 30, 2004 to 452 at September 30, 2005. Our principal research and development activities during 2004 and 2005 focused on the expansion and integration of new products acquired and new product releases and expanding the product footprint of our comprehensive Integrated Logistics Solutions. In addition, during 2005, we invested in our LEMA platform, which is designed to provide our customers with a comprehensive, services-oriented supply chain platform. LEMA delivers database independence, a common data model, single sign-on functionality and an event-driven, long-running transaction processing environment.

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 nine months ended September 30, 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 nine months of 2004 to the first nine months of 2005 was attributable to: (i) an increase in salary-related costs resulting from a 28% increase in the average number of sales and marketing personnel in the first nine months of 2005 compared to the first nine months of 2004; (ii) greater incentive compensation paid on 13% higher license and hosting fees in the first nine months of 2005; and (iii) approximately \$0.2 million in personnel costs from personnel additions as a result of the Evant acquisition. These increases were partially offset by a decrease in the average cost per global sales and marketing employee resulting from additional international headcount in lower-cost markets and an increase in the number of non-direct sales roles to support the growing revenue and pipeline.

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 nine months ended September 30, 2005 was principally attributable to: (i) an increase in salary-related costs resulting from an increase of approximately 17% in the number of general and administrative personnel, primarily

[Table of Contents](#)

from our international expansion; (ii) an increase of approximately \$0.65 million in fees relating to the audit of our financial statements and internal controls compliance; (iii) approximately \$0.2 million of additional expense to provide for sales tax audit exposure; and (iv) approximately \$0.3 million in additional expenses as a result of the Evant acquisition. These increases were partially offset by lower legal fees of approximately \$0.5 million. The percentage increase in costs was less than the percentage increase in headcount, as approximately half the headcount increase was in international markets where the salaries are lower. Depreciation expense is included in general and administrative expenses and amounted to \$5.9 million and \$5.6 million during the nine months ended September 30, 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, Inc. in January 2004, eebiznet in July 2004, and Evant in August 2005. The increase during the first nine months of 2005 was attributable to the intangible asset amortization expense from the Evant acquisition. The Evant purchase price allocation is preliminary as of September 30, 2005; therefore, the amount of assets being amortized in future periods may change once the allocation is finalized.

Severance, Acquisition and Accounts Receivable Charge. During the nine months ended September 30, 2005, we recorded \$5.5 million of other charges. Included in the other charges were: (i) a \$2.8 million bad debt provision for the entire amount of the accounts receivable due from a large customer with which we have had a challenging relationship and for which we consider collection to be doubtful; (ii) approximately \$1.1 million in severance-related costs associated with the consolidation of our European operations into the Netherlands, United Kingdom and France; (iii) \$1.1 million of severance-related costs associated with the acquisition of Evant; and (iv) \$0.5 million in acquisition-related costs associated with an attempted acquisition that did not close. The \$2.8 million bad debt provision is our best estimate of costs to be incurred from the challenging relationship. However, this amount may change if the issue results in litigation or if a settlement is reached that is not covered by our corporate insurance policies. It is not possible at this time to estimate the amount of any such potential costs. As part of the restructuring in Europe, we eliminated 17 sales and professional services positions throughout Europe. We anticipate that there will be no further costs relating to the restructuring in future quarters. The severance-related costs associated with Evant consisted primarily of one-time payments to employees not retained due to duplicative functions. The acquisition-related costs incurred consisted of outside legal and accounting due diligence expenses.

Income from Operations, Other Income and Taxes

	<u>Nine Months Ended</u> <u>September 30, 2004</u>	<u>% Change</u> <u>2004 to 2005</u>	<u>Nine Months Ended</u> <u>September 30, 2005</u>
		(unaudited and in thousands)	
Income from operations	\$ 24,878	(18%)	\$ 20,368
Percentage of total revenue	16%		11%
Other income, net	1,233	60%	1,971
Percentage of total revenue	1%		1%
Income tax provision	9,164	9%	9,965
Percentage of income before income taxes	35%		45%

Income from Operations. The decrease in operating income from the nine months ended September 30, 2004 to the nine months ended September 30, 2005 was the result of the \$5.5 million of severance, acquisition and accounts receivable charges recorded during 2005, partially off-set by improved operating results in the Americas during 2005.

Other Income, Net. Other income, net includes interest income and interest expense and foreign currency gains and losses. Interest income increased from approximately \$1.5 million in the first nine months of 2004 to approximately \$3.0 million in the first nine months 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 earned on investment securities for the nine months ended September 30, 2004 and September 30, 2005 was approximately 1.2% and 2.8%, respectively. We recorded approximately \$0.25 million of interest expense in 2005 relating to interest resulting from state sales tax audits. We recorded net foreign currency losses of \$0.2 million and \$0.6 million during the nine months ended September 30, 2004 and 2005, respectively. The foreign currency losses resulted from losses on intercompany balances due to the strengthening of the U.S. dollar since the preceding year-end relative to other foreign currencies, primarily the British Pound and the Euro.

Income Tax Provision. Our effective income tax rates were 35.1% and 44.6% in the nine months ended September 30, 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 the inability to recognize significant tax benefit from the other charges due to the recent losses in the foreign locations where most of these charges occurred, in addition to operating losses in certain foreign locations, including Germany, the Netherlands, Japan and China, where the expectation of realizing the tax benefit of those losses is not yet probable. The effective tax rate anticipated for the balance of 2005 is 38.9%. The provisions for income taxes for the nine month periods ended September 30, 2004 and 2005 do not include the \$8.8 million and \$0.5 million of tax benefits realized from stock options exercised. The tax benefits reduce our income tax liability and are included in additional paid-in capital.

Liquidity and Capital Resources

We have funded our operations primarily through cash generated from operations. As of September 30, 2005, we had approximately \$105.9 million in cash, cash equivalents and investments, as compared to approximately \$172.7 million at December 31, 2004. The decrease is the result of approximately \$41.3 million cash paid for the repurchase of our common stock during 2005 and the approximately \$50 million cash payment to acquire Evant.

Our operating activities provided cash of approximately \$31.0 million for the nine months ended September 30, 2004 and \$28.9 million for the nine months ended September 30, 2005. Cash from operating activities for the nine months ended September 30, 2005 arose principally from operating income, an increase in the allowance for doubtful accounts, primarily resulting from the provision for the \$2.8 million German customer receivable and changes in operating assets and liabilities. Cash from operating activities for the nine months ended September 30, 2004 arose from operating income, income tax benefits arising from exercises of stock options by employees, and changes in operating assets and liabilities. Days sales outstanding decreased to 73 days at September 30, 2005 from 76 days at December 31, 2004, as a result of improved collections on international revenues and the write-off of the \$2.8 million accounts receivable, as discussed earlier.

Our investing activities used cash of approximately \$30.6 million for the nine months ended September 30, 2004 and used cash of approximately \$3.6 million for the nine months ended September 30, 2005. The use of cash for investing activities for the nine months ended September 30, 2005 was from the \$48.3 million paid to acquire Evant, the purchases of approximately \$7.3 million of capital equipment to support our business and infrastructure, partially off-set by net maturities of investments of approximately \$52.5 million. The use of cash for investing activities for the nine months ended September 30, 2004 was from the purchases of approximately \$5.4 million of capital equipment and the net purchases of investments of approximately \$23.7 million.

Our financing activities used cash of approximately \$6.2 million for the nine months ended September 30, 2004 and approximately \$39.3 million for the nine months ended September 30, 2005. The principal use of cash for financing activities for the nine months ended September 30, 2004 and September 30, 2005 was to purchase approximately \$9.7 million and \$41.3 million of our common stock during each period, respectively, partially off-set by the proceeds from the issuance of our common stock pursuant to the exercise of stock options.

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 February 2005, our Board of Directors authorized us to purchase up to \$20 million of our common stock, over a period ending no later than February 3, 2006. In July 2005, our Board of Directors authorized us to purchase an additional \$50 million of our common stock, over a period ending no later than July 21, 2006. We expect to fund purchases under the program through existing cash, cash equivalents and investments. As of September 30, 2005, we had \$28.7 million available to purchase our common stock of the aggregate \$70 million authorized by the board.

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 \$0.2 million and \$0.6 million during the nine months ended September 30, 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 September 30, 2005 relative to the U.S. dollar would result in approximately a \$1.1 million change in the reported foreign currency loss for the nine months ended September 30, 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 for the nine month periods ended September 30, 2004 and September 30, 2005 was approximately 1.2% and 2.8%, respectively. The fair value of cash equivalents and investments held at September 30, 2005 was approximately \$84.7 million. Based on the average investments outstanding during the quarter ended September 30, 2005, an increase or decrease of 25 basis points would result in an increase or decrease to interest income of approximately \$270,000 from the reported interest income for the nine months ended September 30, 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.

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. During the second quarter of 2005, we recorded a \$2.8 million bad debt provision for the entire amount of the accounts receivable due from the customer, as we considered collection to be doubtful. The \$2.8 million bad debt provision is our best estimate of costs to be incurred from the challenging relationship. However, this amount may change if the issue results in litigation or if a settlement is reached that is not covered by our corporate insurance policies. It is not possible at this time to estimate the amount of any such potential costs. While no assurance can be given regarding the outcome of the matter discussed, because of the nature 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.

[Table of Contents](#)

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. In July 2005, our Board of Directors authorized us to purchase an additional \$50 million of our common stock, over a period ending no later than July 21, 2006. A summary of purchases during the third quarter of 2005 is as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
July 1 – July 31, 2005	—	—	—	\$ 50,000,000
August 1 – August 31, 2005	605,300	21.42	605,300	41,666,338
September 1 – September 30, 2005	371,500	22.43	371,500	28,698,618
Total	976,800	\$ 21.81	976,800	\$ 28,698,618

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: November 9, 2005

/s/ Peter F. Sinisgalli

Peter F. Sinisgalli

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

Date: November 9, 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 principals;
 - (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 9th day of November, 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 9th day of November, 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 September 30, 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 9th day of November, 2005.

/s/ Peter F. Sinisgalli

Peter F. Sinisgalli, Chief Executive Officer

/s/ Steven R. Norton

Steven R. Norton, Chief Financial Officer