MANHATTAN ASSOCIATES INC
Form 10-Q
May 01, 2009

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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 March 31, 2009

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 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 o No þ

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 þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o

(Do not check if a 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 o No þ

The number of shares of the Registrant s class of capital stock outstanding as of April 28, 2009, the latest practicable date, is as follows: 23,039,399 shares of common stock, $0.01 par value per share.

MANHATTAN ASSOCIATES, INC.
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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)

	March 31, 2009 (unaudited)	December 31, 2008
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 86,268**	$ 85,739
Accounts receivable, net of allowance of $4,915 and $5,566 in 2009 and 2008, respectively	**46,192**	63,896
Deferred income taxes	**6,665**	6,667
Prepaid expenses and other current assets	**7,635**	6,979
Total current assets	**146,760**	163,281
Property and equipment, net	**20,021**	21,721
Long-term investments	**2,943**	2,967
Acquisition-related intangible assets, net	**5,697**	6,438
Goodwill, net	**62,264**	62,276
Deferred income taxes	**10,291**	10,932
Other assets	**2,442**	2,606
Total assets	**$ 250,418**	$ 270,221
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	**$ 5,626**	$ 8,480
Accrued compensation and benefits	**10,828**	17,429
Accrued and other liabilities	**13,835**	16,188
Deferred revenue	**36,429**	32,984
Income taxes payable	**93**	2,365
Total current liabilities	**66,811**	77,446
Other non-current liabilities	**13,075**	12,936
Shareholders equity:		
Preferred stock, no par value; 20,000,000 shares authorized, no shares issued or outstanding in 2009 or 2008		
Common stock, $.01 par value; 100,000,000 shares authorized; 23,064,608 and 23,581,109		

shares issued and outstanding at March 31, 2009 and December 31, 2008, respectively		**227**		234
Additional paid-in capital				
Retained earnings		**174,294**		182,882
Accumulated other comprehensive loss		**(3,989)**		(3,277)
Total shareholders equity		**170,532**		179,839
Total liabilities and shareholders equity	**$**	**250,418**	$	270,221

See accompanying Notes to Condensed Consolidated Financial Statements.

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Item 1. Financial Statements (continued)

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

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
	(unaudited)	(unaudited)
Revenue:		
Software license	**$ 4,922**	$ 18,312
Services	**50,843**	59,837
Hardware and other	**5,060**	10,175
Total Revenue	**60,825**	88,324
Costs and Expenses:		
Cost of license	**1,424**	1,144
Cost of services	**23,157**	31,280
Cost of hardware and other	**4,121**	8,266
Research and development	**10,227**	12,654
Sales and marketing	**10,079**	13,572
General and administrative	**7,962**	9,071
Depreciation and amortization	**3,165**	3,248
Restructuring charge	**63**	
Total costs and expenses	**60,198**	79,235
Operating income	**627**	9,089
Other (expense) income, net	**(233)**	2,301
Income before income taxes	**394**	11,390
Income tax provision	**132**	3,958
Net income	**$ 262**	$ 7,432
Basic earnings per share	**$ 0.01**	$ 0.30
Diluted earnings per share	**$ 0.01**	$ 0.30
Weighted average number of shares:		
Basic	**23,017**	24,433
Diluted	**23,058**	24,889

See accompanying Notes to Condensed Consolidated Financial Statements.

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Item 1. Financial Statements (continued)

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

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
	(unaudited)	
Operating activities:		
Net income	$ **262**	$ 7,432
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**3,165**	3,248
Stock compensation	**2,318**	2,110
Loss on disposal of equipment	**13**	4
Tax benefit of stock awards exercised/vested	**(901)**	(31)
Excess tax benefits from stock based compensation	**(2)**	(7)
Deferred income taxes	**637**	
Unrealized foreign currency loss (gain)	**421**	(1,402)
Changes in operating assets and liabilities:		
Accounts receivable, net	**17,381**	(6,665)
Other assets	**(626)**	(1,306)
Accounts payable, accrued and other liabilities	**(11,562)**	(4,478)
Income taxes	**(1,924)**	3,364
Deferred revenue	**3,523**	3,844
Net cash provided by operating activities	**12,705**	6,113
Investing activities:		
Purchase of property and equipment	**(873)**	(2,716)
Net maturities of investments	**24**	7,319
Net cash (used in) provided by investing activities	**(849)**	4,603
Financing activities:		
Purchase of common stock	**(10,484)**	(12,351)
Excess tax benefits from stock based compensation	**2**	7
Proceeds from issuance of common stock from options exercised	**210**	550
Net cash used in financing activities	**(10,272)**	(11,794)
Foreign currency impact on cash	**(1,055)**	31
Net change in cash and cash equivalents	**529**	(1,047)
Cash and cash equivalents at beginning of period	**85,739**	44,675

Cash and cash equivalents at end of period	**$ 86,268**	$ 43,628

See accompanying Notes to Condensed Consolidated Financial Statements.

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MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2009
(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 the Company s financial position at March 31, 2009, the results of operations for the three months ended March 31, 2009 and 2008 and cash flows for the three months ended March 31, 2009 and 2008. The results for the three months ended March 31, 2009 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, 2008.

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 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

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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, Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred (EITF No. 01-14), 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 $2.0 million and $3.0 million for the three months ended March 31, 2009 and 2008, respectively.

4. Investments

Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (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. 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 Company s long-term investments consist of corporate or U.S. government debt instruments with maturities between one year and five years. At March 31, 2009, our cash and investments balance totaled $39.6 million and $49.6 million, respectively, of which $86.3 million is liquid. The remaining investments totaling $2.9 million are invested in auction rate securities with original maturities greater than one year. Previously, auctions were held for these securities that reset their yield every 7 to 35 days. During 2008 and the first quarter of 2009 however, auctions for these securities failed to attract sufficient buyers, resulting in the Company continuing to hold

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MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
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these securities. Accordingly, the Company began classifying these securities as long-term investments in marketable securities in the consolidated balance sheet due to uncertainty surrounding the timing of a market recovery. In determining the fair values of 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. The $2.9 million of auction rate securities held by the Company at March 31, 2009 were issued by state or regional educational loan authorities and are collateralized by federally insured student loans. These investments have high credit ratings, and the Company intends and has the ability to hold these securities until maturity or until redeemed. However, due to liquidity concerns rather than creditworthiness, the Company has recorded an unrealized loss of $0.1 million as of March 31, 2009 for the temporary decline in the fair value of these investments. The unrealized loss is included as a separate component of shareholders equity and in total comprehensive income. The Company will continue to evaluate the fair value of its investments in auction rate securities each reporting period for a potential other-than-temporary impairment.

The following table set forth the assets and liabilities carried at fair value measured on a recurring basis at March 31, 2009 (in thousands):

	Fair Value Measurements at March 31, 2009 Using			
	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Available-for-sale securities	$ 46,648	$	$ 2,943	$ 49,591
Total investments	$ 46,648	$	$ 2,943	$ 49,591

SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 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 March 31, 2009 and 2008, the Company granted options to purchase 553,025 shares and 588,736 shares of common stock, respectively. The Company recorded stock option expense of $1.4 million and $1.3 million during the three months ended March 31, 2009 and 2008, respectively.

A summary of changes in outstanding options for the quarter ended March 31, 2009 is as follows:

	Number of Shares
Outstanding at December 31, 2008	6,010,909
Granted	553,025
Exercised	(24,425)

Forfeited and expired	(257,725)
Oustanding at March 31, 2009	**6,281,784**

The Company also granted 182,571 and 187,707 shares of restricted stock during the three months ended March 31, 2009 and 2008, respectively. The Company recorded restricted stock expense of $0.9 million and $0.8 million during the three months ended March 31, 2009 and 2008, respectively.

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A summary of changes in unvested shares of restricted stock for the quarter ended March 31, 2009 is as follows:

	Number of Shares
Outstanding at December 31, 2008	353,085
Granted	182,571
Vested	(85,611)
Forfeited and expired	(14,521)
Outstanding at March 31, 2009	**435,524**

6. Income Taxes

The Company s effective tax rate was 33.5% and 34.75% for the three months ended March 31, 2009 and 2008, respectively. The reduction in the effective tax rate is principally due to the mix of foreign profits to U.S. profits.

The Company adopted the provisions of FASB Interpretation No 48, Accounting for Uncertainty in Income Taxes (FIN 48) , on January 1, 2007. For the three month period ended March 31, 2009 there were no material changes to unrecognized tax benefits. Further, there were no material changes to interest and penalties for the three month period. There has been no change to the Company s policy that recognizes potential accrued interest and penalties to unrecognized tax benefits within its global operations in 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 US Federal or significant state, local, or non-US jurisdiction income tax examinations for the years before 2005.

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.

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

	For Three Months Ended March 31,	
	2009	**2008**
Net income	**$ 262**	$ 7,432
Other comprehensive loss, net of tax:		
Foreign currency translation adjustment	**(712)**	(974)
Unrealized loss on investments		(31)
Other comprehensive loss	**(712)**	(1,005)
Comprehensive (loss) income	**$ (450)**	$ 6,427

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 the sum of Weighted Shares and common equivalent shares (CESs) outstanding for each period presented using the treasury stock method.

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MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
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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 Three Months Ended March 31,	
	2009	2008
	(in thousands, except per share data)	
Net income	**$ 262**	$ 7,432
Earnings per share:		
Basic	**$ 0.01**	$ 0.30
Effect of CESs		
Diluted	**$ 0.01**	$ 0.30
Weighted average number of shares:		
Basic	**23,017**	24,433
Effect of CESs	**41**	456
Diluted	**23,058**	24,889

Weighted average shares issuable upon the exercise of stock options that were not included in the calculation of diluted earnings per share were 6,205,734 shares and 4,004,499 shares for the three months ended March 31, 2009 and 2008, respectively. The weighted average exercise price of all outstanding stock options at March 31, 2009 was $25.22 per share. Such shares were not included because they were anti-dilutive.

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 $0.3 million and $1.2 million for the three months ended March 31, 2009 and 2008, respectively, are included in cost of revenue in EMEA and APAC with a corresponding reduction in the

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MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
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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 months ended March 31, 2009 and 2008 (in thousands):

	For the Three Months ended March 31,							
	2009				2008			
	Americas	EMEA	APAC	Total	Americas	EMEA	APAC	Total
Revenue:								
License	**$ 3,826**	**$ 445**	**$ 651**	**$ 4,922**	$ 13,427	$ 3,571	$ 1,314	$ 18,312
Services	**42,173**	**6,402**	**2,268**	**50,843**	49,151	8,032	2,654	59,837
Hardware and other	**4,828**	**183**	**49**	**5,060**	9,551	425	199	10,175
Total revenue	**50,827**	**7,030**	**2,968**	**60,825**	72,129	12,028	4,167	88,324
Costs and Expenses:								
Cost of revenue	**22,579**	**3,983**	**2,140**	**28,702**	31,277	6,600	2,813	40,690
Operating expenses	**24,948**	**2,166**	**1,154**	**28,268**	30,767	3,202	1,328	35,297
Depreciation and amortization	**2,981**	**143**	**41**	**3,165**	3,020	171	57	3,248
Restructuring cost	**59**		**4**	**63**				
Total costs and expenses	**50,567**	**6,292**	**3,339**	**60,198**	65,064	9,973	4,198	79,235