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

FORM 10-Q

[Mark One]

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 1998

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission File Number: 0-23999

MANHATTAN ASSOCIATES, INC.
(Exact name of registrant as specified in its charter)

GEORGIA
(State or Other Jurisdiction of
Incorporation or Organization)

58-2373424
(I.R.S. Employer Identification No.)

2300 WINDY RIDGE PARKWAY, SUITE 700
ATLANTA, GEORGIA
(Address of Principal Executive Offices)

30339
(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (770) 955-7070

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

The number of shares of the issuer's class of capital stock as of June 5, 1998, the latest practicable date, is as follows: 23,706,674 shares of Common Stock, \$0.01 par value per share.

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Form 10-Q
Page 1 of 24

MANHATTAN ASSOCIATES, INC.
FORM 10-Q
THREE MONTHS ENDED MARCH 31, 1998

TABLE OF CONTENTS

PART I

FINANCIAL INFORMATION

	Page

Item 1. Financial Statements.	
Condensed Consolidated Balance Sheets as of March 31, 1998 (unaudited) and December 31, 1997	3
Condensed Consolidated Statements of Income (Loss) for the Three Months Ended March 31, 1998 and March 31, 1997 (unaudited)	4
Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 1998 and March 31, 1997 (unaudited)	5
Notes to Condensed Consolidated Financial Statements (unaudited)	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.	9

PART II
OTHER INFORMATION

Item 1. Legal Proceedings.	13
Item 2. Changes in Securities.	13
Item 3. Defaults Upon Senior Securities.	14
Item 4. Submission of Matters to a Vote of Security Holders.	14
Item 5. Other Information.	14
Item 6. Exhibits and Reports on Form 8-K.	14
Signatures.	15

Form 10-Q
Page 2 of 24

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	March 31, 1998	December 31, 1997
	-----	-----
	(unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents.....	\$ 2,114	\$ 3,194
Accounts receivable, net of allowance for doubtful accounts of \$971 and \$970 at March 31, 1998 and December 31, 1997, respectively.....	11,853	9,242
Prepaid expenses and other current assets.....	1,124	384
Total current assets.....	----- 15,091	----- 12,820
Property and equipment, net.....	2,477	1,943
Intangible and other assets.....	1,446	243
Total assets.....	----- \$ 19,014	----- \$ 15,006
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:		
Accounts payable and accrued liabilities.....	\$ 5,114	\$ 3,687
Note payable to stockholder.....	1,946	1,019
Deferred revenue.....	2,389	1,846
	-----	-----
Total current liabilities.....	9,449	6,552
	-----	-----
Stockholders' equity:		
Preferred stock, no par value; 20,000,000 shares authorized, no shares issued or outstanding at March 31, 1998 and December 31, 1997.....	--	--
Common stock, \$.01 par value; 100,000,000 shares authorized, 20,206,674 and 20,000,008 shares issued and outstanding at March 31, 1998 and December 31, 1997, respectively.....	202	200
Additional paid-in capital.....	3,523	1,459
Retained earnings.....	6,441	7,458
Deferred compensation.....	(601)	(663)
	-----	-----
Total stockholders' equity.....	9,565	8,454
	-----	-----
Total liabilities and stockholders' equity.....	\$ 19,014	\$ 15,006
	=====	=====

See accompanying Notes to Condensed Consolidated Financial Statements.

Form 10-Q
Page 3 of 24

ITEM 1. FINANCIAL STATEMENTS (continued)

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

	Three Months Ended March 31,	
	1998	1997
	-----	-----
Revenue:		
Software license.....	\$ 2,152	\$ 1,494
Services.....	5,284	2,509
Hardware.....	3,934	2,241
	-----	-----
Total revenue.....	11,370	6,244
	-----	-----
Cost of revenue:		
Software license.....	69	89
Services.....	2,519	983
Hardware.....	3,080	1,644
	-----	-----
Total cost of revenue.....	5,668	2,716
	-----	-----
Gross margin.....	5,702	3,528
	-----	-----
Operating expenses:		
Research and development.....	1,285	428
Acquired research and development.....	1,602	--
Sales and marketing.....	1,313	507
General and administrative.....	1,127	398
	-----	-----
Total operating expenses.....	5,327	1,333
	-----	-----
Income from operations.....	375	2,195
Other income, net.....	14	23
	-----	-----
Historical income.....	\$ 389	\$ 2,218
	=====	=====
Historical basic net income per share.....	\$ 0.02	\$ 0.11
	=====	=====
Historical diluted net income per share.....	\$ 0.02	\$ 0.11
	=====	=====
Income before pro forma income taxes.....	389	2,218
Pro forma income taxes.....	713	804

Pro forma net income (loss).....	\$ (324)	\$ 1,414
Pro forma basic net income (loss) per share.....	\$ (0.02)	
Pro forma diluted net income (loss) per share.....	\$ (0.02)	

See accompanying Notes to Condensed Consolidated Financial Statements.

Form 10-Q
Page 4 of 24

Item 1. Financial Statements (continued)

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

	Three Months Ended March 31,	
	1998	1997
OPERATING ACTIVITIES:		
Pro forma net income (loss).....	\$ (324)	\$ 1,414
Adjustments to reconcile pro forma net income (loss) to net cash provided by operating activities:		
Pro forma income taxes.....	713	804
Depreciation and amortization.....	218	85
Stock compensation.....	62	--
Acquired research and development.....	1,602	--
Accrued interest on note payable to stockholder.....	27	13
Changes in operating assets and liabilities:		
Accounts receivable, net.....	(2,517)	(1,375)
Other assets.....	(719)	--
Accounts payable and accrued liabilities.....	1,051	451
Deferred revenue.....	338	105
Net cash provided by operating activities.....	451	1,497
INVESTING ACTIVITIES:		
Purchase of property and equipment.....	(681)	(187)
Payments in connection with the acquisition of Performance Analysis Corporation, net of cash acquired.....	(1,344)	--
Net cash used in investing activities.....	(2,025)	(187)
FINANCING ACTIVITIES:		
Distributions to stockholders.....	(1,406)	(846)
Borrowings under note payable to stockholder.....	900	--
Proceeds from issuance of common stock.....	1,000	--
Net cash provided by (used in) financing activities.....	494	(846)
Net increase (decrease) in cash and cash equivalents.....	(1,080)	464
Cash and cash equivalents at beginning of period.....	3,194	3,199
Cash and cash equivalents at end of period.....	\$ 2,114	\$ 3,663
SUPPLEMENTAL CASH FLOW DISCLOSURE:		
Issuance of common stock in connection with acquisition of Performance Analysis Corporation.....	\$ 1,067	\$ --

See accompanying Notes to Condensed Consolidated Financial Statements.

Form 10-Q
Page 5 of 24

MANHATTAN ASSOCIATES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 1998
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles 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 by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the results of operations have been included.

2. PRINCIPLES OF CONSOLIDATION

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

3. COMPLETION OF INITIAL PUBLIC OFFERING AND CONVERSION

On April 23, 1998, the Company completed its initial public offering (the "Offering") of its \$.01 par value per share common stock (the "Common Stock"). The Company sold 3,500,000 shares of Common Stock, excluding 525,000 shares sold by certain selling stockholders as part of the underwriters' over-allotment, for \$52,500,000 less issuance costs of approximately \$5,100,000.

In connection with the Offering, the assets and liabilities of Manhattan Associates, LLC ("Manhattan LLC") were contributed to the Company in exchange for Common Stock of the Company (the "Conversion"). Manhattan LLC then distributed the Common Stock of the Company received to its stockholders. Prior to the completion of the Offering, Manhattan LLC distributed all undistributed earnings, calculated on a tax basis, to the stockholders of Manhattan LLC. The amount distributed subsequent to December 31, 1997 and prior to completion of the Offering was approximately \$11,600,000.

4. REVENUE RECOGNITION

Effective January 1, 1998, the Company adopted Statement of Position No. 97-2, "Software Revenue Recognition" ("SOP 97-2"), that supersedes Statement of Position No. 91-1, "Software Revenue Recognition" ("SOP 91-1"). Under SOP 97-2, the Company recognizes software license revenue when the following criteria are met: (1) a signed contract is obtained; (2) shipment of the product has occurred; (3) the license fee is fixed and determinable; (4) collectibility is probable; and (5) remaining obligations under the license agreement are insignificant. Consulting services are generally billed on an hourly basis and revenue is recognized as the work is performed. Maintenance revenue from ongoing customer support is billed in advance for a one year period and recorded as revenue ratably over the billing period. Hardware revenue is billed and recognized upon shipment. The adoption of SOP 97-2 did not have a significant impact on the Company's financial statements for the three months ended March 31, 1998.

Form 10-Q
Page 6 of 24

5. NOTE PAYABLE TO STOCKHOLDER

In February 1998, the Company borrowed an additional \$900,000 from the Company's majority stockholder pursuant to a Grid Promissory Note (the "Note"). Total borrowings under the note at March 31, 1998 were approximately \$1.8 million. Under the terms of the agreement, the Note is payable on demand and bears interest payable monthly at a rate of prime plus 1/2 percent adjusted quarterly. The Company repaid the note, together with accrued interest of approximately \$131,000 as of April 30, 1998.

6. EARNINGS PER SHARE

Pro forma basic net income per share is computed using pro forma net income divided by (i) the weighted average number of shares of Common Stock outstanding ("Weighted Shares") for the period presented and (ii) pursuant to the Securities and Exchange Commission Staff Accounting Bulletin 1B.3, the number of shares that at the assumed public offering price would yield proceeds in the amount necessary to pay the stockholder distribution discussed in Note 3 that is not covered by the earnings for the one year period through the date of distribution ("Distribution Shares").

Pro forma diluted net income per share is computed using pro forma net income divided by (i) Weighted Shares, (ii) the Distribution Shares and (iii) the treasury stock method effect of common equivalent shares ("CES's") outstanding for each period presented. Common equivalent shares have been excluded from the computation because the effect is anti-dilutive.

No adjustment is necessary for historical and pro forma net income for net income per share presentation. The following is a reconciliation of the shares used in the computation of net income per share:

	Three Months Ended March 31, 1998		Three Months Ended March 31, 1997	
	Basic	Diluted	Basic	Diluted
	Historical		Historical	
	(in thousands)			
Weighted Share.....	20,097	20,097	20,000	20,000
Effect of CES's.....	--	2,241	--	308
	-----	-----	-----	-----
	20,097	22,338	20,000	20,308
	=====	=====	=====	=====
	Basic	Diluted		
	----- Pro Forma -----			
Weighted Shares.....	20,097	20,097		
Shares sold to Minority Holder.....	54	54		
Distribution Shares.....	90	90		
Effect of CES's.....	--	--		
	-----	-----		
	20,241	20,241		
	=====	=====		

7. ACQUISITION

On February 16, 1998, the Company purchased all of the outstanding stock of Performance Analysis Corporation ("PAC") for \$2,200,000 in cash and 106,666 shares of the Company's Common Stock valued at \$10.00 per share (the "PAC Acquisition"). PAC is a developer of distribution center slotting (storage layout) software. The PAC Acquisition has been accounted for as a purchase.

The purchase price of approximately \$3,300,000 has been allocated to the assets acquired and liabilities assumed of \$490,000, acquired research and development of \$1,602,000, purchased software of \$500,000, and goodwill of \$750,000. Purchased software will be amortized over an estimated two-year useful life and other intangible assets will be amortized over a seven-year useful life. In connection with the PAC Acquisition, the Company recorded a one time acquired research and development expense of \$1,602,000 during the three months ended March 31, 1998.

8. INCOME TAXES

Prior to the Conversion, the Company elected to report as a limited liability company that was treated as a partnership for income tax purposes (see Note 3), and as a result, the Company was not subject to federal and state income taxes. After the Conversion, the Company became subject to federal and

state income taxes. In connection with the Conversion, the Company recognized a one-time benefit in April 1998 by recording the asset related to the future reduction of income tax payments due to temporary differences between the recognition of income for financial statements and income tax regulations. Pro forma net income amounts discussed herein include provisions for income taxes on a pro forma basis as if the Company were liable for federal and state income taxes as a taxable corporate entity throughout the periods presented. Pro forma income tax provisions reflect the Company's anticipated effective annual tax rate of 36% for 1998 and 36% for 1997.

9. NEW ACCOUNTING PRONOUNCEMENTS

The Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS No. 130") effective January 1, 1998. SFAS No. 130 requires that items defined as other comprehensive income, such as foreign currency translation adjustments, be separately classified in the financial statements and that the accumulated balance of other comprehensive income be reported separately from retained earnings and additional paid-in capital in the stockholders' equity section of the balance sheet. The Company did not have other comprehensive income as defined in SFAS No. 130 for the three months ended March 31, 1998 and the three months ended March 31, 1997.

The Company adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS No. 131") effective January 1, 1998. SFAS No. 131 requires public companies to report certain information about operating segments in their financial statements and establishes related disclosures about products and services, geographic areas and major customers. SFAS No. 131 does not need to be applied to interim financial statements in the initial year of application; however, comparative information for interim periods in the initial year of application will be reported in the financial statements for interim periods in fiscal 1999.

Form 10-Q
Page 8 of 24

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

OVERVIEW

The Company provides information technology solutions for distribution centers that are designed to enable the efficient movement of goods through the supply chain. The Company's solutions are designed to optimize the receipt, storage and distribution of inventory and the management of equipment and personnel within a distribution center, and to meet the increasingly complex information requirements of manufacturers, distributors and retailers. The Company's solutions consist of software, including PkMS, a comprehensive and modular software system; services, including design, configuration, implementation, training and support; and hardware. The Company currently provides solutions to manufacturers, distributors and retailers primarily in the apparel, consumer products, food service and grocery markets.

Effective January 1, 1998, the Company adopted Statement of Position No. 97-2, "Software Revenue Recognition" ("SOP 97-2"), that supersedes Statement of Position No. 91-1, "Software Revenue Recognition" ("SOP 91-1"). Under SOP 97-2, the Company recognizes software license revenue when the following criteria are met: (1) a signed contract is obtained; (2) shipment of the product has occurred; (3) the license fee is fixed and determinable; (4) collectibility is probable; and (5) remaining obligations under the license agreement are insignificant. Consulting services are generally billed on an hourly basis and revenue is recognized as the work is performed. Maintenance revenue from ongoing customer support is billed in advance for a one year period and recorded as revenue ratably over the billing period. Hardware revenue is billed and recognized upon shipment. The adoption of SOP 97-2 did not have a significant impact on the Company's financial statements for the three months ended March 31, 1998.

On February 16, 1998, the Company purchased all of the outstanding stock of Performance Analysis Corporation ("PAC") for approximately \$2.2 million in cash and 106,666 shares of the Company's Common Stock valued at \$10.00 per share. PAC is a developer of distribution center slotting software. The acquisition has been accounted for as a purchase. The purchase price of approximately \$3,300,000 has been allocated to the assets acquired and liabilities assumed of \$490,000, acquired research and development of \$1,602,000, purchased software of \$500,000, and goodwill of \$750,000. Purchased software will be amortized over an estimated two-year useful life and other intangible assets will be amortized over a seven-year useful life. In connection with the PAC Acquisition, the Company recorded a one time acquired research and development expense of \$1,602,000 during the three months ended March 31, 1998. PAC is currently in the process of developing a Windows-NT version of its existing product, SLOT-IT. In addition, the Company plans to focus development efforts on integrating the SLOT-IT application into a future product.

Prior to the Conversion, the Company elected to report as a limited liability company that was treated as a partnership for income tax purposes, and as a result, the Company was not subject to federal and state income taxes. Pro forma net income amounts discussed herein include additional provisions for income taxes on a pro forma basis as if the Company were liable for federal and state income taxes as a taxable corporate entity throughout the periods presented. The pro forma tax provision is calculated by applying the Company's statutory tax rate to pretax income, adjusted for permanent tax differences. The Company's status as a limited liability company terminated immediately prior to the effectiveness of the Offering, and the Company will thereafter be taxed as a business corporation.

Form 10-Q
Page 9 of 24

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 1998 COMPARED TO THREE MONTHS ENDED MARCH 31, 1997

Revenue

Total revenue increased 82% to \$11.4 million for the three months ended March 31, 1998 from \$6.2 million for the three months ended March 31, 1997. Total revenue consists of software license revenue, revenue derived from consulting, maintenance and other services and revenue from the sale of hardware.

Software License. Software license revenue increased 44% to \$2.2 million for the three months ended March 31, 1998 from \$1.5 million for the three months ended March 31, 1997. The increase in revenue from software licenses was primarily due to an increase in the number of licenses of the Company's PkMS product and, to a lesser extent, new license revenue as a result of the acquisition of PAC.

Services. Services revenue increased 111% to \$5.3 million for the three months ended March 31, 1998 from \$2.5 million for the three months ended March 31, 1997. The increase in revenue from services was principally due to the increased demand for these services resulting from the increased demand for the Company's PkMS product.

Hardware. Hardware revenue increased 76% to \$3.9 million for the three months ended March 31, 1998 from \$2.2 million for the three months ended March 31, 1997. The increase in revenue from hardware was principally due to the increased demand for the Company's PkMS product.

Cost of Revenue

Cost of Software License. Cost of software license revenue consists of the costs of software reproduction and delivery, media, packaging, documentation and other related costs and the amortization of capitalized software. Cost of software license revenue decreased to \$69,000, or 3% of software license

revenue, for the three months ended March 31, 1998 from \$89,000, or 6% of software license revenue, for the three months ended March 31, 1997. Cost of software license revenue remained relatively constant for the three months ended March 31, 1998 as compared to the three months ended March 31, 1997.

Cost of Services. Cost of services revenue consists primarily of consultant salaries and other personnel-related expenses incurred in system implementation projects and software support services. Cost of services revenue increased to \$2.5 million, or 48% of services revenue, for the three months ended March 31, 1998 from \$983,000, or 39% of services revenue, for the three months ended March 31, 1997. The increase in cost of services revenue as a percentage of services revenue is principally due to increased training and other cost related to an increase in services personnel.

Cost of Hardware. Cost of hardware revenue increased to \$3.1 million, or 78% of hardware revenue, for the three months ended March 31, 1998 from \$1.6 million, or 73% of hardware revenue, for the three months ended March 31, 1997. The increase in the cost of hardware as a percentage of hardware revenue is principally due to an increase in the sale of hardware products with relatively lower gross margins as compared to the three months ended March 31, 1997.

Operating Expenses

Research and Development. Research and development expenses principally consist of salaries and other personnel-related costs related to the Company's product development efforts. The Company's research and development expenses increased by 200% to \$1.3 million, or 11% of total revenue, for the three months ended March 31, 1998 from \$428,000, or 7% of total revenue, for the three months ended March 31, 1997. The increase in research and development expenses resulted from an increase in the number of research and development personnel during the three months ended March 31, 1998 as compared

to the three months ended March 31, 1997. Significant product development efforts include the continued development of PkMS, the development of a client/server version of PkMS and, to a lesser extent, the continued development of SLOT-IT and the development of the Windows-NT based version of SLOT-IT. The Company believes that a continued commitment to product development will be required for the Company to remain competitive and expects the dollar amount of research and development expenses to continue to increase in the near future.

Acquired Research and Development. In February 1998, the Company purchased all of the outstanding stock of PAC for approximately \$2.2 million in cash and 106,666 shares of the Company's Common Stock valued at \$10.00 per share. The acquisition has been accounted for as a purchase. In connection with this acquisition, approximately \$1.6 million of the purchase price was allocated to acquired research and development and expensed during the quarter.

Sales and Marketing. Sales and marketing expenses include salaries, commissions and other personnel-related costs, travel expenses, advertising programs and other promotional activities. Sales and marketing expenses increased by 159% to \$1.3 million, or 12% of total revenue, for the three months ended March 31, 1998 from \$507,000, or 8% of total revenue, for the three months ended March 31, 1997. The increase in sales and marketing expenses was the result of additional sales and marketing personnel and expanded marketing program activities.

General and Administrative. General and administrative expenses consist primarily of salaries and other personnel-related costs of executive, financial and human resources and administrative personnel, as well as facilities, legal, insurance, accounting and other administrative expenses. General and administrative expenses increased by 183% to \$1.1 million, or 10% of total revenue, for the three months ended March 31, 1998 from \$398,000, or 6% of total revenue, for the three months ended March 31, 1997. The increase in general and administrative expenses was principally due to increased personnel and other

administrative expenses necessary to support the Company's growth.

Income Taxes

Pro Forma Provision for Income Taxes. The pro forma provision for income taxes was \$713,000 for the three months ended March 31, 1998, as compared to \$804,000 for the three months ended March 31, 1997. The decrease in the pro forma provision for income taxes is a result of a decrease in income before income taxes for the three months ended March 31, 1998 compared to the income for the three months ended March 31, 1997.

Earnings per Share

Pro Forma Net Income (Loss) per Share. Pro forma net income, excluding the effect of a one-time acquired research and development charge of \$1.6 million, was \$1.3 million, or \$0.06 per share, for the three months ended March 31, 1998, compared to pro forma net income of \$1.4 million, or \$0.07 per share, for the three months ended March 31, 1997. Including the effect of the one-time acquired research and development charge, the Company's pro forma net loss was \$324,000, or \$0.02 per share, for the three months ended March 31, 1998.

LIQUIDITY AND CAPITAL RESOURCES

Since inception, the Company has funded its operations to date primarily through cash generated from operations. In addition, the Company has also borrowed money from its majority stockholder. As of March 31, 1998, the Company had \$2.1 million in cash and cash equivalents.

The Company's operating activities provided cash of \$451,000 for the three months ended March 31, 1998 and \$1.5 million for the three months ended March 31, 1997. Cash from operating activities arose principally from the Company's profitable operations and was utilized for working capital

Form 10-Q
Page 11 of 24

purposes, principally increases in accounts receivable. The increase in accounts receivable was primarily the result of the Company's continued revenue growth.

Cash used for investing activities was approximately \$2.0 million for the three months ended March 31, 1998 and \$187,000 for the three months ended March 31, 1997. The Company's use of cash for the three months ended March 31, 1998 was primarily for the acquisition of PAC and the purchase of capital equipment, such as computer equipment and furniture and fixtures, to support the Company's growth.

Cash provided by financing activities was approximately \$494,000 for the three months ended March 31, 1998. Cash used for financing activities was approximately \$846,000 for the three months ended March 31, 1997. The principal source of cash provided by financing activities for the three months ended March 31, 1998 was additional borrowings under a Grid Promissory Note with a stockholder and proceeds from the issuance of Common Stock, partially reduced by distributions to the Company's stockholders.

The Company entered into a line of credit with Silicon Valley Bank to fund its distribution to the Manhattan LLC stockholders and to fund its continuing working capital needs. The line of credit does not contain any conditions or restrictive covenants that would materially affect the Company's business, financial condition or results of operations. In April 1998, the Company borrowed approximately \$7 million under the line of credit. The Company repaid the borrowings and accrued interest with the proceeds from the initial public offering (the "Offering"). There can be no assurance that the remaining net proceeds from the Offering will be sufficient to pay for future acquisitions, planned research and development projects and other growth-oriented activities, which could require the Company to incur additional debt or other financing that could impose restrictive covenants and other terms having a material adverse effect on the Company's business, financial condition and results of operations.

In April 1998, the Company completed the Offering, in which the Company received net proceeds of approximately \$47.4 million after deducting underwriting discounts and offering expenses. The Company applied a portion of the net proceeds to (i) to repay all of the Company's outstanding indebtedness to Silicon Valley Bank (\$7.0 million) and (ii) to repay a note payable to the Company's Chairman of the Board, Chief Executive Officer and President, Alan J. Dabbiere (\$1.9 million). Prior to the Offering, the Company made payments of \$375,000 to repay stockholder notes, and \$4.0 million in distributions to stockholders. The balance of the net proceeds of the Offering (approximately \$34.1 million) will be utilized for general corporate purposes. Such purposes may also include possible acquisitions of, or investments in, businesses and technologies that are complementary to those of the Company.

The Company anticipates that existing cash and cash equivalents will be adequate to meet its cash requirements 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 which 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 the Company's future results, please see Exhibit 99.1 to this report. 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.

Form 10-Q
Page 12 of 24

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

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

ITEM 2. CHANGES IN SECURITIES.

In connection with the conversion of the Company from a limited liability company to a business corporation (the "Conversion"), the Company issued 20,206,674 shares of Common Stock to stockholders of Manhattan Associates Software, LLC ("Manhattan LLC") on April 23, 1998 in consideration for their contribution of all of the assets and liabilities of Manhattan LLC to the Company in a transaction exempt under Section 4(2) of the Securities Act.

In connection with the organization of the Company, in January 1998, the Company issued an aggregate of 100 shares of its Common Stock to Alan J. Dabbiere, Deepak Raghavan, Deepak M.J. Rao and Ponnambalam Muthiah at a price of \$1.00 per share in a transaction exempt under Section 4(2) of the Securities Act. These shares were redeemed simultaneously with the consummation of the Conversion at their original purchase price.

In connection with an investment by Deepak Raghavan, the Chief Technology Officer of the Company, of \$1,000,000 in Manhattan LLC on February 16, 1998, Manhattan LLC issued 100,000 shares to Mr. Raghavan in a transaction exempt under Section 4(2) of the Securities Act.

In connection with the acquisition of all of the outstanding shares of Performance Analysis Corporation ("PAC") on February 16, 1998, Manhattan LLC issued 106,666 of its shares valued at an aggregate value of \$1,066,660 to Daniel Basmajian, Sr., the sole stockholder of PAC, a North Carolina corporation, in a transaction exempt from registration under Rules 505 and 506 of Regulation D and Section 4(2) of the Securities Act.

On April 23, 1998, the Company completed an initial public offering (the "Offering") of 3,500,000 shares of its Common Stock (the "Common Stock"). The managing underwriters in the Offering were Deutsche Morgan Grenfell Inc., Hambrecht & Quist LLC and SoundView Financial Group, Inc. (the "Underwriters"). The shares of Common Stock were registered under the Securities Act of 1933, as amended, on a Registration Statement on Form S-1 (the "Registration Statement," registration number 333-47095). The Registration Statement was declared effective by the Securities and Exchange Commission on April 23, 1998.

All of the 3,500,000 shares of Common Stock were sold by the Company, which resulted in gross proceeds of \$52.5 million. The Company received net proceeds of approximately \$47.4 million after deducting underwriting discounts of \$3.7 million and Offering expenses of \$1.4 million. As of June 1, 1998, the proceeds of the Offering had been used as follows: (i) to repay all of the Company's outstanding indebtedness to Silicon Valley Bank (\$7.0 million) and (ii) to repay a Grid Promissory Note payable to the Company's Chairman of the Board, Chief Executive Officer and President, Alan J. Dabbieri (\$1.9 million). The balance of the net proceeds of the Offering will be utilized to finance potential future acquisitions and for general corporate purposes.

Form 10-Q
Page 13 of 24

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.

Effective February 24, 1998, the stockholders of the Company approved by unanimous written consent (i) the Articles of Incorporation and Bylaws of the Company; (ii) the Company's 1998 Stock Incentive Plan; and (iii) the form of the Lockup Agreement by which certain stockholders of the Company agreed not to sell or dispose of any shares or securities of the Company for a period of 180 days following the completion of the Offering.

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 exhibits are filed with this Report:

Exhibit 27.1 Financial Data Schedule

Exhibit 99.1 Certain Risk Factors Related to the Company

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

No reports on Form 8-K were filed during the quarter ended March 31, 1998.

Form 10-Q
Page 14 of 24

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: June 8, 1998

/s/ Alan J. Dabbiere

Alan J. Dabbiere
Chairman of the Board, Chief Executive Officer and
President
(Principal Executive Officer)

Date: June 8, 1998

/s/ Michael J. Casey

Michael J. Casey
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

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MANHATTAN ASSOCIATES, INC.

RISK FACTORS

The following factors may affect the Company's future performance, and should be considered by all investors and prospective investors in the Company.

Limited Operating History. The Company was founded and shipped its first version of PkMS in 1990. The Company and its operations are subject to all of the risks inherent in the establishment of a new business enterprise. The Company's prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in their early stage of development, particularly companies in new and rapidly evolving markets. Although the Company has experienced significant growth during the past five years, the Company does not believe that prior growth rates are sustainable or indicative of future operating results. There can be no assurance that the Company will be able to increase its level of revenue or maintain profitability in the future. Increases in operating expenses are expected to continue and, together with pricing pressures, may result in a decrease in operating income and operating margin percentage. The Company's limited operating history makes the prediction of future operating results difficult or impossible. Future operating results will depend on many factors, including, without limitation, the degree and rate of growth of the markets in which the Company competes and the accompanying demand for the Company's software products, the level of product and price competition, the ability of the Company to establish strategic marketing relationships and develop and market new and enhanced products and to control costs, the ability of the Company to expand its direct sales force and indirect distribution channels both domestically and internationally, the ability of the Company to integrate acquired businesses, and the ability of the Company to attract, train and retain consulting, technical and other key personnel.

Potential Variability of Quarterly Operations and Financial Results; Possible Volatility of Stock. The Company's operations and related revenue and operating results could vary substantially from quarter to quarter. Among the factors causing these potential variations are fluctuations in the demand for the Company's products, the level of product and price competition in the Company's markets, the length of the Company's sales process, the size and timing of individual transactions, the mix of products and services sold, delays in, or cancellations of, customer implementations, the Company's success in expanding its services and customer support organizations as well as its direct sales force and indirect distribution channels, the timing of new product introductions and enhancements by the Company or its competitors, commercial strategies adopted by competitors, changes in foreign currency exchange rates, customers' budget constraints, the Company's ability to control costs and general economic conditions. A substantial portion of the Company's operating expenses, particularly personnel and facilities costs, are relatively fixed in advance of any particular quarter. As a result, any delay in the recognition of revenue may cause significant variations in operating results in any particular quarter. In addition, an increase or decrease in hardware sales, which provide the Company with lower gross margins than sales of software licenses or services, may contribute to the variability of the Company's operating results in any particular quarter. As a result of the foregoing factors, the Company's operating results for a future quarter may be above or below the expectations of public market analysts and investors. Should the Company's revenue and operating results fall below expectations, the price of the Company's Common Stock would be materially adversely affected. In addition, the securities markets and, in particular the high technology stock market sector, have experienced significant price and volume fluctuations from time to time that have often been unrelated or

disproportionate to the operating performance of particular companies. These broad fluctuations may adversely affect the market price of the Common Stock.

Dependence on Single Product. The Company currently derives substantially all of its revenue from sales of its PkMS software and related services and hardware. The Company expects to continue to focus on distribution center management systems as its primary line of business, and any factor adversely affecting the market for distribution center management systems in general, or the Company's products in particular, could adversely affect the Company's business, financial condition and results of operations. The Company's future financial performance will depend in large part on the successful development, introduction and customer acceptance of new and enhanced versions of PkMS. There can be no assurance that the Company will continue to be successful in marketing PkMS or any new or enhanced versions of PkMS. The market for distribution center management systems is intensely competitive, highly fragmented and subject to rapid technological change. The Company's future success will depend on continued growth in the market for distribution center management systems. There can be no assurance that the market for distribution center management systems will continue to grow. If this market fails to grow or grows more slowly than the Company currently anticipates, the Company's business, financial condition and results of operations would be materially adversely affected.

Ability to Manage Growth. The Company has rapidly and significantly expanded its operations and anticipates that significant expansion will continue to be required in order to address potential market opportunities. The Company anticipates significantly increasing the size of its sales, support, services, marketing and research and development operations. There can be no assurance that such expansion will be successfully completed or that it will generate sufficient revenue to cover the Company's expenses. The Company has only recently begun the process of developing the management and operational capabilities and financial and accounting systems and controls necessary to support anticipated growth. For example, the Company hired its current Chief Financial Officer, Michael J. Casey, in November 1997. The Company did not previously have a Chief Financial Officer. In January 1998, the Company upgraded certain of its management information and accounting systems and the Company will need to continue to upgrade these and other systems to accommodate its expanding operations. There can be no assurance that the Company's expanded management information and accounting systems will be sufficient to support the Company's continued growth, if any. Similarly, the Company hired its Executive Vice President--Sales and Marketing, Gregory Cronin, in December 1997, and he is responsible for expanding the Company's sales and marketing operations. The ability of the Company to manage its growth, if any, will depend in large part on its ability to build effective management information and accounting systems, to generally improve and expand its operational and sales and marketing capabilities, to develop the management skills of its managers and supervisors, and to train, motivate and manage both its existing employees and the additional employees that will be required if the Company is to achieve its business objectives. There can be no assurance that the Company will succeed in developing all or any of these capabilities, and any failure to do so would have a material adverse effect on the Company's business, financial condition and results of operations.

New Management Team; Dependence on Key Personnel. The Company's future success will depend to a significant extent on its Chairman of the Board, Chief Executive Officer and President, Alan J. Dabbieri, as well as the Company's other executive officers and technical, managerial and marketing personnel. A significant portion of the Company's senior management team has been in place for only a relatively short period of time. Oliver M. Cooper, Michael J. Casey, Gregory Cronin, Neil Thall, and David K. Dabbieri, Esq., the Company's Chief Operating Officer, Chief Financial Officer, Executive Vice President--Sales and Marketing, Vice President--Supply Chain Strategy and Vice President, General Counsel and Secretary, respectively, joined the Company full-time in August 1997, November 1997, December 1997, January 1998 and March 1998, respectively. Accordingly, each of these individuals has

been involved with only the most recent operating activity of the Company. The Company's success will depend to a significant extent on the ability of its new executive officers to integrate themselves into the Company's daily operations, to gain the trust and confidence of the Company's other employees and to work effectively as a team. The loss of the services of any of the Company's executive officers could have a material adverse effect on the Company's business, financial condition and results of operations. There can be no assurance that any of these individuals or any other key employee will not voluntarily terminate his employment with the Company. The Company does not maintain key man life insurance on any of its executive officers. The failure of the Company to maintain key man life insurance on its executive officers could have a material adverse effect on the Company's business, financial condition and results of operation. The Company believes that its future success will also depend significantly on its ability to attract, motivate and retain additional highly skilled technical, managerial, consulting, sales and marketing personnel. Competition for such personnel is intense, and there can be no assurance that the Company will be successful in attracting, motivating and retaining the personnel required to grow and operate profitably. Failure to attract, motivate and retain such highly skilled personnel could have a material adverse effect on the Company's business, financial condition and results of operations.

Limited Predictability of Sales Due to Length of Sales Process. The sale of PkMS generally requires the Company to provide a significant level of education to prospective customers regarding the use and benefits of the product. Implementation of the Company's products involves a significant commitment of resources by prospective customers and is commonly associated with substantial integration efforts which must be performed by the Company and/or the customer. For these and other reasons, the length of time between the date of initial contact with the potential customer and execution of a software license agreement typically ranges from three to six months, and is subject to delays over which the Company may have little or no control. In addition, as the average dollar size of the sale of the Company's products and services increases, the Company expects the sales cycle to lengthen as a result of a more time-consuming approval process typically required by its potential customers. The Company's implementation cycle could also be lengthened by increases in the size and complexity of its implementations. In addition, the Company will need to continue hiring qualified personnel to complete such installations. The failure of the Company to attract and retain such personnel or the delay in, or cancellation of, sales or implementations of PkMS could have a material adverse effect on the Company's business, financial condition and results of operations and could cause the Company's operating results to vary significantly from quarter to quarter.

Dependence on Hardware Revenue. In conjunction with the licensing of PkMS, the Company resells a variety of hardware products, developed and manufactured by third parties, in order to provide the Company's customers with an integrated distribution center management solution. Revenue from such hardware sales can amount to a significant portion of the Company's total revenue in any period. As the market for the distribution of hardware products becomes more competitive, the Company's customers may choose to purchase such hardware directly from the manufacturers or distributors of such products, with a resultant decrease to the Company in such ancillary revenue and related contribution to income. The failure of the Company to maintain or increase hardware revenues may have a material adverse effect on the Company's business, financial condition and results of operations.

Immigration Issues. The Company believes that its success in part has resulted from its ability to attract and retain persons with technical and project management skills, some of whom are citizens of other countries, principally India. Many of the Company's employees are employed by the Company pursuant to the United States Immigration and Naturalization Service ("INS") H-1(B), non-immigrant work-permitted visa classification. There is a limit on the number of new H-1(B) petitions that the INS may approve in any year, and in

years in which this limit is reached, the Company may be unable to obtain H-1(B) visas necessary to bring additional foreign employees to the U.S. Compliance with existing U.S. immigration

Form 10-Q
Page 18 of 24

laws, or changes in such laws making it more difficult to hire foreign nationals or limiting the ability of the Company to retain H-1(B) employees in the U.S., could require the Company to incur additional unexpected labor costs and expenses. Any such restrictions or limitations on the Company's hiring practices could have a material adverse effect on the Company's business, financial condition and results of operations. Furthermore, Congress and administrative agencies with jurisdiction over immigration matters have periodically expressed concerns over the levels of immigration into the United States. These concerns have often resulted in proposed legislation, rules and regulations aimed at reducing the number of employment-based visas and permanent resident visas that may be issued. Recent action by the Indian government in developing and testing weapons in its nuclear arsenal may result in legislation, regulations or other sanctions which include limits on immigration of, and the granting of visas to, Indian nationals. Any changes in such laws making it more difficult to hire foreign nationals or limiting the ability of the Company to retain foreign employees could require the Company to incur additional unexpected labor costs and expenses or result in the Company having insufficient qualified personnel to carry on the business of the Company.

The Company's Chief Technology Officer, Deepak Raghavan, is presently employed pursuant to an H-1(B) non-immigrant work-permitted visa that may be extended only through April 30, 2000. Mr. Raghavan's application for an EB-3 permanent immigrant visa is currently subject to a processing backlog which may or may not be alleviated in time for his EB-3 permanent immigrant visa to be issued before April 30, 2000. In the event that Mr. Raghavan's permanent work permit is not issued prior to such date, he may be required to leave the United States. In February 1998, Mr. Raghavan made a cash investment in the Company which allows him to qualify for an EB-5 permanent immigrant investor visa which may be granted sooner than the EB-3 permanent immigrant visa under his current application. While Mr. Raghavan received preliminary approval for the immigrant investor visa and the Company expects that such visa will be issued prior to April 30, 2000, there can be no assurance that any visa permitting Mr. Raghavan to remain in the United States will be issued prior to such date. In the event Mr. Raghavan is required to leave the United States, the Company's software development efforts, and thus its business, financial condition and results of operations, may be materially adversely affected.

Competition. The market for the Company's products is intensely competitive, highly fragmented and subject to rapid technological change. The Company's competitors are diverse and offer a variety of solutions directed at various aspects of the supply chain, as well as the enterprise as a whole. The Company's existing competitors include distribution center management software vendors, the corporate information technology departments of potential customers capable of internally developing solutions, and smaller independent companies that have developed or are attempting to develop distribution center management software that competes with the Company's software solution.

The Company may face competition in the future from business application software vendors that may broaden their product offerings by internally developing, or by acquiring or partnering with independent developers of, distribution center management software, and Enterprise Resource Planning ("ERP") and Supply Chain Management ("SCM") applications vendors. To the extent such ERP and SCM vendors develop or acquire systems with functionality comparable or superior to the Company's products, their significant installed customer bases, long-standing customer relationships and ability to offer a broad solution could provide a significant competitive advantage over the Company. In addition, it is possible that new competitors or alliances among current and new competitors may emerge and rapidly gain significant market share. Many of the Company's competitors and potential competitors have longer operating histories, significantly greater financial, technical, marketing and

other resources, greater name recognition and a larger installed base of customers than the Company. In order to be successful in the future, the Company must continue to respond promptly and effectively to technological change and competitors' innovations. There can be no assurance that current or potential competitors of the Company will not

Form 10-Q
Page 19 of 24

develop products comparable or superior in terms of price and performance features to those developed by the Company. In addition, no assurance can be given that the Company will not be required to make substantial additional investments in connection with its research, development, marketing, sales and customer service efforts in order to meet any competitive threat, or that the Company will be able to compete successfully in the future. Increased competition will result in reductions in market share, pressure for price reductions and related reductions in gross margins, any of which could materially and adversely affect the Company's ability to achieve its financial and business goals. There can be no assurance that in the future the Company will be able to successfully compete against current and future competitors.

Risks Associated with Recent Acquisition and Possible Acquisitions. The Company has recently completed the PAC Acquisition and may in the future engage in selective acquisitions of other businesses that are complementary to those of the Company, including other providers of distribution center management solutions or technology. There can be no assurance that the Company will be able to identify additional suitable acquisition candidates available for sale at reasonable prices, consummate any acquisition or successfully integrate any acquired business (including the PAC business) into the Company's operations. Further, acquisitions may involve a number of special risks, including diversion of management's attention, failure to retain key acquired personnel, unanticipated events or circumstances, legal liabilities and amortization of acquired intangible assets, some or all of which could have a material adverse effect on the Company's business, results of operations and financial condition. Problems with an acquired business could have a material adverse effect on the performance of the Company as a whole. The Company expects to finance any future acquisitions with the proceeds of the its initial public offering (the "Offering") as well as with possible debt financing, the issuance of equity securities (common or preferred stock) or combinations of the foregoing. There can be no assurance that the Company will be able to arrange adequate financing on acceptable terms. If the Company were to proceed with one or more significant future acquisitions in which the consideration consisted of cash, a substantial portion of the Company's available cash (possibly a portion of the proceeds of the Offering) could be used to consummate the acquisitions. If the Company were to consummate one or more significant acquisitions in which the consideration consisted of stock, shareholders of the Company could suffer dilution of their interests in the Company. Many business acquisitions must be accounted for using the purchase method of accounting. Most of the businesses that might become attractive acquisition candidates for the Company are likely to have significant intangible assets, and acquisition of these businesses, if accounted for as a purchase, would typically result in substantial goodwill amortization charges to the Company, reducing future earnings. In addition, such acquisitions could involve acquisition-related charges, such as one-time acquired research and development charges. For example, the Company intends, in the first quarter of 1998, to record an acquired research and development expense of approximately \$1.6 million in connection with the PAC Acquisition. The Company accounted for this \$1.6 million amount using an approach based on historical costs. This cost approach utilized by the Company is not a widely used methodology to value acquired research and development in a technology acquisition. Many acquisitions in the software industry are accounted for utilizing an income-based approach to the valuation of acquired research and development. There can be no assurance that the cost based approach utilized by the Company accurately reflects the value of the acquired research and development.

Establishment of Indirect Channels; Potential for Channel Conflict. Although the Company has historically focused its efforts on marketing through

its direct sales force, the Company is increasing resources dedicated to developing indirect marketing channels such as systems integrators. There can be no assurance that the Company will be able to attract and retain a sufficient number of systems integrators to market successfully the Company's PkMS product. In addition, there can be no assurance that the Company's potential systems integrators will not develop, acquire or market products competitive with the Company's PkMS product. In addition, sales of PkMS through its indirect channels are also likely to reduce

Form 10-Q
Page 20 of 24

the Company's gross profits from its consulting services as the Company's third party systems integrators provide these services. Selling through indirect channels may limit the Company's contact with its customers. As a result, the Company's ability to accurately forecast sales, evaluate customer satisfaction and recognize emerging customer requirements may be hindered. The Company's strategy of marketing its PkMS product directly to customers and indirectly through systems integrators may result in distribution channel conflicts. The Company's direct sales efforts may compete with those of its indirect channels and, to the extent different systems integrators target the same customers, systems integrators may also come into conflict with each other. As the Company strives to expand its indirect distribution channels, there can be no assurance that emerging channel conflicts will not have a material adverse effect on its relationships with potential systems integrators or adversely affect its ability to attract new systems integrators.

Risks Associates with International Expansion. Revenue outside of North America has not been significant to date; however, a key element of the Company's business strategy is to increase its international sales. The Company expects to face competition from foreign distribution center management system providers in their respective native countries. To successfully expand international sales, the Company will need to recruit and retain international systems integrators. There can be no assurance that the Company will be able to maintain or increase international sales of its products or that the Company's international distribution channels will be able to adequately market, service and support the Company's products. International operations generally are subject to certain risks, including dependence on independent resellers, fluctuations in foreign currency exchange rates, compliance with foreign regulatory and market requirements, variability of foreign economic conditions and changing restrictions imposed by United States export laws. Additional risks inherent in the Company's international business activities generally include unexpected changes in regulatory requirements, tariffs and other trade barriers, costs of localizing products for foreign countries, lack of acceptance of localized products in foreign countries, longer accounts receivable payment cycles, difficulties in managing international operations, difficulties in enforcing intellectual property rights and the burdens of complying with a wide variety of foreign laws. Currently, the Company does not operate sales offices outside of the United States. The Company intends to establish international sales offices, and such operations will be subject to certain additional risks, including difficulties in staffing and managing such operations and potentially adverse tax consequences including restrictions on the repatriation of earnings.

To date, all of the Company's sales have been made in United States dollars and the Company has not engaged in any hedging transactions through the purchase of derivative securities or otherwise. However, should the Company's revenue from international sales increase as intended, and should such sales be denominated in foreign currencies, the failure of the Company to adopt an adequate hedging strategy to guard against foreign currency fluctuations could have a material adverse effect on the Company's business, financial condition and results of operations.

Concentration of Control. The Company's directors, officers and their affiliates beneficially own approximately 80% of the Company's outstanding Common Stock. In particular, Alan J. Dabbiere, the Chairman of the Board, Chief Executive Officer and President of the Company, beneficially owns approximately 46.5% of the Company's outstanding Common Stock. As a result, these

stockholders have, and are expected to continue to have, the ability to elect the Company's directors and to determine the outcome of corporate actions requiring stockholder approval. This concentration of ownership may have the effect of delaying or preventing a change of control of the Company.

Risks Associated with Rapid Technological Advances; Necessity of Developing New Products. The market for distribution center management systems is subject to rapid technological change, changing customer needs, frequent new product introductions and evolving industry standards that may render

Form 10-Q
Page 21 of 24

existing products and services obsolete. As a result, the Company's position in this market could be eroded rapidly by unforeseen changes in customer requirements for application features, functions and technologies. The Company's growth and future operating results will depend in part upon its ability to enhance existing applications and develop and introduce new applications that meet or exceed technological advances in the marketplace, that meet changing customer requirements, that respond to competitive products and that achieve market acceptance. In certain circumstances, the Company has committed to update its software to reflect new shipping and labeling requirements of certain retailers, if requested by the Company's customers. Although the Company is presently developing a client/server version of its PkMS product, there can be no assurance that this product will be completed to meet potential customer demands, if any, on a timely basis. The Company's product development and testing efforts have required, and are expected to continue to require, substantial investments by the Company. There can be no assurance that the Company will continue to possess sufficient resources to make necessary investments in technology. In addition, there can be no assurance that the Company's products will meet the requirements of the marketplace and achieve market acceptance, or that the Company's current or future products will conform to industry standards in the markets they serve. If the Company is unable, for technological or other reasons, to develop and introduce new and enhanced products in a timely manner, the Company's business, financial condition and results of operations could be materially adversely affected.

Potential Liability to Clients. Many of the Company's installations involve products that are critical to the operations of its clients' businesses and provide benefits that may be difficult to quantify. Any failure in a client's system could result in a claim for substantial damages against the Company, regardless of the Company's responsibility for such failure. Although the Company attempts to limit contractually its liability for damages arising from negligent acts, errors, mistakes or omissions, there can be no assurance the limitations of liability set forth in its contracts will be enforceable in all instances or would otherwise protect the Company from liability for damages. Although the Company maintains general liability insurance coverage, including coverage for errors or omissions, there can be no assurance that such coverage will continue to be available on reasonable terms or will be available in sufficient amounts to cover one or more large claims, or that the insurer will not disclaim coverage as to any future claim. The successful assertion of one or more large claims against the Company that exceed available insurance coverage or changes in the Company's insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could adversely affect the Company's business, financial condition and results of operations.

Intellectual Property Rights. The Company relies on a combination of copyright, trade secret, trademark, service mark and trade dress laws, confidentiality procedures and contractual provisions to protect its proprietary rights in its products and technology. There can be no assurance, however, that the confidentiality agreements on which the Company relies to protect its trade secrets and proprietary technology will be adequate. Further, the Company may be subject to additional risks as it enters into transactions in countries where intellectual property laws are not well developed or are poorly enforced. Legal protections of the Company's rights may be ineffective in such countries. Litigation to defend and enforce the Company's intellectual property rights

could result in substantial costs and diversion of resources and could have a material adverse effect on the Company's business, financial condition and results of operations, regardless of the final outcome of such litigation. Despite the Company's efforts to safeguard and maintain its proprietary rights both in the United States and abroad, there can be no assurance that the Company will be successful in doing so, or that the steps taken by the Company in this regard will be adequate to deter misappropriation or independent third party development of the Company's technology or to prevent an unauthorized third party from copying or otherwise obtaining and using the Company's products or technology. Any such events could have a material adverse effect on the Company's business, financial condition and results of operations.

Form 10-Q
Page 22 of 24

As the number of supply chain management applications in the industry increases and the functionality of these products further overlaps, software development companies like the Company may increasingly become subject to claims of infringement or misappropriation of the intellectual property rights of others. There can be no assurance that third parties will not assert infringement or misappropriation claims against the Company in the future with respect to current or future products. Any claims or litigation, with or without merit, could be time-consuming, result in costly litigation, diversion of management's attention and cause product shipment delays or require the Company to enter into royalty or licensing arrangements. Such royalty or licensing arrangements, if required, may not be available on terms acceptable to the Company, if at all, which could have a material adverse effect on the Company's business, financial condition and results of operations. Adverse determinations in such claims or litigation could also have a material adverse effect on the Company's business, financial condition and results of operations.

Certain Anti-Takeover Provisions. The Board of Directors has authority to issue up to 20,000,000 shares of preferred stock and to fix the rights, preferences, privileges and restrictions, including voting rights, of the preferred stock without further vote or action by the Company's stockholders. The rights of the holders of the Common Stock will be subject to, and may be adversely affected by, the rights of the holders of a preferred stock that may be issued in the future. While the Company has no present intention to issue shares of preferred stock, such issuance, while providing desired flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire a majority of the outstanding voting stock of the Company. In addition, the Company's Articles of Incorporation and Bylaws contain provisions that may discourage proposals or bids to acquire the Company. These provisions could have the effect of making it more difficult for a third party to acquire control of the Company.

Shares Eligible for Future Sale. Sales of a substantial number of shares of Common Stock in the public market following the Offering could adversely affect the market price of the Common Stock prevailing from time to time. The number of shares of Common Stock available for sale in the public market is limited by restrictions under the Securities Act of 1933, as amended (the "Securities Act"), and lock-up agreements executed by officers, directors, option holders and all stockholders of the Company under which such security holders have agreed not to sell or otherwise dispose of any of their shares before October 21, 1998 without the prior written consent of Deutsche Morgan Grenfell Inc., the lead managing underwriter in the Offering. There are 19,681,674 shares of Common Stock outstanding as June 30, 1998 which are "restricted" shares under the Securities Act. As a result of the lock-up agreements described above and the provisions of Rules 144(k), 144 and 701 promulgated under the Securities Act ("Rule 144(k)," "Rule 144" and "Rule 701," respectively), approximately 19,345,008 shares will become eligible for sale in the public market beginning October 21, 1998 and approximately 336,666 shares will become eligible for sale in February 1999. In addition, the Company intends to register for offer and sale under the Securities Act 5,729,784 shares of Common Stock issued or issuable under the Company's stock option plans and other stock options.

Year 2000 Compliance. Many currently installed computer systems and software products are coded to accept only two digit entries in the date code field. Beginning in the year 2000, these date code fields will need to accept four digit entries to distinguish twenty-first century dates from twentieth century dates. As a result, over the next two years, computer systems and/or software used by many companies may need to be upgraded to comply with such "Year 2000" requirements. Significant uncertainty exists in the software industry concerning the potential effects associated with such compliance. The latest versions of the Company's products are designed to be Year 2000 compliant. The Company is in the process of determining the extent to which its earlier software products as implemented in the Company's installed

Form 10-Q
Page 23 of 24

customer base are Year 2000 compliant, as well as the impact of any non-compliance on the Company and its customers. The Company does not currently believe that the effects of any Year 2000 non-compliance in the Company's installed base of software will result in a material adverse effect on the Company's business, financial condition or results of operations. However, the Company's investigation is in its preliminary stages, and no assurance can be given that the Company will not be exposed to potential claims resulting from system problems associated with the century change. There can also be no assurance that the Company's software products that are designed to be Year 2000 compliant contain all necessary date code changes.

The Company believes that the purchasing patterns of customers and potential customers may be affected by Year 2000 issues in a variety of ways. Many companies are expending significant resources to correct or patch their current software systems for Year 2000 compliance. These expenditures may result in reduced funds available to purchase software products such as those offered by the Company. Potential customers may also choose to defer purchasing Year 2000 compliant products until they believe it is absolutely necessary, thus potentially resulting in stalled market sales within the industry. Conversely, Year 2000 issues may cause other companies to accelerate purchases, thereby causing an increase in short-term demand and a consequent decrease in long-term demand for software products. Additionally, Year 2000 issues could cause a significant number of companies, including current Company customers, to reevaluate their current software needs and as a result switch to other systems or suppliers. Any of the foregoing could result in a material adverse effect on the Company's business, financial condition and results of operations.

Form 10-Q
Page 24 of 24