MANHATTAN ASSOCIATES INC
Form 10-Q
August 06, 2008

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2008

OR

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

For the transition period from __________ to __________

Commission File Number: 0-23999

MANHATTAN ASSOCIATES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Georgia	**58-2373424**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
2300 Windy Ridge Parkway, Suite 1000 Atlanta, Georgia	**30339**
(Address of Principal Executive Offices)	(Zip Code)

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

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

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. (Check one)

Large accelerated filer þ	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The number of shares of the Registrant s class of capital stock outstanding as of August 4, 2008, the latest practicable date, is as follows: 24,520,142 shares of common stock, $0.01 par value per share.

MANHATTAN ASSOCIATES, INC.
FORM 10-Q
Quarter Ended June 30, 2008
TABLE OF CONTENTS
PART I
FINANCIAL INFORMATION

PART II
OTHER INFORMATION

2

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, 2008 (unaudited)	December 31, 2007
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 76,928**	$ 44,675
Short term investments		17,904
Accounts receivable, net of allowance of $5,136 and $6,618 in 2008 and 2007, respectively	**77,098**	72,534
Deferred income taxes	**6,642**	6,602
Prepaid expenses and other current assets	**8,297**	8,646
Total current assets	**168,965**	150,361
Property and equipment, net	**25,090**	24,421
Long-term investments	**6,532**	10,193
Acquisition-related intangible assets, net	**7,966**	9,691
Goodwill, net	**62,300**	62,285
Deferred income taxes	**9,845**	9,846
Other assets	**4,042**	4,863
Total assets	**$ 284,740**	$ 271,660
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	**$ 8,974**	$ 9,112
Accrued compensation and benefits	**16,536**	19,357
Accrued and other liabilities	**12,224**	10,040
Deferred revenue	**34,572**	31,817
Income taxes payable	**9,903**	8,156
Total current liabilities	**82,209**	78,482
Other non-current liabilities	**7,848**	7,473
Shareholders equity:		
Preferred stock, no par value; 20,000,000 shares authorized, no shares issued or outstanding in 2008 or 2007		
Common stock, $.01 par value; 100,000,000 shares authorized; 24,681,791 and 24,899,919 shares issued and outstanding at June 30, 2008 and December 31,	**245**	249

2007, respectively		
Additional paid-in capital	**12,041**	17,744
Retained earnings	**181,700**	165,189
Accumulated other comprehensive income	**697**	2,523
Total shareholders equity	**194,683**	185,705
Total liabilities and shareholders equity	**$ 284,740**	$ 271,660

See accompanying Notes to Condensed Consolidated Financial Statements.

3

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,	
	2008	2007	**2008**	2007
	(unaudited)		**(unaudited)**	
Revenue:				
Software license	**$ 19,365**	$ 23,398	**$ 37,677**	$ 37,151
Services	**62,289**	55,863	**122,126**	110,663
Hardware and other	**8,836**	10,368	**19,011**	20,005
Total Revenue	**90,490**	89,629	**178,814**	167,819
Costs and Expenses:				
Cost of license	**1,641**	1,303	**2,785**	2,446
Cost of services	**29,856**	27,284	**61,136**	53,283
Cost of hardware and other	**7,317**	8,864	**15,583**	17,225
Research and development	**11,711**	12,278	**24,365**	23,429
Sales and marketing	**14,676**	14,491	**28,248**	27,098
General and administrative	**8,867**	8,383	**17,938**	16,529
Depreciation and amortization	**3,158**	3,354	**6,406**	6,855
Total costs and expenses	**77,226**	75,957	**156,461**	146,865
Operating income	**13,264**	13,672	**22,353**	20,954
Other income, net	**650**	298	**2,951**	1,390
Income before income taxes	**13,914**	13,970	**25,304**	22,344
Income tax provision	**4,835**	4,959	**8,793**	7,932
Net income	**$ 9,079**	$ 9,011	**$ 16,511**	$ 14,412
Basic earnings per share	**$ 0.37**	$ 0.34	**$ 0.68**	$ 0.53
Diluted earnings per share	**$ 0.37**	$ 0.32	**$ 0.66**	$ 0.51
Weighted average number of shares:				
Basic	**24,259**	26,555	**24,341**	26,953
Diluted	**24,826**	27,761	**24,833**	28,149

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, 2008	Six Months Ended June 30, 2007
	(unaudited)	
Operating activities:		
Net income	**$ 16,511**	$ 14,412
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**6,406**	6,855
Stock compensation	**4,337**	3,155
Loss/(gain) on disposal of equipment	**32**	(3)
Tax benefit of stock awards exercised/vested	**119**	1,188
Excess tax deficiency from stock based compensation	**(76)**	(519)
Unrealized foreign currency gains	**(1,292)**	(52)
Changes in operating assets and liabilities:		
Accounts receivable, net	**(3,840)**	(9,439)
Other assets	**1,126**	2,321
Accounts payable, accrued and other liabilities	**(193)**	(4,633)
Income taxes	**1,791**	(65)
Deferred revenue	**2,196**	2,988
Net cash provided by operating activities	**27,117**	16,208
Investing activities:		
Purchase of property and equipment	**(5,560)**	(6,467)
Net maturities of investments	**21,533**	45,239
Net cash provided by investing activities	**15,973**	38,772
Financing activities:		
Purchase of common stock	**(12,351)**	(52,768)
Excess tax benefits from stock based compensation	**76**	519
Proceeds from issuance of common stock from options exercised	**2,187**	6,100
Net cash used in financing activities	**(10,088)**	(46,149)
Foreign currency impact on cash	**(749)**	923
Net change in cash and cash equivalents	**32,253**	9,754
Cash and cash equivalents at beginning of period	**44,675**	18,449

Cash and cash equivalents at end of period	**$ 76,928**	$ 28,203
Supplemental disclosures of cash flow information noncash investing activity:		
Tenant improvements funded by landlord	**$**	$ 7,918

See accompanying Notes to Condensed Consolidated Financial Statements.

5

Table of Contents

MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
June 30, 2008
(unaudited)

1. 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 and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required for complete financial statements. In the opinion of management, these condensed consolidated financial statements contain all normal recurring adjustments considered necessary for a fair presentation of our financial position at June 30, 2008, the results of operations for the three and six months ended June 30, 2008 and 2007 and cash flows for the six months ended June 30, 2008 and 2007. The results for the three and six months ended June 30, 2008 are not necessarily indicative of the results to be expected for the full year. These statements should be read in conjunction with our audited consolidated financial statements and management s discussion and analysis included in our annual report on Form 10-K for the year ended December 31, 2007.

2. 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.

3. Revenue Recognition

The Company s revenue consists of revenues from the licensing and hosting of software, fees from implementation and training services (collectively, professional services), plus customer support and software enhancements, and sales of hardware and other revenues (other revenues consists of reimbursements of out-of-pocket expenses incurred in connection with its professional services). All revenue is recognized net of any related sales taxes.

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

The accounting related to license revenue recognition in the software industry is complex and affected by interpretations of the rules which are subject to change. 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 condition of our customers deteriorates, the Company may be unable to determine that

Table of Contents

MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (continued)
June 30, 2008
(unaudited)

collectibility is probable, and the Company could be required to defer the recognition of revenue until the Company receives customer payments.

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. Fees from professional services performed by the Company are generally billed on an hourly basis, and revenue is recognized as the services are performed. Professional services are sometimes rendered under agreements in which billings are limited to contractual maximums or based upon a fixed-fee for portions of or all of the engagement. Revenue related to fixed-fee based contracts is recognized on a proportional performance basis based on the hours incurred on discrete projects within an overall services arrangement. Project losses are provided for in their entirety in the period in which they become known. Revenue related to customer support services and software enhancement is generally paid in advance and recognized ratably over the term of the agreement, typically 12 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 in conjunction with the licensing of software. 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 does not maintain significant hardware inventory.

In accordance with the Financial Accounting Standard Board s (FASB s) Emerging Issues Task Force (EITF) Issue No. 01-14 (EITF No. 01-14), Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred, the Company recognizes amounts associated with reimbursements from customers for out-of-pocket expenses as revenue. Such amounts have been classified to hardware and other revenue. The total amount of expense reimbursement recorded to revenue was $3.4 million and $6.4 million for the three and six months ended June 30, 2008, respectively and $3.1 million and $6.1 million for the three and six months ended June 30, 2007, respectively.

4. Investments

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS No. 157), which establishes a framework for reporting fair value and expands disclosures required for fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS No. 157 does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. However, in February 2008, the FASB issued FASB Staff Position No. 157-2, Effective Date of FASB Statement No. 157 , which delayed for one year the applicability of SFAS No. 157 s fair-value measurements to nonfinancial assets and liabilities recognized or disclosed at fair value on a non-recurring basis without material impact to the financial statements. On January 1, 2008, the Company partially adopted SFAS No. 157 related to all financial assets and liabilities and non-financial assets and liabilities recognized or disclosed at fair value on a recurring basis. The Company is currently assessing the potential impact this statement will have on the Consolidated Financial Statements once it is adopted for nonfinancial assets and liabilities recognized or disclosed at fair value on a non-recurring basis.

Table of Contents

MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (continued)
June 30, 2008
(unaudited)

SFAS No. 157 establishes 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 impacted 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.

The Company s investments in marketable securities consist principally of debt instruments of state and local government agencies and U.S. corporate commercial paper. These investments are categorized as available-for-sale securities and recorded at fair market value, as defined by SFAS No. 157. Investments with maturities of 90 days or less from the date of purchase are classified as cash equivalents; investments with maturities of greater than 90 days from the date of purchase but less than one year are generally classified as short-term investments; and investments with maturities of greater than one year from the date of purchase are generally classified as long-term investments. The Company s long-term investments consist of corporate or U.S. government debt instruments with maturities between one year and five years. The Company holds investments in Auction Rate Securities, which have original maturities greater than one year, but which have auctions to reset the yield every 7 to 35 days. Certain auctions failed during the second quarter of 2008 and the underlying securities were not called by the issuer. The Company classified $6.5 million of auction rate securities that failed as long-term investments as of June 30, 2008. In determining the fair values of these auction rate securities, the Company considered the credit worthiness of the counterparty, estimates of interest rates, expected holding periods, and the timing and value of expected future cash flows. The Company uses quoted prices from active markets which are classified at level 1 as a highest level observable input in the disclosure hierarchy framework as defined by SFAS No. 157 for all other available-for-sale securities. 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.

The following table provides the assets and liabilities carried at fair value measured on a recurring basis at June 30, 2008 (in thousands):

	Fair Value Measurements at June 30, 2008 Using			
	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Available-for-sale securities	$ 55,518	$	$ 6,506	$ 62,024
Total investments	$ 55,518	$	$ 6,506	$ 62,024

Table of Contents

MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (continued)
June 30, 2008
(unaudited)

SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of SFAS 115 (SFAS No. 159), permits but does not require the Company to measure financial instruments and certain other items at fair value. The Company did not elect to measure at fair value any of its financial instruments under the provisions of SFAS No. 159, thus the Company s adoption of this statement effective January 1, 2008 did not have an impact on the Company s consolidated financial statements.

5. Stock-Based Compensation

During the three months ended June 30, 2008 and 2007, the Company granted options to purchase 32,600 shares and 20,750 shares of common stock, respectively. The Company recorded stock option expense of $1.4 million and $1.1 million during the three months ended June 30, 2008 and 2007, respectively. During the six months ended June 30, 2008 and 2007, the Company granted options to purchase 621,336 shares and 600,113 shares of common stock, respectively. The Company recorded stock option expense of $2.7 million and $2.3 million during the six months ended June 30, 2008 and 2007, respectively.

The Company also granted 10,864 and 5,665 shares of restricted stock during the three months ended June 30, 2008 and 2007, respectively. The Company recorded restricted stock expense of $0.9 million and $0.5 million during the three months ended June 30, 2008 and 2007, respectively. The Company granted 198,571 and 195,599 shares of restricted stock during the six months ended June 30, 2008 and 2007, respectively. The Company recorded restricted stock expense of $1.7 million and $0.9 million during the six months ended June 30, 2008 and 2007, respectively.

6. Income Taxes

The Company adopted the provisions of FASB Interpretation No 48, Accounting for Uncertainty in Income Taxes (FIN 48), on January 1, 2007. During the three and six months ended June 30, 2008 there have been no material changes in the amount of the Company s unrecognized tax benefits. Further, there have been no material changes in the Company s expectations within the next 12 months regarding significant increases or decreases to unrecognized tax benefits as a result of positions taken.

The Company recognizes potential accrued interest and penalties to unrecognized tax benefits within its global operations as income tax expense.

The Company conducts business globally and, as a result, files income tax returns in the United States Federal jurisdiction and in many state and foreign jurisdictions. The Company is no longer subject to U.S. Federal, state and local, or non-U.S. income tax examinations for the years before 1999.

7. Comprehensive Income

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

MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (continued)
June 30, 2008
(unaudited)

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

	For Three Months Ended June 30,		For Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Net income	**$ 9,079**	$ 9,011	**$ 16,511**	$ 14,412
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustment	**(820)**	1,121	**(1,794)**	1,330
Unrealized (loss) on investments	**(1)**	(26)	**(32)**	(21)
Other comprehensive (loss) income	**(821)**	1,095	**(1,826)**	1,309
Comprehensive income	**$ 8,258**	$ 10,106	**$ 14,685**	$ 15,721

8. Net Income Per Share

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

The following is a reconciliation of the income and share amounts used in the computation of basic and diluted net income per common share:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
	(in thousands, except per share data)			
Net income	**$ 9,079**	$ 9,011	**$ 16,511**	$ 14,412
Earnings per share:				
Basic	**$ 0.37**	$ 0.34	**$ 0.68**	$ 0.53
Effect of CESs		(0.02)	**(0.02)**	(0.02)
Diluted	**$ 0.37**	$ 0.32	**$ 0.66**	$ 0.51
Weighted average number of shares:				
Basic	**24,259**	26,555	**24,341**	26,953
Effect of CESs	**567**	1,206	**492**	1,196
Diluted	**24,826**	27,761	**24,833**	28,149

Weighted average shares issuable upon the exercise of stock options that were not included in the calculation of diluted earnings per share were 3,515,818 shares and 1,421,516 shares for the three months ended June 30, 2008 and 2007, respectively, and 3,816,752 shares and 1,462,266 shares for the six months ended June 30, 2008 and 2007, respectively. Such shares were not included because they were anti-dilutive.

Table of Contents

MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (continued)
June 30, 2008
(unaudited)

9. Contingencies

From time to time, the Company may be involved in litigation relating to claims arising out of its ordinary course of business. Many of the Company s installations involve products that are critical to the operations of its clients 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. However, it is involved in various legal proceedings. The Company believes that any liability that may arise as a result of these proceedings will not have a material adverse effect on its financial condition, results of operations, or cash flows. The Company expenses legal costs associated with loss contingencies as such legal costs are incurred.

10. 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 $1.0 million and $1.1 million for the three months ended June 30, 2008 and 2007, respectively, and $2.2 million and $1.2 million for the six months ended June 30, 2008 and 2007, 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.

Table of Contents

MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (continued)
June 30, 2008
(unaudited)

The following table presents the revenues, expenses and operating income (loss) by reporting segment for the three and six months ended June 30, 2008 and 2007 (in thousands):

	For the Three Months ended June 30, 2008				For the Three Months ended June 30, 2007			
	Americas	**EMEA**	**APAC**	**Total**	**Americas**	**EMEA**	**APAC**	**Total**
Revenue:								
License	**$ 15,252**	**$ 2,448**						