

MANHATTAN ASSOCIATES INC
Form 10-Q
July 28, 2015

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, 2015

OR

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

For the transition period from _____ to _____

Commission File Number: 0-23999

MANHATTAN ASSOCIATES, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

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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 23, 2015, the latest practicable date, is as follows: 73,415,653 shares of common stock, \$0.01 par value per share.

MANHATTAN ASSOCIATES, INC.

FORM 10-Q

Quarter Ended June 30, 2015

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(in thousands, except share and per share data)

	June 30, 2015 (unaudited)	December 31, 2014
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 100,156	\$ 115,708
Short-term investments	8,243	8,730
Accounts receivable, net of allowance of \$8,222 and \$4,164, respectively	82,937	86,828
Deferred income taxes	9,882	9,900
Prepaid expenses and other current assets	9,451	8,695
Total current assets	210,669	229,861
Property and equipment, net	19,569	17,265
Goodwill, net	62,235	62,250
Deferred income taxes	270	270
Other assets	7,559	8,524
Total assets	\$ 300,302	\$ 318,170
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 9,357	\$ 12,483
Accrued compensation and benefits	21,717	30,889
Accrued and other liabilities	11,840	12,501
Deferred revenue	57,400	58,968
Income taxes payable	2,542	7,974
Total current liabilities	102,856	122,815
Other non-current liabilities	13,550	13,332
Shareholders' equity:		
Preferred stock, no par value; 20,000,000 shares authorized, no shares issued or outstanding in 2015 and 2014	-	-
Common stock, \$0.01 par value; 200,000,000 shares authorized; 73,423,899 and 74,104,064 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	734	741
Retained earnings	193,312	191,305
Accumulated other comprehensive loss	(10,150)	(10,023)
Total shareholders' equity	183,896	182,023
Total liabilities and shareholders' equity	\$ 300,302	\$ 318,170

See accompanying Notes to Condensed Consolidated Financial Statements.

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,	
	2015	2014	2015	2014
	(unaudited)(unaudited)		(unaudited)(unaudited)	
Revenue:				
Software license	\$ 19,758	\$ 17,989	\$ 39,072	\$ 35,096
Services	107,344	93,519	208,547	180,432
Hardware and other	12,007	11,022	25,013	20,565
Total revenue	139,109	122,530	272,632	236,093
Costs and expenses:				
Cost of license	2,137	1,848	5,043	3,461
Cost of services	46,464	41,457	91,248	79,917
Cost of hardware and other	10,163	9,265	20,710	16,744
Research and development	13,257	11,867	26,813	23,670
Sales and marketing	11,889	12,848	23,736	24,868
General and administrative	11,927	11,256	23,165	21,905
Depreciation and amortization	1,898	1,489	3,679	2,977
Total costs and expenses	97,735	90,030	194,394	173,542
Operating income	41,374	32,500	78,238	62,551
Other income, net	359	312	621	79
Income before income taxes	41,733	32,812	78,859	62,630
Income tax provision	15,729	12,218	29,651	23,324
Net income	\$ 26,004	\$ 20,594	\$ 49,208	\$ 39,306
Basic earnings per share	\$ 0.35	\$ 0.27	\$ 0.67	\$ 0.52
Diluted earnings per share	\$ 0.35	\$ 0.27	\$ 0.66	\$ 0.51
Weighted average number of shares:				
Basic	73,618	75,274	73,797	75,544
Diluted	74,126	76,037	74,366	76,415

See accompanying Notes to Condensed Consolidated Financial Statements.

Item 1. Financial Statements (continued)

MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(in thousands)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net income	\$26,004	\$ 20,594	\$49,208	\$ 39,306
Foreign currency translation adjustment	244	258	(127)	1,277
Comprehensive income	\$26,248	\$ 20,852	\$49,081	\$ 40,583

See accompanying Notes to Condensed Consolidated Financial Statements.

Item 1. Financial Statements (continued)
MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(in thousands)

	Six Months Ended June 30,	
	2015	2014
	(unaudited)(unaudited)	
Operating activities:		
Net income	\$49,208	\$ 39,306
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,679	2,977
Equity-based compensation	5,739	4,670
Gain on disposal of equipment	(38)	(15)
Tax benefit of stock awards exercised/vested	7,848	6,954
Excess tax benefits from equity-based compensation	(7,825)	(6,916)
Deferred income taxes	1,216	879
Unrealized foreign currency loss (gain)	117	(174)
Changes in operating assets and liabilities:		
Accounts receivable, net	3,002	(15,320)
Other assets	(97)	(4,305)
Accounts payable, accrued and other liabilities	(13,296)	(4,148)
Income taxes	(5,428)	(8,786)
Deferred revenue	(1,437)	5,910
Net cash provided by operating activities	42,688	21,032
Investing activities:		
Purchase of property and equipment	(5,769)	(3,580)
Net decrease (increase) in short-term investments	447	(1,441)
Net cash used in investing activities	(5,322)	(5,021)
Financing activities:		
Purchase of common stock	(61,330)	(58,305)
Proceeds from issuance of common stock from options exercised	535	829
Excess tax benefits from equity-based compensation	7,825	6,916
Net cash used in financing activities	(52,970)	(50,560)
Foreign currency impact on cash	52	1,295
Net change in cash and cash equivalents	(15,552)	(33,254)
Cash and cash equivalents at beginning of period	115,708	124,375
Cash and cash equivalents at end of period	\$100,156	\$ 91,121

See accompanying Notes to Condensed Consolidated Financial Statements.

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Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Basis of Presentation, Principles of Consolidation, Stock Split and Increase of the Authorized Number of Shares of Common Stock

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, 2015, the results of operations for the three and six months ended June 30, 2015 and 2014, and cash flows for the six months ended June 30, 2015 and 2014. The results for the three and six months ended June 30, 2015 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, 2014.

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 with professional services revenue 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 our professional services (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 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.

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 collectability 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 collectability 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

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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 the 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 (ASC), 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 \$4.9 million for both the three months ended June 30, 2015 and 2014, and \$10.2 million and \$8.5 million for the six months ended June 30, 2015 and 2014, 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 its 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 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, 2015, the Company's cash, cash equivalents, and short-term investments balances were \$69.6 million, \$30.6 million, and \$8.2 million, respectively. The Company currently has no long-term investments. Cash equivalents consist of highly

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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 both June 30, 2015 and December 31, 2014, the Company had \$30.4 million in money market funds, 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

The Company granted 15,890 and 38,384 restricted stock units (“RSUs”) during the three months ended June 30, 2015 and 2014, respectively, and 354,281 and 355,927 RSUs during the six months ended June 30, 2015 and 2014, respectively. The Company recorded equity-based compensation expense related to restricted stock grants of \$2.7 million and \$2.4 million during the three months ended June 30, 2015 and 2014, respectively, and \$5.7 million and \$4.7 million during the six months ended June 30, 2015 and 2014, respectively.

A summary of changes in unvested shares/units for the six months ended June 30, 2015 is as follows:

	Number of shares/units
Outstanding at December 31, 2014	1,346,062
Granted	354,281
Vested	(580,990)
Forfeited	(63,441)
Outstanding at June 30, 2015	1,055,912

No amounts were recorded for equity-based compensation expense related to stock options during the three and six months ended June 30, 2015 and 2014 as all stock options vested prior to 2014. The Company does not currently grant stock options.

A summary of changes in outstanding options for the six months ended June 30, 2015 is as follows:

	Number of Options
Outstanding at December 31, 2014	153,764

Exercised	(104,652)
Forfeited and expired	-
Outstanding at June 30, 2015	49,112

5. Income Taxes

The Company's effective tax rate was 37.7% and 37.2% for the three months ended June 30, 2015 and 2014, respectively, and 37.6% and 37.2% for the six months ended June 30, 2015 and 2014, respectively. The increase in the effective tax rate for the quarter and six month period ended June 30, 2015 is primarily due to increases in state tax rates.

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 (ASC 740). For the three months ended June 30, 2015, there were no material changes to the Company's uncertain tax positions. There has been no 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 currently plans to permanently reinvest all of its remaining undistributed foreign earnings. Accordingly, no provision for U.S. federal and state income taxes has been provided thereon. Upon repatriation of those earnings, in the form of dividends or otherwise, the Company would be subject to both U.S. income taxes (subject to adjustment for foreign tax credits) and withholding taxes payable to various foreign countries. It is impractical to calculate the tax impact until such repatriation occurs.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

The Company conducts business globally and, as a result, files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities throughout the world. The Company is no longer subject to U.S. federal income tax examinations, substantially all state and local income tax examinations and substantially all non-U.S. income tax examinations for years before 2011.

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, 2015 and 2014 (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands, except per share data)		(in thousands, except per share data)	
Net income	\$ 26,004	\$ 20,594	\$ 49,208	\$ 39,306
Earnings per share:				
Basic	\$ 0.35	\$ 0.27	\$ 0.67	\$ 0.52
Effect of CESs	-	-	(0.01)	(0.01)
Diluted	\$ 0.35	\$ 0.27	\$ 0.66	\$ 0.51
Weighted average number of shares:				
Basic	73,618	75,274	73,797	75,544
Effect of CESs	508	763	569	871
Diluted	74,126	76,037	74,366	76,415

There were no anti-dilutive CESs during 2015 and 2014.

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 installations involve products that are critical to the operations of its clients' businesses. Any failure in a Company product 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 product failures or negligent acts or omissions, there can be no assurance that the limitations of liability set forth in its contracts will be enforceable in all instances. The Company is not currently a party to any legal proceedings the result of which it believes is likely to have a material adverse impact upon its business, financial position, results of operations, or cash flows. The Company expenses legal costs associated with loss contingencies as such legal costs are incurred.

8. Operating Segments

The Company manages the business by geographic segment. The Company has three geographic reportable segments: North America and Latin America (the "Americas"); Europe, Middle East and Africa ("EMEA"); and Asia Pacific ("APAC"). 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 reportable segment. The chief executive officer and chief financial officer evaluate performance based on revenue and operating results for each reportable segment.

The Americas segment charges royalty fees to the other segments based on software licenses sold by those reportable segments. The royalties, which totaled approximately \$0.6 million and \$0.9 million for the three months ended June 30, 2015 and 2014, respectively, and approximately \$1.6 million and \$2.3 million for the six months ended June 30, 2015 and 2014, respectively, are

Notes to Condensed Consolidated Financial Statements

(Unaudited)

included in cost of revenue for each segment with a corresponding reduction in America's cost of revenue. The revenues represented below are from external customers only. The geographical-based costs consist of costs of professional services personnel, direct sales and marketing expenses, cost of infrastructure to support the employees and customer base, billing and financial systems, management and general and administrative support. There are certain corporate expenses included in the Americas segment 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 reportable segment for the three and six months ended June 30, 2015 and 2014 (in thousands):

	Three Months Ended June 30, 2015				2014			
	Americas	EMEA	APAC	Consolidated	Americas	EMEA	APAC	Consolidated
Revenue:								
License	\$ 17,294	\$ 2,115	\$ 349	\$ 19,758	\$ 14,498	\$ 1,621	\$ 1,870	\$ 17,989
Services	88,563	14,504	4,277	107,344	73,884	13,851	5,784	93,519
Hardware and other	11,297	556	154	12,007	10,251	439	332	11,022
Total revenue	117,154	17,175	4,780	139,109	98,633	15,911	7,986	122,530
Costs and Expenses:								
Cost of revenue	47,251	8,639	2,874	58,764	41,385	7,551	3,634	52,570
Operating expenses	32,013	3,908	1,152	37,073	30,766	4,049	1,156	35,971
Depreciation and amortization	1,676	112	110	1,898	1,355	72	62	1,489
Total costs and expenses	80,940	12,659	4,136	97,735	73,506	11,672	4,852	90,030
Operating income	\$ 36,214	\$ 4,516	\$ 644	\$ 41,374	\$ 25,127	\$ 4,239	\$ 3,134	\$ 32,500

	Six Months Ended June 30, 2015				2014			
	Americas	EMEA	APAC	Consolidated	Americas	EMEA	APAC	Consolidated
Revenue:								
Software license	\$ 32,777	\$ 5,648	\$ 647	\$ 39,072	\$ 25,956	\$ 6,071	\$ 3,069	\$ 35,096
Services	170,775	28,704	9,068	208,547	144,788	24,715	10,929	180,432
Hardware and other	23,561	1,128	324	25,013	19,244	804	517	20,565
Total revenue	227,113	35,480	10,039	272,632	189,988	31,590	14,515	236,093
Costs and Expenses:								
Cost of revenue	93,652	17,546	5,803	117,001	78,034	15,027	7,061	100,122
Operating expenses	63,794	7,671	2,249	73,714	59,986	8,119	2,338	70,443
	3,271	225	183	3,679	2,708	147	122	2,977

Depreciation and
amortization

Total costs and expenses	160,717	25,442	8,235	194,394	140,728	23,293	9,521	173,542
Operating income	\$66,396	\$10,038	\$1,804	\$78,238	\$49,260	\$8,297	\$4,994	\$62,551

License revenues related to the Company's warehouse and non-warehouse product groups for the three and six months ended June 30, 2015 and 2014 are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Warehouse	\$10,995	\$9,373	\$21,920	\$20,041
Non-Warehouse	8,763	8,616	17,152	15,055
Total software license revenue	\$19,758	\$17,989	\$39,072	\$35,096

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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, 2015 and 2014 are as follows (in thousands):

	Three Months		Six Months Ended	
	Ended June 30, 2015	2014	June 30, 2015	2014
Professional services	\$76,548	\$65,702	\$149,207	\$125,124
Customer support and software enhancements	30,796	27,817	59,340	55,308
Total services revenue	\$107,344	\$93,519	\$208,547	\$180,432

9. New Accounting Pronouncement

In May 2014, the FASB issued guidance codified in ASC 606, Revenue Recognition – Revenue from Contracts with Customers, which will replace substantially all current revenue recognition guidance once it becomes effective. The new standard provides accounting guidance for all revenue arising from contracts with customers and affects all entities that enter into contracts to provide goods or services to their customers unless the contracts are in the scope of other standards. The new standard is less prescriptive and may require software entities to use more judgment and estimates in the revenue recognition process than are required under existing revenue guidance. This guidance is effective for annual and interim periods beginning after December 15, 2016, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a modified retrospective approach with the cumulative effect of initially adopting the standard recognized at the date of adoption (which includes additional footnote disclosures).

On July 9, 2015, the FASB voted to defer the effective date by one year to December 15, 2017 for annual reporting periods beginning after that date. The FASB also permitted early adoption of the standard, but not before the original effective date of December 15, 2016. We are currently evaluating the impact, if any, the adoption of this standard will have on our Consolidated Financial Statements.

In April 2015, the FASB issued ASU 2015-05, Intangibles – Goodwill and Other – Internal Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. ASU 2015-05 provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance will not change GAAP for a customer's accounting for service contracts. This guidance is effective for annual and interim periods beginning after December 15, 2015. We are currently evaluating the impact, if any, the adoption of this standard will have on our Consolidated 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 expectations about global macroeconomic trends and industry developments, 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 "may," "expect," "forecast," "anticipate," "intend," "plan," "believe," "could," "seek," "project," "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 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, 2014. 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, 2015 and 2014, 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, 2014.

References in this filing to the "Company," "Manhattan," "Manhattan Associates," "we," "our," and "us" refer to Manhattan Associates, Inc., our predecessors, and our wholly-owned and consolidated subsidiaries.

Business Overview

We develop, sell, deploy, service and maintain software solutions designed to manage supply chains, inventory and omni-channel operations for retailers including retail store operations and point of sale, wholesalers, manufacturers, logistics providers and other organizations. Our customers include many of the world's most premier and profitable brands.

Specifically, Manhattan Associates solutions help our customers in three distinct areas:

- Supply Chain - Manhattan solutions provide companies across industries the tools needed to manage distribution and optimize transportation costs throughout the entire network. Manhattan provides shippers the most comprehensive transportation management solutions in the market. This includes moving freight via the most cost-effective means possible while also meeting service level expectations. Likewise, Manhattan's Warehouse Management solutions are widely regarded as industry leading systems designed to optimize productivity and throughput in distribution centers and warehouses around the world.
- Omni-Channel - Meeting ever-evolving consumer expectations of service, inventory availability and delivery convenience is a challenge every retailer must meet head on. Manhattan's Omni-Channel solutions provide both 'central' or corporate solutions that manage inventory availability across all channels and locations as well as 'local' solutions deployed in retail stores, including point of sale, to empower store associates to satisfy the demands of the walk-in shopper and the online customer.
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Inventory - Manhattan solutions provide distributors of any finished goods (apparel, food, auto parts, pharmaceuticals, etc.) the ability to forecast demand, determine when, where and how much inventory is needed and translate this into a profitable inventory buying plan. Through the use of advanced science and sophisticated analytics, customer service level is maximized with the minimum necessary inventory investment. Industry changes driven by omni-channel retail, pharmaceutical regulations and other trends make this an area of particular need for many retailers and wholesale distributors.

Our business model is singularly focused on the development and implementation of complex commerce enablement software solutions that are designed to optimize supply chains, and retail store operations including point of sale effectiveness and efficiency for our customers. We have three principal sources of revenue:

- licenses of our 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.

In the three and six months ended June 30, 2015, we generated \$139.1 million and \$272.6 million in total revenue, respectively, with a revenue mix of: license revenue 14%; services revenue 77%; and hardware and other revenue 9% for the three and six months ended June 30, 2015.

The Company has three geographic reportable segments: the Americas, Europe, the Middle East and Africa (EMEA), and Asia-Pacific (APAC). Geographic revenue is based on the location of the sale. Our international revenue was approximately \$29.3 million and \$62.3 million for the three and six months ended June 30, 2015, which represents approximately 21% and 23% of our total revenue for the three and six months ended June 30, 2015, respectively. International revenue includes all revenue derived from sales to customers outside the United States. At June 30, 2015, we employed approximately 2,850 employees worldwide, of which 1,400 employees are based in the Americas, 200 in EMEA, and 1,250 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 macro-economic trends, technology spending, and supply chain management market growth are important barometers for our business. In the three and six months ended June 30, 2015, approximately 79% and 77%, respectively, of our total revenue was generated in the United States, 12% and 13%, respectively, in EMEA, and the remaining balance in APAC, Canada, and Latin America. In addition, Gartner Inc., an information technology research and advisory company, estimates that nearly 75% of every supply chain software solutions dollar invested is spent in the United States (49%) and Western Europe (26%); 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 2015, the International Monetary Fund (IMF) provided a World Economic Outlook (WEO) update lowering its previous 2015 world economic growth forecast to about 3.3 percent with a gradual pickup in advanced economies and a slowdown in emerging market and developing economies. The WEO update noted that "a setback to activity in the first quarter of 2015, mostly in North America, has resulted in a small downward revision to global growth for 2015 relative to the April 2015 World Economic Outlook (WEO). In emerging market economies, the continued growth slowdown reflects several factors, including lower commodity prices and tighter external financial conditions, structural bottlenecks, rebalancing in China, and economic distress related to geopolitical factors." The WEO update projected that advanced economies, which represent our primary revenue markets, would grow at about 2.1 percent in 2015 and 2.4 percent in 2016, while the emerging and developing economies would grow at about 4.2 percent in 2015 and 4.7 percent in 2016, respectively.

During 2014 and continuing into 2015, the overall trend has been steady for our large license deals, with recognized \$1.0 million or larger software license sales totaling fifteen for 2014 and totaling eleven in the six months ended June 30, 2015. While we are encouraged by our 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' enterprise software buying decisions, making it difficult to forecast sales cycles for our products and the timing of large enterprise software license deals.

Revenue

License revenue. License revenue, a leading indicator of our business, is primarily derived from software license fees customers pay for supply chain solutions. License revenue totaled \$19.8 million, or 14% of total revenue, with gross margins of 89.2% for the three months ended June 30, 2015, and \$39.1 million, or 14% of total revenue, with gross margin of 87.1% for the six months ended June 30, 2015. For the three and six months ended June 30, 2015, the percentage mix of new to existing customers was approximately 30/70.

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 2015 equates to approximately one cent of diluted earnings per share impact.

Our software solutions are singularly focused on the supply chain commerce 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 \$107.3 million, or 77% of total revenue, with gross margins of 56.7% for the three months ended June 30, 2015, and \$208.5 million, or 77% of total revenue, with gross margins of 56.2% for the six months ended June 30, 2015. Professional services accounted for approximately 71% and 72% of total services revenue in the three and six months ended June 30, 2015, respectively. Our consolidated 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, 2015, our professional services organization totaled approximately 1,850 employees, accounting for 65% 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 rapidly, ensure the customer's success with 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 related 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 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 professional services 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 hours 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 \$30.8 million and \$59.3 million for the three and six months ended June 30, 2015, respectively, representing approximately 28% of services revenue and approximately 22% of total revenue for both periods. The growth of CSSE revenues is

influenced by: (1) new license revenue growth; (2) annual renewal of support contracts; (3) increase in customers; and (4) 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 enhancements has been greater than 90%. CSSE revenue is generally paid in advance and recognized ratably over the term of the agreement, typically twelve months. CSSE renewal revenue is not recognized unless payment is received from the customer.

Hardware and other revenue. Our hardware and other revenue totaled \$12.0 million, representing 9% of total revenue with gross margins of 15.4% for the three months ended June 30, 2015, and \$25.0 million, representing 9% of total revenue with gross margin of 17.2% for the six months ended June 30, 2015. 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 and related maintenance pursuant to agreements with manufacturers or through distributor-authorized reseller agreements pursuant to which we are entitled to purchase hardware products and services at discounted prices. 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 \$4.9 million and \$10.2 million for the three and six months ended June 30, 2015, respectively.

Product Development

We continue to invest significantly in research and development (R&D) 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 \$13.3 million and \$26.8 million for the three and six months ended June 30, 2015, respectively. At June 30, 2015, our R&D organization totaled approximately 650 employees, located in the U.S. and India.

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 inventory optimization, transportation management, distribution management, order management, store inventory & fulfillment, and planning.

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, 2015, we generated cash flow from operating activities of \$27.5 million and \$42.7 million, respectively. Our cash, cash equivalents, and investments at June 30, 2015 totaled \$108.4 million, with no debt on our balance sheet. We currently have no credit facilities. Our primary uses of cash continue to be funding investment in R&D and operations to drive earnings growth and repurchases of our common stock.

We repurchased 982,060 shares of Manhattan Associates' outstanding common stock under our repurchase program during the six months ended June 30, 2015. In July 2015, 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 2015, we anticipate that our priorities for the use of cash will be in hiring and developing sales and services resources and continued investment in product development to extend our market leadership. We expect to continue to evaluate acquisition opportunities that are complementary to our product footprint and technology direction. We also expect to 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 2015 for general corporate purposes.

Results of Operations

The following table summarizes our consolidated results for the three and six months ended June 30, 2015 and 2014.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands, except per share data)			
Revenue	\$139,109	\$122,530	\$272,632	\$236,093
Costs and expenses	97,735	90,030	194,394	173,542
Operating income	41,374	32,500	78,238	62,551
Other income, net	359	312	621	79
Income before income taxes	41,733	32,812	78,859	62,630
Net income	\$26,004	\$20,594	\$49,208	\$39,306
Diluted earnings per share	\$0.35	\$0.27	\$0.66	\$0.51
Diluted weighted average number of shares	74,126	76,037	74,366	76,415

The Company has three geographic reportable segments: 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 segment 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, 2015 and 2014, we derived the majority of our revenues from sales to customers within our Americas segment. The following table summarizes revenue and operating profit by segment:

	Three Months Ended June 30,			% Change vs. Prior Year	Six Months Ended June 30,			% Change vs. Prior Year
	2015 (in thousands)	2014 (in thousands)			2015 (in thousands)	2014 (in thousands)		
Revenue:								
Software license								
Americas	\$17,294	\$14,498	19	%	\$32,777	\$25,956	26	%
EMEA	2,115	1,621	30	%	5,648	6,071	-7	%
APAC	349	1,870	-81	%	647	3,069	-79	%
Total software license	19,758	17,989	10	%	39,072	35,096	11	%
Services								
Americas	88,563	73,884	20	%	170,775	144,788	18	%
EMEA	14,504	13,851	5	%	28,704	24,715	16	%
APAC	4,277	5,784						