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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

# FORM 10-Q

[MARK ONE]
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2000

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<br>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 [X] No [ ]

The number of shares of the Issuer's class of capital stock outstanding as of November 10, 2000, the latest practicable date, is as follows: 26,101,045 shares of common stock, $0.01 par value per share.

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MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
FORM 10-Q
QUARTER ENDED SEPTEMBER 30, 2000

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PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

| | September 30, 2000 (UNAUDITED) | December 31, 1999 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 59,607 | $ 19,695 |
| Short-term investments | 16,503 | 20,220 |
| Accounts receivable, net of allowance for doubtful accounts of $5,287 and $5,473 at September 30, 2000 and December 31, 1999, respectively | 24,442 | 24,275 |
| Deferred income taxes | 2,915 | 2,695 |
| Prepaid expenses and other current assets | 1,321 | 1,492 |
| Total current assets | 104,788 | 68,377 |
| Property and equipment, net | 9,431 | 9,245 |
| Intangible and other assets, net | 2,668 | 3,301 |
| Total assets | $ 116,887 | $ 80,923 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 17,986 | $ 12,215 |
| Current portion of capital lease obligations | 153 | 163 |
| Deferred revenue | 14,189 | 9,051 |
| Total current liabilities | 32,328 | 21,429 |
| Long-term portion of capital lease obligations | 664 | 799 |
| Deferred income taxes | -- | 89 |
| Shareholders' equity: | | |
| Preferred stock, no par value; 20,000,000 shares authorized, no shares issued or outstanding at September 30, 2000 and December 31, 1999 | -- | -- |
| Common stock, $.01 par value; 100,000,000 shares authorized, 25,713,758 and 24,221,587 shares issued and outstanding at September 30, 2000 and December 31, 1999, respectively | 257 | 242 |
| Additional paid-in capital | 67,105 | 54,563 |
| Retained earnings | 16,882 | 4,157 |
| Accumulated other comprehensive loss | (131) | (51) |
| Deferred compensation | (218) | (305) |
| Total shareholders' equity | 83,895 | 58,606 |
| Total liabilities and shareholders' equity | $ 116,887 | $ 80,923 |

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, 2000 | Three Months Ended September 30, 1999 | Nine Months Ended September 30, 2000 | Nine Months Ended September 30, 1999 |
|---|---|---|---|---|
| Revenue: | | | | |
| Software fees | $ 6,529 | $ 2,753 | $ 17,251 | $ 10,285 |
| Services | 21,207 | 14,488 | 57,979 | 38,257 |
| Hardware | 5,968 | 2,814 | 21,445 | 9,502 |
| Total revenue | 33,704 | 20,055 | 96,675 | 58,044 |
| Cost of revenue: | | | | |
| Software fees | 192 | 599 | 1,008 | 1,175 |
| Services | 8,753 | 8,778 | 24,944 | 22,362 |
| Hardware | 4,759 | 2,174 | 17,448 | 7,218 |

| | | | | |
|---|---|---|---|---|
| Total cost of revenue | 13,704 | 11,551 | 43,400 | 30,755 |
| Gross margin | 20,000 | 8,504 | 53,275 | 27,289 |
| Operating expenses: | | | | |
| Research and development | 4,213 | 2,265 | 10,301 | 8,066 |
| Sales and marketing | 4,298 | 3,235 | 12,906 | 11,322 |
| General and administrative | 3,836 | 3,225 | 11,386 | 9,499 |
| Total operating expenses | 12,347 | 8,725 | 34,593 | 28,887 |
| Operating income (loss) | 7,653 | (221) | 18,682 | (1,598) |
| Other income, net | 851 | 323 | 1,841 | 856 |
| Income (loss) before income taxes | 8,504 | 102 | 20,523 | (742) |
| Income tax provision (benefit) | 3,231 | 41 | 7,798 | (283) |
| Net income (loss) | $ 5,273 | $ 61 | $ 12,725 | $ (459) |
| Basic net income (loss) per share | $ 0.21 | $ 0.00 | $ 0.51 | $ (0.02) |
| Diluted net income (loss) per share | $ 0.17 | $ 0.00 | $ 0.42 | $ (0.02) |
| Weighted average number of shares: | | | | |
| Basic | 25,408 | 24,112 | 24,818 | 24,042 |
| Diluted | 30,868 | 25,706 | 30,108 | 24,042 |

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, | |
|---|---|---|
| | 2000 | 1999 |
| OPERATING ACTIVITIES: | | |
| Net income (loss) | $ 12,725 | $ (459) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 4,012 | 3,529 |
| Stock compensation | 64 | 124 |
| Gain on sale of equipment | -- | (22) |
| Deferred income taxes | (461) | (759) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (527) | (2,967) |
| Other assets | 117 | 132 |
| Accounts payable and accrued liabilities | 7,964 | (884) |
| Income taxes payable | 2,491 | -- |
| Deferred revenue | 5,299 | 6,083 |
| Net cash provided by operating activities | 31,684 | 4,777 |
| INVESTING ACTIVITIES: | | |
| Purchase of property and equipment | (3,465) | (4,073) |
| Proceeds from the sale of equipment | -- | 22 |
| Capitalized software development costs | -- | (909) |
| Net sales (purchases) of short-term investments | 3,738 | (14,438) |
| Net cash provided by (used in) investing activities | 273 | (19,398) |

FINANCING ACTIVITIES:

| | | |
|---|---|---|
| Payment of capital lease obligations | (145) | (138) |
| Proceeds from issuance of common stock | 8,037 | 722 |
| Net cash provided by financing activities | 7,892 | 584 |
| Foreign currency impact on cash | 63 | 5 |
| Net increase (decrease) in cash and cash equivalents | 39,912 | (14,032) |
| Cash and cash equivalents at beginning of period | 19,695 | 27,751 |
| Cash and cash equivalents at end of period | $ 59,607 | $ 13,719 |
| SUPPLEMENTAL CASH FLOW DISCLOSURES: | | |
| Assets acquired under capital lease | $ -- | $ 151 |
| Cash paid for income taxes, net | $ 5,743 | $ 253 |

See accompanying Notes to Condensed Consolidated Financial Statements.





MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2000
(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 the Company's management, these condensed consolidated financial statements contain all adjustments considered necessary for a fair presentation of the financial position at September 30, 2000, the results of operations for the three and nine month periods ended September 30, 2000 and 1999 and changes in cash flows for the nine month periods ended September 30, 2000 and 1999. The results for the three month and nine month periods ended September 30, 2000 are not necessarily indicative of the results to be expected for the full year. These statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 1999.

2. PRINCIPLES OF CONSOLIDATION

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

3. REVENUE RECOGNITION

The Company's revenue consists of fees generated from the licensing of software; consulting, implementation and training services (collectively, "professional services"); customer support services and software enhancement subscriptions; and sales of complementary radio frequency and computer equipment.

The Company recognizes software fees in accordance with Statement of Position No. 97-2, "Software Revenue Recognition" ("SOP 97-2"), as amended by Statement of Position No. 98-9, "Software Revenue Recognition, With Respect to Certain Transactions" ("SOP 98-9"). Under SOP 97-2, the Company recognizes software fees when the following criteria are met: (1) a signed contract is obtained; (2) shipment of the product has occurred; (3) the license fee is fixed and determinable; (4) collectibility is probable; and (5) remaining obligations under the license agreement are insignificant. SOP 98-9 requires recognition of revenue using the "residual method" when (1) there is vendor-specific objective evidence of the fair values of all undelivered elements in a multiple-element arrangement that is not accounted for using long-term contract accounting; (2) vendor-specific objective evidence of fair value does not exist for one or more of the delivered elements in the arrangement; and (3) all revenue-recognition criteria in SOP 97-2 other than the requirement for vendor-specific objective evidence of the fair value of each delivered element of the arrangement are satisfied. SOP 98-9 was effective for transactions entered into after March 15, 1999, and the Company adopted the residual method for such arrangements at that time. For those contracts that contain significant future obligations, software fees are recognized under the percentage of completion method.

The Company's services revenue consists of fees generated from professional services, customer support services and software enhancement subscriptions related to the Company's software products. Fees related to professional services performed by the Company are generally billed on an hourly basis and revenue is recognized as the services are performed. Fees from customer support services and software enhancement subscriptions are generally paid in advance and recognized as revenue ratably over the term of the agreements, typically 12 months.





Hardware revenue is generated from the resale of a variety of hardware products, developed and manufactured by third parties, that are integrated with and complementary to the Company's warehouse management systems. These products include computer hardware, radio frequency terminal networks, bar code printers and scanners, and other peripherals. As part of a complete warehouse management system, the Company's customers frequently purchase hardware from the Company in conjunction with the licensing of software. Hardware revenue is recognized upon shipment by the vendor to the customer. The Company generally purchases hardware from its vendors only after receiving an order from a customer. As a result, the Company does not maintain significant amounts of hardware inventory.

4. COMPREHENSIVE INCOME

Comprehensive income includes foreign currency translation gains and losses and unrealized gains and losses on investments that have been previously excluded from net income and reflected in shareholders' equity.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| | (in thousands) | | (in thousands) | |
| Net income (loss) .................... | 5,273 | 61 | 12,725 | (459) |
| Unrealized gain on investments ....... | 9 | -- | 21 | -- |
| Foreign currency gain (loss) ......... | (45) | 86 | (101) | 37 |
| Total comprehensive income (loss) .... | 5,237 | 147 | 12,645 | (422) |

5. 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"). Diluted net income per share is computed using net income divided by

Weighted Shares plus common equivalent shares ("CESs") outstanding calculated 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, 2000 | | Three Months Ended September 30, 1999 | |
|---|---|---|---|---|
| | Basic | Diluted | Basic | Diluted |
| | (in thousands) | | (in thousands) | |
| Weighted Shares .... | 25,408 | 25,408 | 24,112 | 24,112 |
| Effect of CESs ..... | -- | 5,460 | -- | 1,594 |
| | 25,408 | 30,868 | 24,112 | 25,706 |

| | Nine Months Ended September 30, 2000 | | Nine Months Ended September 30, 1999 | |
|---|---|---|---|---|
| | Basic | Diluted | Basic | Diluted |
| | (in thousands) | | (in thousands) | |
| Weighted Shares .... | 24,818 | 24,818 | 24,042 | 24,042 |
| Effect of CESs ..... | -- | 5,290 | -- | -- |
| | 24,818 | 30,108 | 24,042 | 24,042 |





6. SUBSEQUENT EVENT

On October 24, 2000, the Company closed an Asset Purchase Agreement (the "Agreement") with Intrepa, L.L.C. ("Intrepa") to acquire substantially all of the assets of Intrepa for a purchase price of $30.0 million. The purchase price consists of a cash payment at closing of $13.0 million, the issuance in January 2001 of $10.0 million of the Company's $.01 par value per share common stock, and the issuance by the Company of a promissory note for $7.0 million payable by April 2003 (the "Note"). The purchase also includes the assumption of substantially all of the liabilities of Intrepa, including immediate payment by the Company of the remaining $2.0 million of principal and up to $15,000 interest on a promissory note previously issued by Intrepa. The Company paid the cash portion of the purchase price and the previously-issued promissory note, and anticipates paying off the Note, out of available cash and cash equivalents held by the Company.

Substantially all of the assets of Intrepa were acquired by the Company pursuant to the Agreement. These assets principally include Intrepa's intellectual property, including its Warehousing Management System and Transportation Management System; Intrepa's customer base, which consists of traditional manufacturing, retailing and distribution businesses in the publishing, consumer products, retail, automotive parts, food, beverage and healthcare industries; and the experience of both Intrepa and its key employees, who have entered into employment agreements with the Company.





ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

OVERVIEW

Manhattan is a leading provider of technology-based solutions to improve supply chain effectiveness and efficiencies. Our solutions enhance distribution efficiencies through the integration of supply chain constituents, including manufacturers, distributors, retailers, suppliers, transportation providers and end consumers. Our solutions are designed to optimize the receipt, storage, assembly and distribution of inventory and the management of equipment and personnel within a distribution center, and to enhance communications between the distribution center and its trading partners. Our solutions consist of software, including PkMS, a comprehensive and modular software system; services, including design, configuration, implementation, and training services, plus customer support and software upgrades; and hardware. We currently provide solutions to manufacturers, distributors, retailers and transportation providers primarily in the following markets: direct-to-consumer/e-commerce, retail, apparel/footwear, consumer products manufacturing, food/grocery and third party logistics.

Revenue

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

We recognize software fees in accordance with Statement of Position No. 97-2, "Software Revenue Recognition" ("SOP 97-2"), as amended by Statement of Position No. 98-9, "Software Revenue Recognition, With Respect to Certain Transactions" ("SOP 98-9"). Under SOP 97-2, we recognize software fees when the following criteria are met: (i) a signed contract is obtained; (ii) shipment of the product has occurred; (iii) the license fee is fixed and determinable; (iv) collectibility is probable; and (v) remaining obligations under the license agreement are insignificant. SOP 98-9 requires recognition of revenue using the "residual method" when (i) 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; (ii) vendor-specific objective evidence of fair value does not exist for one or more of the delivered elements in the arrangement; and (iii) all revenue-recognition criteria in SOP 97-2 other than the requirement for vendor-specific objective evidence of the fair value of each delivered element of the arrangement are satisfied. SOP 98-9 was effective for transactions entered into after March 15, 1999, and we adopted the residual method for such arrangements at that time. For those contracts that contain significant future obligations, software fees are 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 related to professional services performed by us are generally billed on an hourly basis and revenue is recognized as the services are performed. Fees related to customer support services and software enhancement subscriptions are generally paid in advance and recognized as revenue ratably over the term of the agreement, typically 12 months.

Hardware revenue is generated from the resale of a variety of hardware products, developed and manufactured by third parties, that are integrated with and complementary to our warehouse management systems. These products include computer hardware, radio frequency terminal networks, bar code printers and scanners, and other peripherals. We generally purchase hardware from our vendors only after receiving an order from a customer and revenue is recognized upon shipment by the vendor to the customer. The amount of hardware purchases by customers may vary significantly from period to period depending on the technological sophistication and purchasing power of the customers and the scope of the implementations. In addition, our gross margins on sales of hardware may vary depending upon the type of hardware sold.

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2000 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 1999

REVENUE

Our revenue consists of fees generated from the licensing of software; consulting, implementation and training services (collectively, "professional services"), customer support services and software enhancement subscriptions; and sales of complementary radio frequency and computer equipment. Total revenue increased 68% to $33.7 million for the quarter ended September 30, 2000 from $20.1 million for the quarter ended September 30, 1999.

Software Fees. Software fees increased to $6.5 million for the quarter ended September 30, 2000 from $2.8 million for the quarter ended September 30, 1999, an increase of $3.7 million or 137%. The increase in revenue from software fees is primarily due to an increase in the size of sales of user-based and site-specific licenses of PkMS and other complementary products. In recent quarters, we have experienced an increase in the average sales price and sale size principally due to increased product functionality and market acceptance of PkMS and our other complementary products.

Services. Services revenue increased to $21.2 million for the quarter ended September 30, 2000 from $14.5 million for the quarter ended September 30, 1999, an increase of $6.7 million or 46%. The increase in revenue from services is principally due to increases in the number and scope of PkMS implementations contracted for in the first nine months of 2000, many of which took place in the third quarter of 2000, the utilization of professional services personnel and renewals of customer support services and software enhancement subscription agreements on a growing installed base.

Hardware. Hardware revenue increased to $6.0 million for the quarter ended September 30, 2000 from $2.8 million for the quarter ended September 30, 1999, an increase of $3.2 million or 112%. Sales of hardware are largely dependent upon the number of PkMS licenses sold, the scope of such PkMS implementations and the technological sophistication and purchasing power of customers buying PkMS. The increase in the third quarter of fiscal year 2000 is attributable to PkMS implementations of larger scope, prompting customers seeking a unified solution to purchase hardware from Manhattan.

COST OF REVENUE

Cost of Software Fees. Cost of software fees consists of the costs associated with software reproduction and delivery; media, packaging, documentation and other related costs; and the amortization of purchased software and capitalized research and development costs. Cost of software fees decreased to $192,000 for the quarter ended September 30, 2000, or 3% of software fees, from

$599,000 for the quarter ended September 30, 1999, or 22% of software fees. The decrease in cost of software fees is principally due to the absence of $292,000 of purchased software and capitalized research and development costs relating to discontinued projects expensed during the three months ended September 30, 1999.

Cost of Services. Cost of services revenue consists primarily of salaries and other personnel-related expenses of employees dedicated to professional services and customer support services. Cost of services revenue was $8.8 million for the quarter ended September 30, 2000, or 41% of services revenue, and $8.8 million for the quarter ended September 30, 1999, or 61% of services revenue. The decrease in cost of services revenue as a percentage of services revenue is due to increased efficiencies in the delivery of professional services, principally an increase in the utilization of services personnel.

Cost of Hardware. Cost of hardware revenue increased to $4.8 million for the quarter ended September 30, 2000, or 80% of hardware revenue, from $2.2 million for the quarter ended September 30, 1999, or 77% of hardware revenue. The increase in the cost of hardware as a percentage of hardware revenue is principally due to an increase in the percentage of hardware products sold with relatively lower gross margins during the quarter ended September 30, 2000, as compared to hardware sales during the quarter ended September 30, 1999.

OPERATING EXPENSES

Research and Development. Research and development expenses principally consist of salaries and other personnel-related costs for personnel involved in our research and development activities. Our research and development expenses increased by 86% to $4.2 million for the quarter ended September 30, 2000, or 13% of total revenue, from $2.3 million for the quarter ended September 30, 1999, or 11% of total revenue. We capitalized no research and development costs in the quarter ended September 30, 2000. The increase in research and development expenses is principally attributable to additional personnel dedicated to i) the continued development and enhancement of PkMS, including the N-Tier version of PkMS; ii) the development of Infolink, our business community integration product; and iii) the development of Manager's Workbench, our warehouse business intelligence product.

Sales and Marketing. Sales and marketing expenses include salaries, commissions, travel and other personnel-related costs of sales and marketing personnel and the costs of our marketing programs and related activities. Sales and marketing expenses increased by 33% to $4.3 million for the quarter ended September 30, 2000, or 13% of total revenue, from $3.2 million for the quarter ended September 30, 1999, or 16% of total revenue. The increase in sales and marketing expenses is principally attributable to higher incentive compensation for sales and marketing personnel related to higher revenues, and to expanded marketing program activities for the quarter ended September 30, 2000.

General and Administrative. General and administrative expenses consist primarily of salaries and other personnel-related costs of executive, financial, human resources and administrative personnel, as well as depreciation and amortization, legal, insurance, accounting and other administrative expenses. General and administrative expenses increased by 19% to $3.8 million for the quarter ended September 30, 2000, or 11% of total revenue, from $3.2 million for the quarter ended September 30, 1999, or 16% of total revenue. The increase in general and administrative expenses is principally due to increases in depreciation and amortization expense, accounting and legal fees, executive bonuses, and other administrative expenses to support our business and improve our infrastructure. Depreciation and amortization expense included in general and administrative expenses was $1.1 million and $0.9 million for the quarters ended September 30, 2000 and 1999, respectively.

Operating Income. Operating income increased $7.9 million to $7.7 million for the quarter ended September 30, 2000, or 23% of total revenue, from an operating loss of $221,000 for the quarter ended September 30, 1999. The increase in operating income is primarily due to an increase in software fees and services, as described above, and, to a lesser extent, improved efficiencies in our business.

INCOME TAXES

The provision for income taxes was $3.2 million for the quarter ended September 30, 2000 compared to $41,000 for the quarter ended September 30, 1999. The increase of $3.2 million from the quarter ended September 30, 1999 is a direct result of the Company's increased income for the quarter ended September 30, 2000. For the quarter ended September 30, 2000, the Company's effective income tax rate was 38.0%. The quarterly income tax rate reflects our estimated annual effective income tax rate and considers estimated taxable income, effective state and international income tax rates and anticipated tax credits. The provision for income taxes does not include the tax benefit from options exercised, which reduces the Company's tax liability. For the quarter ended September 30, 2000, the tax benefit from options exercised was $2.6 million, which was included in additional paid-in capital.

NINE MONTHS ENDED SEPTEMBER 30, 2000 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 1999

REVENUE

Total revenue increased 67% to $96.7 million for the nine months ended September 30, 2000 from $58.0 million for the nine months ended September 30, 1999. The increase in total revenue is primarily attributable to an increase in the number and size of user-based and site-specific software licenses to new and existing customers leading to increased services and hardware revenue.

Software Fees. Software fees increased to $17.3 million for the nine months ended September 30, 2000 from $10.3 million for the nine months ended September 30, 1999, an increase of $7.0 million or 68%. The increase in revenue from software fees is primarily due to an increase in the sales of user and site-specific licenses of PkMS and other complementary products. In recent quarters, we have experienced an increase in the average sales price and sale size principally due to increased product functionality and market acceptance of PkMS and our other complementary products.

Services. Services revenue increased to $58.0 million for the nine months ended September 30, 2000 from $38.3 million for the nine months ended September 30, 1999, an increase of $19.7 million or 52%. The increase in revenue from services is principally due to increases in the scope and number of PkMS implementations contracted for in the first nine months of 2000, the utilization of professional services personnel and renewals of customer support services agreements on a growing installed base.

Hardware. Hardware revenue increased to $21.4 million for the nine months ended September 30, 2000 from $9.5 million for the nine months ended September 30, 1999, an increase of $11.9 million or 126%. Sales of hardware are largely dependent upon the number of PkMS licenses sold, the scope of such PkMS implementations and the technological sophistication and purchasing power of customers buying PkMS. The increase in the first nine months of fiscal year 2000 is attributable to more customers seeking a unified solution to purchase hardware from us as part of their PkMS implementations.





COST OF REVENUE

Cost of Software Fees. Cost of software fees consists of the costs associated with software reproduction and delivery; media, packaging, documentation and other related costs; and the amortization of purchased software and capitalized research and development costs. Cost of software fees decreased to $1.0 million for the nine months ended September 30, 2000, or 6% of software fees, from $1.2 million for the nine months ended September 30, 1999, or 11% of software fees. The decrease in cost of software fees is principally due to the absence of $472,000 of purchased software and capitalized research and development costs relating to discontinued projects expensed during the nine months ended September 30, 1999.

Cost of Services. Cost of services revenue consists primarily of salaries and other personnel-related expenses of employees dedicated to professional services and customer support services. Cost of services revenue increased to $24.9 million for the nine months ended September 30, 2000, or 43% of services revenue, from $22.4 million for the nine months ended September 30, 1999, or 58% of services revenue. The dollar increase in cost of services revenue is directly related to an increase in the number of employees and contracted personnel dedicated to services activities. The decrease in cost of services revenue as a percentage of services revenue is principally due to increased efficiencies in the delivery of professional services, principally an increase in the utilization of services personnel.

Cost of Hardware. Cost of hardware revenue increased to $17.4 million for the nine months ended September 30, 2000, or 81% of hardware revenue, from $7.2 million for the nine months ended September 30, 1999, or 76% of hardware revenue. The increase in the cost of hardware as a percentage of hardware revenue is principally due to an increase in the percentage of hardware products sold with relatively lower gross margins during the nine months ended September 30, 2000 as compared to hardware sales during the nine months ended September 30, 1999.

OPERATING EXPENSES

Research and Development. Research and development expenses principally consist of salaries and other personnel-related costs for personnel involved in our research development efforts. Excluding the effect of $909,000 of research and development costs capitalized in the nine months ended September 30, 1999, our research and development expenses increased by 15% to $10.3 million for the nine months ended September 30, 2000, or 11% of total revenue, from $9.0 million for the nine months ended September 30, 1999, or 15% of total revenue. We capitalized no research and development costs in the nine months ended September 30, 2000. The increase in research and development expenses is principally attributable to additional personnel dedicated to i) the continued development and enhancement of PkMS, including the N-Tier version of PkMS; ii) the development of Infolink, our business community integration product; and iii) the development of Manager's Workbench, our warehouse business intelligence product.

Sales and Marketing. Sales and marketing expenses include salaries, commissions, travel and other personnel-related costs of sales and marketing personnel and the costs of our marketing programs and related activities. Sales and marketing expenses increased by 14% to $12.9 million for the nine months ended September 30, 2000, or 13% of total revenue, from $11.3 million for the nine months ended September 30, 1999, or 20% of total revenue. The increase in sales and marketing expenses is attributable to higher incentive compensation for sales and marketing personnel related to the increase in revenues and to expanded marketing program activities, including our User Conference held in May of 2000.





General and Administrative. General and administrative expenses consist primarily of salaries and other personnel-related costs of executive, financial, human resources and administrative personnel, as well as depreciation and amortization, legal, insurance, accounting and other administrative expenses. General and administrative expenses increased by 20% to $11.4 million for the nine months ended September 30, 2000, or 12% of total revenue, from $9.5 million for the nine months ended September 30, 1999, or 16% of total revenue. The increase in general and administrative expenses is principally due to increases in depreciation and amortization expense, accounting and legal fees, executive bonuses, and other administrative expenses to support our business and improve our infrastructure. Depreciation and amortization expense included in general and administrative expenses was $3.5 million and $2.7 million for the nine months ended September 30, 2000 and 1999, respectively.

Operating Income. Operating income increased $20.3 million to $18.7 million for the nine months ended September 30, 2000, or 19% of total revenue, from an operating loss of $1.6 million for the nine months ended September 30, 1999. The increase in operating income is primarily due to increased revenue from sales of software licenses, services and hardware combined with improved efficiencies in our business.

INCOME TAXES

The provision for income taxes was $7.8 million for the nine months ended September 30, 2000 compared to a benefit of $283,000 for the nine months ended September 30, 1999. The increase of $8.1 million from the nine months ended September 30, 1999 is a direct result of our increased income for the nine months ended September 30, 2000. For the nine months ended September 30, 2000, our effective income tax rate was 38.0%. The income tax rate reflects our estimated annual effective income tax rate and considers estimated taxable income, effective state and international income tax rates and anticipated tax credits. The provision for income taxes does not include the tax benefit from options exercised, which reduces the Company's tax liability. For the nine months ended September 30, 2000, the tax benefit from options exercised was $4.5 million, which was included in additional paid-in capital.

LIQUIDITY AND CAPITAL RESOURCES

Since the Company's initial public offering ("IPO") in April 1998, we have funded our operations primarily through cash generated from operations, the IPO proceeds and option exercises. As of September 30, 2000, we had approximately $76.1 million in cash, cash equivalents and short-term investments, as compared to approximately $39.9 million at December 31, 1999.

Our operating activities provided cash of approximately $31.7 million for the nine months ended September 30, 2000 and $4.8 million for the nine months ended September 30, 1999. Cash from operating activities arose principally from increases in operating income, accounts payable, accrued liabilities and deferred revenue, partially reduced by an increase in accounts receivable.

Our investing activities provided cash of approximately $273,000 for the nine months ended September 30, 2000. Cash from investing activities arose principally from the net sales of short-term investments, reduced by the purchase of capital equipment to support our business and infrastructure. Our investing activities used cash of approximately $19.4 million for the nine months ended September 30, 1999. Our uses of cash were primarily for purchases of short-term investments and capital equipment.

Our financing activities provided cash of approximately $7.9 million and $584,000 for the nine months ended September 30, 2000 and 1999, respectively. The principal sources of cash provided by financing activities are the proceeds from the issuance of common stock pursuant to the exercise of stock options, partially reduced by payments under capital lease obligations.

We believe that existing balances of cash, cash equivalents and short-term investments, less the $15.0 million paid in connection with the Intrepa acquisition, will be sufficient to meet our working capital and capital expenditure needs at least for the next twelve months.

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. 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, 1999. 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.





ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

FOREIGN EXCHANGE

Total international revenue was approximately $10.7 million and $4.4 million for the nine months ended September 30, 2000 and 1999, respectively, which represents 11% and 8% of our total revenue for the nine months ended September 30, 2000 and 1999, respectively. For the three months ended September 30, 2000 and 1999, international revenue was approximately $4.1 million and $2.0 million, respectively, which represents 12% and 10% of our total revenue, respectively. International revenue includes all revenue associated with sales of licenses, services and hardware outside the United States.

We conduct our direct European operations principally out of an office in the United Kingdom, consisting of approximately 55 employees. Total revenue for the European operations was approximately $5.5 million and $3.0 million for the nine months ended September 30, 2000 and 1999, respectively, which represents 6% and 5% of our total revenue for the nine months ended September 30, 2000 and 1999, respectively. For the three months ended September 30, 2000 and 1999, revenue from European operations was approximately $2.0 million and $1.2 million, respectively, which represents 6% of our total revenue in each three month period.

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. Accordingly, our future results could be materially adversely impacted by changes in these or other factors. We recognized a foreign exchange rate loss of approximately $170,000 during the nine months ended September 30, 2000, classified in "Other income, net" on our Condensed Consolidated Statements of Income. The effect of foreign exchange rate fluctuation was not material during the nine months ended September 30, 1999; therefore, no foreign exchange rate gain or loss was recognized during that period.

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 operating balances.

Interest income on our investments is classified in "Other income, net" on our Condensed Consolidated Statements of Income. 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 115"). All of the cash equivalents and short-term investments are treated as available-for-sale under SFAS 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 which have seen a decline in market value due to changes in interest rates. The weighted-average interest rate on investment securities at September 30, 2000 was approximately 6.3%. The fair value of securities held at September 30, 2000 was $28.3 million.





# 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 a party to an action filed on July 3, 2000 by a customer alleging breach of warranty with respect to the purchase of one of our products. We believe the allegations raised in the complaint are without merit and intend to vigorously defend the lawsuit. We do not believe that this suit will have a material impact on either our financial results or operations.

## ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

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

## 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 AND REPORTS ON FORM 8-K.

(a) Exhibits.

The following exhibit is filed with this Report:

Exhibit 27.1 Financial Data Schedule (for SEC use only).

(b) Reports to be filed on Form 8-K.

No reports on Form 8-K were filed during the quarter ended September 30, 2000.





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 14, 2000 /s/ Richard M. Haddrill

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Richard M. Haddrill
Chief Executive Officer, President and Director
(Principal Executive Officer)

Date: November 14, 2000 /s/ Thomas Williams

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

<ARTICLE> 5
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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF MANHATTAN ASSOCIATES, INC. FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH CONSOLIDATED FINANCIAL STATEMENTS.
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