

MANHATTAN ASSOCIATES INC  
Form 10-Q  
July 31, 2013  
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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 June 30, 2013

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)

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**Georgia**  
(State or Other Jurisdiction of

**58-2373424**  
(I.R.S. Employer

Incorporation or Organization)

Identification No.)

**2300 Windy Ridge Parkway, Tenth Floor**

**Atlanta, Georgia**  
(Address of Principal Executive Offices)

**30339**  
(Zip Code)

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

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

The number of shares of the Registrant's class of capital stock outstanding as of July 25, 2013, the latest practicable date, is as follows:  
19,312,084 shares of common stock, \$0.01 par value per share.

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**MANHATTAN ASSOCIATES, INC.**

**FORM 10-Q**

**Quarter Ended June 30, 2013**

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**Table of Contents****PART I****FINANCIAL INFORMATION****Item 1. Financial Statements.****MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES****Condensed Consolidated Balance Sheets****(in thousands, except share and per share data)**

	June 30, 2013 (unaudited)	December 31, 2012
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 98,623	\$ 96,737
Short-term investments	7,887	6,310
Accounts receivable, net of allowance of \$5,262 and \$6,235 in 2013 and 2012, respectively	68,469	62,102
Deferred income taxes	6,915	7,787
Prepaid expenses and other current assets	8,456	8,571
Total current assets	190,350	181,507
Property and equipment, net	14,169	15,650
Goodwill, net	62,262	62,265
Deferred income taxes	678	732
Other assets	1,382	1,659
Total assets	\$ 268,841	\$ 261,813
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 7,380	\$ 10,229
Accrued compensation and benefits	14,699	16,720
Accrued and other liabilities	9,754	12,233
Deferred revenue	54,494	47,935
Income taxes payable	4,482	4,024
Total current liabilities	90,809	91,141
Other non-current liabilities	10,626	9,163
Shareholders' equity:		
Preferred stock, no par value; 20,000,000 shares authorized, no shares issued or outstanding in 2013 and 2012		
Common stock, \$.01 par value; 100,000,000 shares authorized; 19,308,861 and 19,620,967 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively	193	196
Retained earnings	174,768	166,016
Accumulated other comprehensive loss	(7,555)	(4,703)
Total shareholders' equity	167,406	161,509

Total liabilities and shareholders' equity	\$ 268,841	\$ 261,813
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*See accompanying Notes to Condensed Consolidated Financial Statements.*

**Table of Contents****Item 1. Financial Statements** (continued)**MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Income**

(in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(unaudited)			
<b>Revenue:</b>				
Software license	\$ 16,136	\$ 15,345	\$ 30,381	\$ 30,932
Services	78,203	69,322	153,090	139,692
Hardware and other	8,177	8,900	15,646	14,424
<b>Total revenue</b>	<b>102,516</b>	93,567	<b>199,117</b>	185,048
<b>Costs and expenses:</b>				
Cost of license	1,937	1,488	3,715	3,265
Cost of services	35,058	30,322	70,104	62,032
Cost of hardware and other	7,023	7,540	13,237	11,988
Research and development	11,032	10,802	22,508	22,353
Sales and marketing	11,888	11,415	23,322	23,818
General and administrative	7,932	9,240	17,440	19,548
Depreciation and amortization	1,459	1,418	2,943	2,762
<b>Total costs and expenses</b>	<b>76,329</b>	72,225	<b>153,269</b>	145,766
<b>Operating income</b>	<b>26,187</b>	21,342	<b>45,848</b>	39,282
Other income, net	1,243	802	1,394	678
<b>Income before income taxes</b>	<b>27,430</b>	22,144	<b>47,242</b>	39,960
Income tax provision	10,023	7,972	16,480	14,386
<b>Net income</b>	<b>\$ 17,407</b>	\$ 14,172	<b>\$ 30,762</b>	\$ 25,574
<b>Basic earnings per share</b>	<b>\$ 0.91</b>	\$ 0.72	<b>\$ 1.60</b>	\$ 1.29
<b>Diluted earnings per share</b>	<b>\$ 0.89</b>	\$ 0.70	<b>\$ 1.57</b>	\$ 1.25
<b>Weighted average number of shares:</b>				
Basic	19,222	19,765	19,274	19,834
Diluted	19,509	20,351	19,597	20,494

*See accompanying Notes to Condensed Consolidated Financial Statements.*

**Table of Contents****Item 1. Financial Statements** (continued)**MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES****Consolidated Statements of Comprehensive Income**

(in thousands)

	<b>Three Months Ended June 30, 2013</b>		<b>Six Months Ended June 30, 2012</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<b>(unaudited)</b>			
Net income	<b>\$ 17,407</b>	\$ 14,172	<b>\$ 30,762</b>	\$ 25,574
Other comprehensive loss, net of tax:				
Foreign currency translation adjustment	<b>(2,772)</b>	(1,822)	<b>(2,852)</b>	(734)
Unrealized gain on investments, net of tax of \$53		92		92
Other comprehensive loss	<b>(2,772)</b>	(1,730)	<b>(2,852)</b>	(642)
Comprehensive income	<b>\$ 14,635</b>	\$ 12,442	<b>\$ 27,910</b>	\$ 24,932

*See accompanying Notes to Condensed Consolidated Financial Statements.*

**Table of Contents****Item 1. Financial Statements** (continued)**MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Cash Flows**

(in thousands)

	Six Months Ended June 30,	
	2013	2012
	(unaudited)	
<b>Operating activities:</b>		
Net income	\$ 30,762	\$ 25,574
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,943	2,762
Equity-based compensation	4,040	3,637
Loss (gain) on disposal of equipment	1	(3)
Tax benefit of stock awards exercised/vested	4,987	4,981
Excess tax benefits from equity-based compensation	(4,874)	(4,062)
Deferred income taxes	2,265	2,461
Unrealized foreign currency (gain) loss	(372)	173
Changes in operating assets and liabilities:		
Accounts receivable, net	(6,971)	(8,206)
Other assets	227	650
Accounts payable, accrued and other liabilities	(7,341)	(4,056)
Income taxes	887	7,163
Deferred revenue	7,142	2,876
Net cash provided by operating activities	33,696	33,950
<b>Investing activities:</b>		
Purchase of property and equipment	(1,633)	(3,250)
Net (purchases) maturities of investments	(2,055)	1,223
Net cash used in investing activities	(3,688)	(2,027)
<b>Financing activities:</b>		
Purchase of common stock	(34,902)	(50,235)
Proceeds from issuance of common stock from options exercised	3,861	17,933
Excess tax benefits from equity-based compensation	4,874	4,062
Net cash used in financing activities	(26,167)	(28,240)
Foreign currency impact on cash	(1,955)	(771)
Net change in cash and cash equivalents	1,886	2,912
Cash and cash equivalents at beginning of period	96,737	92,180
Cash and cash equivalents at end of period	\$ 98,623	\$ 95,092



*See accompanying Notes to Condensed Consolidated Financial Statements.*

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**MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

**June 30, 2013**

**(Unaudited)**

**1. Basis of Presentation and Principles of Consolidation**

**Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements of Manhattan Associates, Inc. and its subsidiaries (the Company) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information, with the instructions to Form 10-Q and with Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required for complete financial statements. In the opinion of management, these condensed consolidated financial statements contain all normal recurring adjustments considered necessary for a fair presentation of the Company's financial position at June 30, 2013, the results of operations for the three and six months ended June 30, 2013 and 2012, and cash flows for the six months ended June 30, 2013 and 2012. The results for the three and six months ended June 30, 2013 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 and management's discussion and analysis included in the Company's annual report on Form 10-K for the year ended December 31, 2012.

**Principles of Consolidation**

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

**2. Revenue Recognition**

The Company's revenue consists of fees from the licensing and hosting of software (collectively included in Software license revenue in the Condensed Consolidated Statements of Income), fees from implementation and training services (collectively, professional services) and customer support services and software enhancements (collectively included in Services revenue in the Condensed Consolidated Statements of Income), and sales of hardware and other revenue, which consists of reimbursements of out-of-pocket expenses incurred in connection with professional services rendered (collectively included in Hardware and other revenue in the Condensed Consolidated Statements of Income). All revenue is recognized net of any related sales taxes.

The Company recognizes license revenue when the following criteria are met: (1) a signed contract is obtained covering all elements of the arrangement, (2) delivery of the product has occurred, (3) the license fee is fixed or determinable, and (4) collection is probable. Revenue recognition for software with multiple-element arrangements requires recognition of revenue using the residual method when (a) there is vendor-specific objective evidence (VSOE) of the fair values of all undelivered elements in a multiple-element arrangement that is not accounted for using long-term contract accounting, (b) VSOE of fair value does not exist for one or more of the delivered elements in the arrangement, and (c) all other applicable revenue-recognition criteria for software revenue recognition, are satisfied. For those contracts that contain significant customization or modifications, license revenue is recognized using contract accounting.

The Company allocates revenue to customer support services and software enhancements and any other undelivered elements of the arrangement based on VSOE of fair value of each element and such amounts are deferred until the applicable delivery criteria and other revenue recognition criteria have been met. The balance of the revenue, net of any discounts inherent in the arrangement, is recognized at the outset of the arrangement using the residual method as the product licenses are delivered. If the Company cannot objectively determine the fair value of each undelivered element based on the VSOE of fair value, the Company defers revenue recognition until all elements are delivered, all services have been performed, or until fair value can be objectively determined. The Company must apply judgment in determining all elements of the arrangement and in determining the VSOE of fair value for each element, considering the price charged for each product on a stand-alone basis or applicable renewal rates. For arrangements that include future software functionality deliverables, the Company accounts for these deliverables as a separate element of the arrangement. Because the Company does not sell these deliverables on a standalone basis, the Company

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is not able to establish VSOE of fair value of these deliverables. As a result, the Company defers all revenue under the arrangement until the future functionality has been delivered to the customer.

**Table of Contents****MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (continued)****June 30, 2013****(Unaudited)**

Payment terms for the Company's software licenses vary. Each contract is evaluated individually to determine whether the fees in the contract are fixed or determinable and whether collectibility is probable. Judgment is required in assessing the probability of collection, which is generally based on evaluation of customer-specific information, historical collection experience, and economic market conditions. If market conditions decline, or if the financial conditions of customers deteriorate, the Company may be unable to determine that collectibility is probable, and the Company could be required to defer the recognition of revenue until the Company receives customer payments. The Company has an established history of collecting under the terms of its software license contracts without providing refunds or concessions to its customers. Therefore, the Company has determined that the presence of payment terms that extend beyond contract execution in a particular contract do not preclude the conclusion that the fees in the contract are fixed or determinable. Although infrequent, when payment terms in a contract extend beyond twelve months, the Company has determined that such fees are not fixed or determinable and recognizes revenue as payments become due provided that all other conditions for revenue recognition have been met.

The Company's services revenue consists of fees generated from professional services and customer support and software enhancements related to the Company's software products. Professional services include system planning, design, configuration, testing and other software implementation support and are not typically essential to the functionality of our software. Fees from professional services performed by the Company are separately priced and are generally billed on an hourly basis, and revenue is recognized as the services are performed. In certain situations, professional services are rendered under agreements in which billings are limited to contractual maximums or based upon a fixed-fee for portions of or all of the engagement. Revenue related to fixed-fee based contracts is recognized on a proportional performance basis based on the hours incurred on discrete projects within an overall services arrangement. The Company has determined that output measures, or services delivered, approximate the input measures associated with fixed-fee services arrangements. Project losses are provided for in their entirety in the period in which they become known. Revenue related to customer support services and software enhancements is generally paid in advance and recognized ratably over the term of the agreement, typically twelve months.

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

In accordance with the other presentation matters within the Revenue Recognition Topic of the Financial Accounting Standards Board's (FASB) Accounting Standards Codification, the Company recognizes amounts associated with reimbursements from customers for out-of-pocket expenses as revenue. Such amounts have been included in Hardware and other revenue in the Condensed Consolidated Statements of Income. The total amount of expense reimbursement recorded to revenue was \$3.9 million and \$3.2 million for the three months ended June 30, 2013 and 2012, respectively, and \$7.2 million and \$5.6 million for the six months ended June 30, 2013 and 2012, respectively.

**3. Fair Value Measurement**

The Company measures its investments based on a fair value hierarchy disclosure framework that prioritizes and ranks the level of market price observability used in measuring assets and liabilities at fair value. Market price observability is affected by a number of factors, including the type of asset or liability and their characteristics. This hierarchy prioritizes the inputs into three broad levels as follows:

Level 1 Quoted prices in active markets for identical instruments.

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

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

**Table of Contents****MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (continued)****June 30, 2013****(Unaudited)**

The Company's investments are categorized as available-for-sale securities and recorded at fair market value. Investments with maturities of 90 days or less from the date of purchase are classified as cash equivalents; investments with maturities of greater than 90 days from the date of purchase but less than one year are generally classified as short-term investments; and investments with maturities of one year or greater from the date of purchase are generally classified as long-term investments. Unrealized holding gains and losses are reflected as a net amount in a separate component of shareholders' equity until realized. For the purposes of computing realized gains and losses, cost is determined on a specific identification basis.

At June 30, 2013, the Company's cash, cash equivalents, and short-term investments balances were \$58.2 million, \$40.4 million, and \$7.9 million, respectively. The Company currently has no long-term investments. Cash equivalents consist of highly liquid money market funds and certificates of deposit. Short-term investments consist of certificates of deposit. The Company uses quoted prices from active markets that are classified at Level 1 as a highest level observable input in the disclosure hierarchy framework for all available-for-sale securities. At June 30, 2013 and December 31, 2012, the Company had \$30.3 million and \$35.2 million in money market funds, respectively, which are classified as Level 1 and are included in cash and cash equivalents on the Condensed Consolidated Balance Sheets. The Company has no investments classified as Level 2 or Level 3.

**4. Equity-Based Compensation**

In January 2012, in order to simplify equity grant administration, the Company changed its practice of granting restricted stock in favor of granting restricted stock *units*, or RSUs, which convert to the Company's common stock upon vesting. There is no material difference between the grant of restricted stock and the grant of RSUs to either the Company or the recipients receiving the grants; however, in contrast to the granting of restricted stock, no stock will actually be issued under the granting of RSUs until the units vest. The Company does not currently grant stock options.

As previously reported, on December 31, 2012, Mr. Peter F. Sinisgalli stepped down from the role of Chief Executive Officer of the Company and became a non-employee member of the Board of Directors. In March 2013, the Board of Directors, upon the recommendation of the Compensation Committee in recognition of Mr. Sinisgalli's successful tenure as Chief Executive Officer and the superior performance of the Company under his leadership, approved the vesting of a portion of the equity incentives granted to him during his employment as Chief Executive Officer that were scheduled to vest during the first quarter of 2013. These previously granted incentives included options to acquire 3,750 shares at an exercise price of \$15.53 per share and 10,597 shares of restricted stock and RSUs. The Board's action preserved 22% of Mr. Sinisgalli's non-vested employee equity value in recognition of his services and contribution, with the remaining 78% forfeited.

The Company recorded equity-based compensation related to stock options granted in prior years of \$11,000 and \$140,000 during the three months ended June 30, 2013 and 2012, respectively, and \$159,000 and \$260,000 for the six months ended June 30, 2013 and 2012, respectively.

A summary of changes in outstanding options for the six months ended June 30, 2013 is as follows:

	<b>Number of Options</b>
<b>Outstanding at December 31, 2012</b>	371,750
Exercised	(179,651)
Forfeited and expired	(5,906)
<b>Outstanding at June 30, 2013</b>	<b>186,193</b>

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The Company granted 17,020 RSUs and 18,196 RSUs during the three months ended June 30, 2013 and 2012, respectively, and 211,292 RSUs and 216,075 RSUs during the six months ended June 30, 2013 and 2012, respectively. The Company recorded equity-based compensation expense related to restricted stock and RSUs of \$2.1 million and \$1.8 million during the three months ended June 30, 2013 and 2012, respectively, and \$3.9 million and \$3.4 million during the six months ended June 30, 2013 and 2012.

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A summary of changes in unvested shares/units for the six months ended June 30, 2013 is as follows:

	Number of shares/units
<b>Outstanding at December 31, 2012</b>	597,199
Granted	211,292
Vested	(214,006)
Forfeited	(132,920)
<b>Outstanding at June 30, 2013</b>	<b>461,565</b>

**5. Income Taxes**

The Company's effective tax rate was 36.5% and 36.0% for the quarters ended June 30, 2013 and 2012, respectively, and 34.9% and 36.0% for the six months ended June 30, 2013 and 2012, respectively. The increase in the effective tax rate for the quarter ended June 30, 2013 is due to an increase in foreign taxes, partially offset by the reinstatement of the federal research and development tax credit for the 2013 tax year. The decrease in the effective tax rate for the six months ended June 30, 2013 is due to the reinstatement of the federal research and development tax credit in January 2013 for the 2012 and 2013 tax years, partially offset by the establishment of state income tax reserves and an increase in foreign taxes.

The Company applies the provisions for income taxes related to, among other things, accounting for uncertain tax positions and disclosure requirements in accordance with the Income Taxes Topic of the FASB Accounting Standards Codification. For the three months ended June 30, 2013, there were no material changes to the Company's uncertain tax positions. Nor has there been any change to the Company's policy that recognizes potential interest and penalties related to uncertain tax positions within its global operations in income tax expense.

The Company conducts business globally and, as a result, files income tax returns in the U.S. federal jurisdiction and in many state and foreign jurisdictions. The Company is no longer subject to income tax examinations for the years before 2009 in the U.S. federal, substantially all state and local, and substantially all non-US jurisdictions.

**6. Net Earnings Per Share**

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

The following is a reconciliation of the net income and share amounts used in the computation of basic and diluted net earnings per common share for the three and six months ended June 30, 2013 and 2012 (in thousands, except per share data):

**Three Months Ended June 30,      Six Months Ended June 30,**



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	2013	2012	2013	2012
Net income	\$ 17,407	\$ 14,172	\$ 30,762	\$ 25,574
<b>Earnings per share:</b>				
Basic	\$ 0.91	\$ 0.72	\$ 1.60	\$ 1.29
Effect of CESs	(0.02)	(0.02)	(0.03)	(0.04)
Diluted	\$ 0.89	\$ 0.70	\$ 1.57	\$ 1.25
<b>Weighted average number of shares:</b>				
Basic	19,222	19,765	19,274	19,834
Effect of CESs	287	586	323	660
Diluted	19,509	20,351	19,597	20,494

**Table of Contents****MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (continued)****June 30, 2013****(Unaudited)**

There were no anti-dilutive CESs during 2012 and 2013.

**7. Contingencies**

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

**8. Operating Segments**

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

The Americas segment charges royalty fees to the EMEA and APAC segments based on software licenses sold by those operating segments. The royalties, which totaled approximately \$0.7 million for both three months periods ended June 30, 2013 and 2012, and approximately \$1.3 million and \$1.9 million for the six months ended June 30, 2013 and 2012, respectively, are included in cost of revenue in EMEA and APAC with a corresponding reduction in the Americas cost of revenue. The revenues represented below are from external customers only. The geographical-based costs consist of costs of personnel, direct sales and marketing expenses, and general and administrative costs to support the business. There are certain corporate expenses included in the Americas region that are not charged to the other segments, including research and development, certain marketing and general and administrative costs that support the global organization, and the amortization of acquired developed technology. Included in the Americas costs are all research and development costs including the costs associated with the Company's India operations.

The following table presents the revenues, expenses and operating income by reporting segment for the three and six months ended June 30, 2013 and 2012 (in thousands):

	2013				2012			
	Americas	EMEA	APAC	Consolidated	Americas	EMEA	APAC	Consolidated
<b>Revenue:</b>								
License	\$ 13,462	\$ 1,118	\$ 1,556	\$ 16,136	\$ 12,361	\$ 3,257	\$ (273)	\$ 15,345
Services	62,510	10,477	5,216	78,203	56,349	8,760	4,213	69,322

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Hardware and other	7,628	369	180	8,177	8,384	317	199	8,900
<b>Total revenue</b>	<b>83,600</b>	<b>11,964</b>	<b>6,952</b>	<b>102,516</b>	77,094	12,334	4,139	93,567
<b>Costs and Expenses:</b>								
Cost of revenue	34,435	6,212	3,371	44,018	30,698	6,014	2,638	39,350
Operating expenses	26,592	2,939	1,321	30,852	26,964	3,314	1,179	31,457
Depreciation and amortization	1,317	77	65	1,459	1,302	62	54	1,418
<b>Total costs and expenses</b>	<b>62,344</b>	<b>9,228</b>	<b>4,757</b>	<b>76,329</b>	58,964	9,390	3,871	72,225
<b>Operating income</b>	<b>\$ 21,256</b>	<b>\$ 2,736</b>	<b>\$ 2,195</b>	<b>\$ 26,187</b>	\$ 18,130	\$ 2,944	\$ 268	\$ 21,342

**Table of Contents****MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (continued)****June 30, 2013****(Unaudited)**

	2013				2012			
	Americas	EMEA	APAC	Consolidated	Americas	EMEA	APAC	Consolidated
<b>Revenue:</b>								
Software license	\$ 24,991	\$ 2,437	\$ 2,953	\$ 30,381	\$ 23,350	\$ 7,316	\$ 266	\$ 30,932
Services	123,790	20,240	9,060	153,090	113,465	16,806	9,421	139,692
Hardware and other	14,639	718	289	15,646	13,474	619	331	14,424
<b>Total revenue</b>	<b>163,420</b>	<b>23,395</b>	<b>12,302</b>	<b>199,117</b>	<b>150,289</b>	<b>24,741</b>	<b>10,018</b>	<b>185,048</b>
<b>Costs and Expenses:</b>								
Cost of revenue	68,249	12,372	6,435	87,056	59,715	12,079	5,491	77,285
Operating expenses	54,289	6,383	2,598	63,270	56,223	7,016	2,480	65,719
Depreciation and amortization	2,662	151	130	2,943	2,536	122	104	2,762
<b>Total costs and expenses</b>	<b>125,200</b>	<b>18,906</b>	<b>9,163</b>	<b>153,269</b>	<b>118,474</b>	<b>19,217</b>	<b>8,075</b>	<b>145,766</b>
<b>Operating income</b>	<b>\$ 38,220</b>	<b>\$ 4,489</b>	<b>\$ 3,139</b>	<b>\$ 45,848</b>	<b>\$ 31,815</b>	<b>\$ 5,524</b>	<b>\$ 1,943</b>	<b>\$ 39,282</b>

License revenues related to the Company's warehouse and non-warehouse product groups for the three and six months ended June 30, 2013 and 2012 are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Warehouse	\$ 9,375	\$ 9,746	\$ 18,626	\$ 18,423
Non-Warehouse	6,761	5,599	11,755	12,509
<b>Total software license revenue</b>	<b>\$ 16,136</b>	<b>\$ 15,345</b>	<b>\$ 30,381</b>	<b>\$ 30,932</b>

The Company's services revenues, which consist of fees generated from professional services and customer support and software enhancements related to its software products, for the three and six months ended June 30, 2013 and 2012 are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Professional services	\$ 52,492	\$ 45,497	\$ 101,643	\$ 92,118
Customer support and software enhancements	25,711	23,825	51,447	47,574
<b>Total services revenue</b>	<b>\$ 78,203</b>	<b>\$ 69,322</b>	<b>\$ 153,090</b>	<b>\$ 139,692</b>

**9. New Accounting Pronouncements**

In February 2013, the FASB issued an Accounting Standards Update (ASU) on reporting of amounts reclassified out of accumulated other comprehensive income, an amendment to the Presentation of Comprehensive Income Topic of the FASB Accounting Standards Codification. The ASU requires disclosure of amounts reclassified out of accumulated other comprehensive income by component. In addition, companies are required to present either on the face of the financial statements or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required to be reclassified to net income in its entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, companies are required to cross-reference to other disclosures that provide additional detail about those amounts. This guidance is effective prospectively for annual and interim periods beginning after December 15, 2012. The Company adopted the ASU in its first quarter of 2013 reporting, which did not have an impact on its financial statements.

In July 2013, the FASB issued an ASU on presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists, an amendment to the Income Taxes Topic of the FASB

**Table of Contents****MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (continued)****June 30, 2013****(Unaudited)**

Accounting Standards Codification. The ASU requires companies to net the liability related to an unrecognized tax benefit against a deferred tax asset for a loss or other carryforward that would apply in settlement of the uncertain tax positions. In addition, under this ASU, unrecognized tax benefits will be netted against all available same-jurisdiction loss or other tax carryforwards that would be utilized, rather than only against carryforwards that are created by the unrecognized tax benefits. This guidance is effective prospectively for annual and interim periods beginning after December 15, 2013. The Company does not anticipate the adoption of this ASU will have a material impact on its financial statements.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. Forward-Looking Statements**

Certain statements contained in this filing are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including but not limited to statements related to plans for future business development activities, anticipated costs of revenues, product mix and service revenues, research and development and selling, general and administrative activities, and liquidity and capital needs and resources. When used in this report, the words expect, anticipate, intend, plan, believe, seek, estimate, and similar expressions are generally intended to identify forward-looking statements. Undue reliance should not be placed on these forward-looking statements, which reflect our opinions only as of the date of this quarterly report. Such forward-looking statements are subject to risks, uncertainties, and other factors that could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. For further information about these and other factors that could affect our future results, please see Risk Factors in Item 1A of our annual report on Form 10-K for the year ended December 31, 2012. Investors are cautioned that forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements. The following discussion should be read in conjunction with the condensed consolidated financial statements for the three and six months ended June 30, 2013 and 2012, including the notes to those statements, included elsewhere in this quarterly report. We also recommend the following discussion be read in conjunction with management's discussion and analysis and consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2012. References in this filing to the Company, Manhattan, Manhattan Associates, we, our, us refer to Manhattan Associates, Inc., our predecessors, and our wholly-owned and consolidated subsidiaries.

**Business Overview**

We are a leading developer and implementer of supply chain software solutions that help organizations optimize their supply chain operations from planning through execution. Our platform-based supply chain software solution portfolios Manhattan SCOPE® and Manhattan SCALE™ are designed to deliver both business agility and total cost of ownership advantages to customers. Manhattan SCOPE (Supply Chain Optimization, Planning through Execution) leverages our Supply Chain Process Platform (SCPP) to unify the full breadth of the supply chain, while Manhattan SCALE (Supply Chain Architected for Logistics Execution) leverages Microsoft's .NET platform to unify logistics functions.

Early in the Company's history, our offerings were heavily focused on warehouse management solutions. As the Company grew in size and scope, our offerings expanded across the entire supply chain, while still maintaining a significant presence in, and a relatively strong concentration of revenues from warehouse management solutions, which is a component of our distribution management solution suite. Over time, as our non-warehouse management solutions have proliferated and increased in capability, the Company's revenue concentration in its warehouse management solutions has correspondingly decreased.

Our business model is singularly focused on the development and implementation of complex supply chain software solutions that are designed to optimize supply chain effectiveness and efficiency for our customers. We have three principal sources of revenue:

licenses of our supply chain software;

professional services, including solutions planning and implementation, related consulting, customer training, and customer support services and software enhancements (collectively, "services"); and

hardware sales and other revenue.

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In the three and six months ended June 30, 2013, we generated \$102.5 million and \$199.1 million, in total revenue, respectively, with a revenue mix of: license revenue 16%; services revenue 76%; and hardware and other revenue 8% for the three months ended June 30, 2013, and license revenue 15%; services revenue 77%; and hardware and other revenue 8% for the six months ended June 30, 2013.

We manage our business based on three geographic regions: North America and Latin America (Americas); Europe, Middle East, and Africa (EMEA); and Asia Pacific (APAC). Geographic revenue is based on the location of the sale. Our international revenue was approximately \$25.8 million and \$50.5 million for the three and six months ended June 30, 2013, respectively, which represents approximately 25% of our total revenue for both periods. International revenue includes all revenue derived from sales to customers outside the United States. At June 30, 2013, we employed approximately 2,450 employees worldwide, of which 1,160 employees are based in the Americas, 175 employees in EMEA, and 1,115 employees in APAC (including India). We have offices in Australia, China, France, India, Japan, the Netherlands, Singapore, and the United Kingdom, as well as representatives in Mexico and reseller partnerships in Latin America, Eastern Europe, the Middle East, South Africa, and Asia.

**Global Economic Trends and Industry Factors**

Global macroeconomic trends, technology spending, and supply chain management market growth are important barometers for our business. In both the three and six month periods ended June 30, 2013, approximately 75% of our total revenue was generated in the United States, 12% in EMEA, and the balance in APAC, Canada, and Latin America. Gartner Inc., an information technology research and advisory company, estimates that nearly 80% of every supply chain software solutions dollar invested is spent in the United States (50%) and Western Europe (28%); consequently, the health of the U.S. and Western European economies has a meaningful impact on our financial results.

We sell technology-based solutions with total pricing, including software and services, in many cases exceeding \$1.0 million. Our software often is a part of our customers' and prospects' much larger capital commitment associated with facilities expansion and business improvement. We believe that, given the lingering uncertainty in the global macro environment, the current sales cycles for large license deals of \$1.0 million or greater in our target markets have been extended. The current business climate within the United States and geographic regions in which we operate continues to affect customers' and prospects' decisions regarding timing of strategic capital expenditures. Delays with respect to such decisions can have a material adverse impact on our business, and may further intensify competition in our already highly competitive markets.

In July 2013, the International Monetary Fund (IMF) provided a World Economic Outlook (WEO) update lowering its previous 2013 world economic growth forecast to 3.1 percent growth in 2013, which is the same as 2012 growth rate. The WEO update noted that global growth will recover from slightly above 3 percent in 2013 to 3 <sup>3</sup>/<sub>4</sub> percent in 2014, some <sup>1</sup>/<sub>4</sub> percent weaker for both years than the April 2013 projections. The WEO update projected that advanced economies, which represent our primary revenue markets, would grow at about 1.2 percent in 2013 and 2.1 percent in 2014, while the emerging and developing economies would continue to grow at a solid pace of about 5.0 percent in 2013 and 5.4 percent in 2014.

During 2012 and continuing into 2013, the overall trend has been steady for the Company's large license deals, with recognized \$1.0 million or larger software license sales totaling twelve for 2012 and totaling seven in the first half of 2013. However, the large deal flow has been inconsistent from quarter to quarter, reflecting what we believe to be ongoing macroeconomic uncertainty in the United States and Western Europe. While we are encouraged by our 2012 and first half of 2013 results, we, along with many of our customers, still remain cautious regarding the pace of global economic recovery. With global GDP growth continuing to be well below pre-2008 levels, we believe global economic volatility likely will continue to shape customers' and prospects' buying decisions, making it more difficult to forecast sales cycles for our products and the timing of large software license deals.

**Revenue**

**License revenue.** License revenue, a leading indicator of our business, is primarily derived from software license fees that customers pay for supply chain solutions. License revenue totaled \$16.1 million, or 16% of total revenue, with gross margins of 88.0% for the three months ended June 30, 2013, and \$30.4 million, or 15% of total revenue, with gross margins of 87.8% for the six months ended June 30, 2013. Our typical license revenue percentage mix of new to existing customers historically has approximated 50/50. However, for the three and six months ended June 30, 2013, the percentage mix of new to existing customers was approximately 30/70. We believe our current mix of new customer to existing customer license sales will fluctuate with continuing global macroeconomic uncertainty; however, we anticipate that the mix will return to historically normal levels in improved global economic conditions.



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License revenue growth is influenced by the strength of general economic and business conditions and the competitive position of our software products. Our license revenue generally has long sales cycles and the timing of the closing of a few large license transactions can have a material impact on our quarterly license revenues, operating profit, operating margins, and earnings per share. For example, \$1.0 million of license revenue in the second quarter of 2013 equates to approximately \$0.03 of diluted earnings per share impact.

Our software solutions are singularly focused on the supply chain planning and execution markets, which are intensely competitive and characterized by rapid technological change. We are a market leader in the supply chain management software solutions market as defined by industry analysts such as ARC Advisory Group and Gartner. Our goal is to extend our position as a leading global supply chain solutions provider by growing our license revenues faster than our competitors through investment in innovation. We expect to continue to face increased competition from Enterprise Resource Planning (ERP) and Supply Chain Management applications vendors and business application software vendors that may broaden their solution offerings by internally developing, or by acquiring or partnering with independent developers of supply chain planning and execution software. Increased competition could result in price reductions, fewer customer orders, reduced gross margins, and loss of market share.

**Services revenue.** Our services business consists of professional services (consulting and customer training) and customer support services and software enhancements (CSSE). Services revenue totaled \$78.2 million, or 76% of total revenue, with gross margins of 55.2% for the three months ended June 30, 2013, and \$153.1 million, or 77% of total revenue, with gross margins of 54.2% for the six months ended June 30, 2013. Professional services accounted for approximately 65% of total services revenue and approximately 50% of total revenue in the three and six months ended June 30, 2013. Our operating margin profile may be lower than those of various other technology companies due to our large services revenue mix as a percentage of total revenue. While we believe our services margins are very strong, they do lower our overall operating margin profile as services margins are inherently lower than license revenue margins.

At June 30, 2013, our services organization totaled approximately 1,490 employees, accounting for 60% of our total employees worldwide. Our professional services organization provides our customers with expertise and assistance in planning and implementing our solutions. To ensure a successful product implementation, consultants assist customers with the initial installation of a system, the conversion and transfer of the customer's historical data onto our system, and ongoing training, education, and system upgrades. We believe our professional services enable customers to implement our software more rapidly than if they were to rely on internal or other third party services, enable the customer to maximize value from our solution, strengthen our customer relationships, and add to our industry-specific knowledge base for use in future implementations and product innovations.

Although our professional services are optional, the majority of our customers use at least some portion of these services for their planning, implementation, or related needs. Professional services are typically rendered under time and materials-based contracts with services typically billed on an hourly basis. Professional services are sometimes rendered under fixed-fee based contracts with payments due on specific dates or milestones.

Typically, our professional services lag license revenue by several quarters, as implementation services and related consulting are performed after the purchase of the software. Services revenue growth is contingent upon license revenue growth and customer upgrade cycles, which are influenced by the strength of general economic and business conditions and the competitive position of our software products. In addition, our business has competitive exposure to offshore providers and other consulting companies. All of these factors potentially create the risk of pricing pressure, fewer customer orders, reduced gross margins, and loss of market share.

For CSSE, we offer a comprehensive 24 hour per day, 365 days per year program that provides our customers with software upgrades, when and if available, which include additional or improved functionality and technological advances incorporating emerging supply chain and industry initiatives.

Our CSSE revenues totaled \$25.7 million and \$51.4 million for the three and six months ended June 30, 2013, respectively, representing approximately 35% of services revenue and approximately 25% of total revenue for both periods. The growth of CSSE revenues is influenced by: (i) new license revenue growth, (ii) annual renewal of support contracts, and (iii) fluctuations in currency rates. Substantially all of our customers renew their annual support contracts. Over the last three years, our annual revenue renewal rate of customers subscribing to comprehensive support and software enhancements has been greater than 90%. CSSE fees generally are paid in advance, and our CSSE revenue generally is recognized ratably over the term of the agreement, typically twelve months. CSSE renewal revenue is not recognized unless payment is received from the customer.

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***Hardware and other revenue.*** Our hardware and other revenue totaled \$8.2 million, representing 8% of total revenue with gross margins of 14.1% for the three months ended June 30, 2013, and \$15.6 million, representing 8% of total revenue with gross margins of 15.4% for the six months ended June 30, 2013. In conjunction with the licensing of our software, and as a convenience for our customers, we resell a variety of hardware products developed and manufactured by third parties. These products include computer hardware, radio frequency terminal networks, RFID chip readers, bar code printers and scanners, and other peripherals. We resell all third-party hardware products pursuant to agreements with manufacturers or through distributor-authorized reseller agreements pursuant to which we are entitled to purchase hardware products at discount prices and to receive technical support in connection with product installations and any subsequent product malfunctions. We generally purchase hardware from our vendors only after receiving an order from a customer. As a result, we generally do not maintain hardware inventory.

Other revenue represents amounts associated with reimbursements from customers for out-of-pocket expenses. The total amount of expense reimbursement recorded to hardware and other revenue was \$3.9 million and \$7.2 million for the three and six months ended June 30, 2013.

## **Product Development**

We continue to invest significantly in research and development (R&D), which historically has averaged 13% to 15% of revenue (excluding hardware and other revenue) to provide leading solutions that help global manufacturers, wholesalers, distributors, retailers, and logistics providers successfully manage accelerating and fluctuating demands as well as the increasing complexity and volatility of their local and global supply chains. Our research and development expenses were \$11.0 million and \$22.5 million for the three and six months ended June 30, 2013, respectively. At June 30, 2013, our R&D organization totaled approximately 630 employees, located in the U.S. and India, representing approximately 25% of our total employees worldwide.

We expect to continue to focus our R&D resources on the development and enhancement of supply chain software solutions. We offer what we believe to be the broadest solution portfolio in the supply chain solutions marketplace, to address all aspects of planning and forecasting, inventory optimization, order lifecycle management, transportation lifecycle management, and distribution management. We also plan to continue to enhance our existing solutions and to introduce new solutions to address evolving industry standards and market needs. We identify opportunities to further enhance our solutions and to develop and provide new solutions through our customer support organization, as well as through ongoing customer consulting engagements and implementations, interactions with our user groups, association with leading industry analysts and market research firms, and participation on industry standards and research committees. Our solutions address the needs of customers in various vertical markets, including retail, consumer goods, food and grocery, logistics service providers, industrial and wholesale, high technology and electronics, life sciences, and government.

## **Cash Flow and Financial Condition**

For the three and six months ended June 30, 2013, we generated cash flow from operating activities of \$13.6 million and \$33.7 million, respectively. Our cash, cash equivalents, and investments at June 30, 2013 totaled \$106.5 million, with no debt on our balance sheet. We currently have no credit facilities. During the past three years, our primary uses of cash have been funding investment in R&D and operations to drive earnings growth and repurchases of our common stock.

We repurchased 421,820 shares of Manhattan Associates' outstanding common stock under our repurchase program during the six months ended June 30, 2013. In July 2013, our Board of Directors approved raising the Company's remaining share repurchase authority to \$50.0 million of Manhattan Associates' outstanding common stock.

For the remainder of 2013, we anticipate that our priorities for the use of cash will be in developing sales and services resources and continued investment in product development to drive and support profitable growth and extend our market leadership. We will continue to evaluate acquisition opportunities that are complementary to our product footprint and technology direction. We will also continue to weigh our share repurchase options against cash for acquisitions and investing in the business. We do not anticipate any borrowing requirements in the remainder of 2013 for general corporate purposes.

**Table of Contents****Results of Operations**

The following table summarizes our consolidated results for the three and six months ended June 30, 2013 and 2012.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(in thousands, except per share data)			
Revenue	\$ 102,516	\$ 93,567	\$ 199,117	\$ 185,048
Costs and expenses	(76,329)	(72,225)	(153,269)	(145,766)
Operating income	26,187	21,342	45,848	39,282
Other income, net	1,243	802	1,394	678
Income before income taxes	27,430	22,144	47,242	39,960
Net income	\$ 17,407	\$ 14,172	\$ 30,762	\$ 25,574
Diluted earnings per share	\$ 0.89	\$ 0.70	\$ 1.57	\$ 1.25
Diluted weighted average number of shares	19,509	20,351	19,597	20,494

We manage our business based on three geographic regions: the Americas, EMEA, and APAC. Geographic revenue information is based on the location of sale. The revenues represented below are from external customers only. The geographical-based expenses include costs of personnel, direct sales and marketing expenses, and general and administrative costs to support the business. There are certain corporate expenses included in the Americas region that are not charged to the other segments, including research and development, certain marketing and general and administrative costs that support the global organization, and the amortization of acquired developed technology. Included in the Americas costs are all research and development costs, including the costs associated with the Company's India operations. During the three and six months ended June 30, 2013 and 2012, we derived the majority of our revenues from sales to customers within our Americas region. The following table summarizes revenue and operating profit by region:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	2012	% Change vs. Prior Year	2013	2012	% Change vs. Prior Year
	(in thousands)			(in thousands)		
<b>Revenue:</b>						
<b>Software license</b>						
Americas	\$ 13,462	\$ 12,361	9%	\$ 24,991	\$ 23,350	7%
EMEA	1,118	3,257	66%	2,437	7,316	67%
APAC	1,556	(273)	670%	2,953	266	1010%
Total software license	\$ 16,136	\$ 15,345	5%	\$ 30,381	\$ 30,932	2%
<b>Services</b>						
Americas	\$ 62,510	\$ 56,349	11%	\$ 123,790	\$ 113,465	9%
EMEA	10,477	8,760	20%	20,240	16,806	20%