

MANHATTAN ASSOCIATES INC

Form 10-K

February 24, 2009

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2008

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: 000-23999

Manhattan Associates, Inc.

(Exact Name of Registrant As Specified in Its Charter)

Georgia

(State or Other Jurisdiction of
Incorporation or Organization)

58-2373424

(I.R.S. Employer Identification No.)

2300 Windy Ridge Parkway, Suite 1000

Atlanta, Georgia

(Address of Principal Executive Offices)

30339

(Zip Code)

Registrant s telephone number, including area code: **(770) 955-7070**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Name of Each Exchange on Which Registered

Common Stock, \$.01 par value per share

The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

Note - Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d)

of the Exchange Act from their obligations under those Sections.

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Accelerated filer Non-accelerated filer Smaller reporting company
(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 Act). Yes No
The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant as of June 30, 2008 was \$577,628,019, which was calculated based upon a closing sales price of \$23.73 per share of the Common Stock as reported by the Nasdaq Global Select Market on the same day. As of February 19, 2009, the Registrant had outstanding 23,556,939 shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

The Registrant's definitive Proxy Statement for the Annual Meeting of Shareholders to be held May 29, 2009 is incorporated by reference in Part III of this Form 10-K to the extent stated herein.

MANHATTAN ASSOCIATES, INC.
Annual Report on Form 10-K
For the Fiscal Year Ended December 31, 2008
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Forward-Looking Statements

In addition to historical information, this Annual Report may contain forward-looking statements relating to Manhattan Associates, Inc. Prospective investors are cautioned that any such 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. Among the important factors that could cause actual results to differ materially from those indicated by such forward-looking statements are delays in product development, undetected software errors, competitive pressures, technical difficulties, market acceptance, availability of technical personnel, changes in customer requirements and general economic conditions. Additional factors are set forth in the *Risk Factors* in Part I, Item 1A of this Annual Report. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes in future operating results. Our Annual Report on Form 10-K is available through our Website at www.manh.com.

PART I

Item 1. Business

Overview

We are a leading developer and provider of supply chain solutions that help organizations optimize the effectiveness, efficiency, and strategic advantages of their supply chains. Our solutions consist of software, services and hardware, and coordinate people, workflows, assets, events and tasks holistically across the functions linked in a supply chain from planning through execution. These solutions also help coordinate the actions, data exchange and communication of participants in supply chain ecosystems, such as manufacturers, suppliers, distributors, trading partners, transportation providers, channels (such as catalogers, store retailers and Web outlets) and consumers.

Our solutions include services such as design, configuration, implementation, product assessment and training, as well as customer support and software enhancements. Some key benefits of implementing our solutions include:

Maintaining optimal inventory levels across multiple channels, including store, web and catalog;

Optimizing inventory assortments by channel to maximize sales and profitability;

Improving sales and customer order fill rates while reducing overall network inventory;

Improving visibility of inventory, order status and delivery status;

Coordinating workflows and communication with other participants in a supply chain ecosystem, including suppliers, customers and transportation providers;

Increasing the productivity of labor, facilities and materials-handling equipment;

Balancing transportation and inventory costs with desired service levels by channel;

Reducing transportation costs;

Reduce inventory and inventory carrying costs;

Reducing labor costs and increasing productivity throughout;

Improving asset utilization; and

Improving compliance with customer requirements, including radio frequency identification (RFID) and electronic product code (EPC) requirements.

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We are a Georgia corporation formed in February 1998 to acquire all of the assets and liabilities of Manhattan Associates Software, LLC, our predecessor. 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. Our principal executive offices are located at 2300 Windy Ridge Parkway, Suite 1000, Atlanta, Georgia 30339, and our telephone number is 770-955-7070.

Industry Background

Globalization and technological advances have radically altered competition, service expectations and business operating imperatives for modern organizations. Pressures such as outsourcing, channel convergence, fluctuating fuel costs, global labor sourcing, and regulatory and security requirements motivate organizations to closely examine not only their supply chain operations, but also how they interact in supply chain ecosystems that interlink suppliers, trading partners, manufacturers, sellers, distributors, transporters, channels and customers. We believe this is because supply chain and ecosystem mastery are necessary to create sustainable competitive advantages in today's globally competitive commerce environment.

Profitable operations, brand leadership and customer loyalty depend not only on products, but also on the blends of services including availability, channel choice, pricing options, return policies, ease of buying, ease of delivery and technical or operational support that uniquely surround those products to satisfy targeted customer desires. Supply chain solutions help organizations coalesce data, workflows, events and tasks from across the web of suppliers, trading partners, customers and other participants in a supply chain ecosystem to make optimal business decisions.

Ideally, organizations apply supply chain technology, software and services to solve identified operational inefficiencies or create operational advantages in ways that can scale as their businesses grow. They also look to easily integrate supply chain solutions with other technology, such as enterprise resource planning (ERP) systems, customer relationship management (CRM) systems, e-business systems, material handling equipment (MHE) and other solutions involved in creating efficient, competitive and profitable operations.

Manhattan Associates Solutions and Services

Our solutions are designed to help organizations optimize their supply chain operations holistically, from planning through execution. This holistic approach can be leveraged to create operational and market advantages, among them:

- Ø **Organized Optimization:** Making decisions about inventory or transportation or labor in isolation without considering data, workflows and inputs from the other areas can lead to more costly and suboptimal decisions. Each of these cost areas directly impacts the others, and optimizing one area in isolation often has a negative and unanticipated cost and/or service-level influence on the other areas. We believe true optimization must synchronize decisions across the entire organization based on a common set of business priorities.
- Ø **Mastery Over Channel Proliferation:** Selling channels are proliferating across all market sectors and affect almost every area of a business. Providing the means to plan and manage these channels independently, yet execute as a united entity, is key to optimizing revenue and mitigating unnecessary and duplicative costs.
- Ø **Green Supply Chains:** Whether the priority is reducing carbon footprints and greenhouse gas emissions or improving reuse and recycling, supply chain solutions help companies improve their eco-friendliness.

Our solutions and services include:

Our portfolio of software solutions, which we call MANHATTAN SCOPE™ (Supply Chain Optimization, Planning through Execution)

Professional Services

Customer Support Services and Software Enhancements

Training

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Hardware Sales

We provide an overview of our solutions and services below.

Software Solutions

We call our portfolio of supply chain software solutions MANHATTAN SCOPE™ (Supply Chain Optimization, Planning through Execution). Built on a common Supply Chain Process Platform, SCOPE combines Planning and Forecasting, Inventory Optimization, Order Lifecycle Management, Transportation Lifecycle Management and Distribution Management to enable full-range supply chain optimization.

SCOPE is ideally suited for companies that consider supply chain software, processes and technology strategic to market leadership. Predictive and algorithmic technology embedded in SCOPE helps organizations refine decisions dynamically as market or operational conditions change. Advantages derived from coordinated real-time visibility, event management, ecosystem collaboration and intelligence across supply chain operational departments and functions avert having decisions in one supply chain area unexpectedly affect another unfavorably. By organizing supply chain optimization holistically, Manhattan enables customers to fine-tune costs, profitability and service levels as their business objectives and market conditions evolve.

Our solutions operate across the Unix, System i (iSeries, AS/400) and Microsoft.NET computing platforms. Our solutions operate on multiple hardware platforms utilizing various hardware systems and inter-operate with many third-party software applications (i.e. IBM's webSphere Commerce) and legacy systems. This interfacing and open system capability enables customers to continue using their existing computer resources and to choose among a wide variety of existing and emerging computer hardware and peripheral technologies. We provide adapters for most Enterprise Resource Planning (ERP) systems to enhance communication and reduce implementation costs between our core products and our clients' business operation systems. We currently offer interfacing adapters to a variety of ERP systems such as but not limited to Oracle, SAP, Lawson/Intentia and JDA Software. We also offer certain of our solutions in both premise software and hosted Software-as-a-Service (SaaS) models so that customers can select the option that best meets their requirements for control, flexibility, cost of ownership, and time-to-deployment.

Manhattan SCOPE Portfolio Overview

SCOPE encompasses the following solutions and technology:

Supply Chain Process Platform

Supply Chain Platform Applications

Supply Chain Solution Suites

X-Suite Solutions

Supply Chain Process Platform

At the foundation of our SCOPE portfolio is the services-based Supply Chain Process Platform, which enables our customers to manage their supply chain ecosystems. Our Supply Chain Process Platform utilizes a service-oriented architecture (SOA), common data model, extensive collaborative gateways and an optimization engine to facilitate supply chain transformations that help our customers create and sustain competitive advantages.

In addition, our Supply Chain Process Platform provides the foundation for ensuring that our solutions reside on a common architecture, leverage common master and transaction data and utilize the same business services to accomplish tasks common to multiple solutions. Its service-oriented architecture provides the flexibility, scalability and supportability required to meet the needs of today's industry leaders. This unified approach to a common architecture allows our customers to speed implementation and upgrade times and fosters a lower total cost of ownership.

Our Supply Chain Process Platform also enables us to identify new ways to combine solutions to uniquely address industry-specific business problems. As customers identify needs to coordinate and synchronize business objectives across departments and

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organizational boundaries, Manhattan will continue to focus on providing solutions to these cross-application optimization opportunities.

Supply Chain Platform Applications

SCOPE Platform Applications span the entire portfolio to provide key visibility, intelligence and adaptive functionality across the enterprise. These solutions offer the broad supply chain insight and analytics that are critical to an executive's ability to proactively manage the holistic supply chain. They include:

Supply Chain Event Management

Supply Chain Visibility

Supply Chain Intelligence

Total Cost to Serve

Whether deployed with the fully-integrated Manhattan supply chain solutions suite or integrated with other enterprise systems, our Platform Applications provide a comprehensive range of event and schedule tracking; alerts and notifications; inventory, order and shipment visibility; cost monitoring and tracking; and leading-edge analytics and reporting with graphical depictions of critical supply chain performance metrics.

Supply Chain Solution Suites

At the core of the Manhattan SCOPE portfolio are five Supply Chain Solution Suites:

Planning and Forecasting

Inventory Optimization

Order Lifecycle Management

Transportation Lifecycle Management

Distribution Management

Each of the five suites offers capabilities designed to enable organizations to proactively plan, monitor and execute against their overall business objectives.

Planning and Forecasting provides tools to sense and respond to demand as well as support all levels of enterprise merchandise planning, from strategic level planning down to assortment and key item planning. Our Planning and Forecasting solutions provide unique capabilities to manage multi-channel planning and forecasting business processes, and include the following features modules:

Demand Forecasting

Multi-Channel Planning

Financial Planning

Assortment Planning

Item Planning

Promotional Planning

Store Clustering

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Inventory Optimization enables enterprises to reduce overall network inventory therefore freeing up much needed working capital while improving sales and customer order fill rates. Inventory Optimization also provides analytical tools to better balance the financial trade-off between improving customer service levels and overall inventory investments. Our Inventory Optimization suite facilitates the following functions:

Replenishment

Multi-Echelon

Vendor Managed Inventory

Collaboration Gateway

Our Multi-Echelon solution helps organizations manage distribution networks with more than one level of distribution center between the supplier and the end point. Vendor Managed Inventory and Collaboration Gateway solutions help formulate tighter, lasting relationships with key trading partners, such as replenishing products into customers' locations or sharing key supply chain performance indicators.

Order Lifecycle Management is designed to optimize order fulfillment across a distributed supply chain. By managing orders across all channels from inception to sourcing physical fulfillment and ultimately through physical returns if applicable Order Lifecycle Management helps to optimize inventory deployment while reducing overall fulfillment costs. This suite enables the following functions:

Distributed Order Management

Store/Customer Gateway

Reverse Logistics Management

Transportation Lifecycle Management optimizes all aspects of transporting product through supply chains by improving multiple product delivery dimensions, such as speed, accuracy and cost, and covers the following areas:

Transportation Procurement

Transportation Planning & Execution

Logistics Gateway

Fleet Management

Audit Payment and Claims

Appointment Scheduling

Yard Management

Carrier Management

Distribution Management is designed to effectively manage the key assets required to run complex distribution operations, and to move goods and information through a warehouse with precision and velocity. The suite addresses, among other needs, inbound visibility, receiving and shipping, labor management, and slotting optimization, and includes the following functions:

Warehouse Management

Labor Management

Labor Forecasting and Scheduling Slotting Optimization

Billing Management

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Supplier Enablement

Hub Management

RFID Solutions

X-suite solutions

The final component of Manhattan SCOPE is X-Suite Solutions. An X-Suite Solution is the integration of two or more solutions or solution components to solve a specific business problem. SCOPE's modular service-oriented architecture facilitates the creation of these cross-suite applications. X-Suite includes:

Flow Management

Extended Enterprise Management

Flow Management improves the agility of the supply chain while reducing the overall amount of inventory required to maintain high levels of customer service. In a flow-through distribution model, goods literally flow directly through the warehouse to outbound shipping areas. Flow Management is designed to synchronize demand, supply and inventory strategies across all aspects of planning, allocation and distribution. It synthesizes these SCOPE elements:

Demand Forecasting

Replenishment

Supply Chain Visibility

Distributed Order Management

Warehouse Management

Businesses achieve the greatest benefit from a flow-through distribution model only by synchronizing demand management, inventory optimization, purchase order allocations, and the execution of the physical distribution within the warehouse. Flow Management enables organizations to evolve from a facilities-based distribution model to a more holistic, network-based perspective. As a result, organizations can:

Free inventory to drive maximum profitability and customer service across channels;

Redirect inbound supply directly to customers, alternate stores or distribution centers based on real-time demand signals and

Optimize cross-channel inventory by enabling a single supply planning and inventory management process enterprise wide.

Extended Enterprise Management connects organizations with supply chain ecosystem participants to create insight on key supply chain events and improve how goods are ordered and move through supply chains. It synthesizes these solutions:

Supplier Enablement

Hub Management

Transportation Enablement

Store / Consumer Gateway

Collaborative Gateway

Supply Chain Visibility

Supply Chain Event Management

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Extended Enterprise Management facilitates quick and fluid interactions with trading partners, optimizes order management, creates compliant case labels and advanced shipment notifications upstream, assures quality inventory and shipments, and responds efficiently to events to increase on-time delivery rates, improve inventory control and meet demand expectations.

Professional Services

Our professional services provide 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, substantially all of our customers use at least some portion of these services to implement and support our software solutions. 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. We believe that increased sales of our software solutions will drive higher demand for our consulting services.

Our professional services group consists of business consultants, systems analysts and technical personnel devoted to assisting customers in all phases of the implementation of our systems, including planning and design, customer-specific configuring of modules, and on-site implementation or conversion from existing systems. Our consulting personnel undergo extensive training on supply chain operations and on our products. At times, we use third-party consultants, such as those from major systems integrators, to assist our customers in certain implementations.

We have developed a proprietary, standardized implementation methodology which leverages our solutions architecture with the knowledge and expertise gained from completing more than 3,000 installations worldwide. The modular design of our solutions significantly reduces the complexities associated with integrating to existing systems, including Enterprise Resource Planning (ERP), Supply Chain Management (SCM), Customer Relationship Management (CRM), e-business systems and complex material handling systems.

Customer Support Services and Software Enhancements

We offer a comprehensive program that provides our customers with software upgrades that offer additional or improved functionality and technological advances incorporating emerging supply chain and industry initiatives. Over the last three years, our annual renewal rate of customers subscribing to comprehensive support and enhancements has been greater than 90%. We have the ability to remotely access the customer's system in order to perform diagnostics, provide on-line assistance, and facilitate software upgrades. We offer 24 hour customer support every day of the year plus software upgrades for an annual fee that is paid in advance and is determined based on the service level the customer requires. Our upgrades are provided under this program on a when-and-if available basis.

Training

We offer training in a structured environment for new and existing users. Training programs are provided on a per-person, per-class basis at fixed fees. We currently have courses available to provide training on solution use, configuration, implementation and system administration. We have also developed several computer-based training programs that can be purchased for a fixed fee for use at client sites.

Hardware Sales

In conjunction with the licensing of our software, and as a convenience for our customers, we sell 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 sell all third-party hardware products pursuant to agreements with manufacturers or through distributor-authorized reseller agreements. These agreements entitle us to purchase hardware at discount prices, and to receive technical support during product installations and in the event of any subsequent product

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malfunctions. We generally purchase hardware from our vendors only after receiving an order from a customer. As a result, we do not maintain significant hardware inventory.

Strategy

Our objective is to extend our position as a leading global supply chain solutions provider. Our solutions 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. We believe our solutions are advanced, highly functional, highly scalable and allow our customers to improve relationships with suppliers, customers and logistics providers; leverage their investments across the supply chain; effectively manage costs; and meet dynamically changing customer requirements. We believe our solutions are uniquely positioned to holistically optimize supply chains from planning through execution, and that customers can leverage this holistic approach to create operational and market advantages.

Our strategies to accomplish our objectives include the following:

Develop and Enhance Software Solutions. We intend to continue to focus our product development resources on the development and enhancement of supply chain software solutions. We offer what we believe to be the broadest solution portfolio in the supply chain solutions marketplace, to address all aspects of Planning and Forecasting, Inventory Optimization, Order Lifecycle Management, Transportation Lifecycle Management and Distribution Management. To deliver additional functionality and value, we plan to continue to provide enhancements to existing solutions and to introduce new solutions to address evolving industry standards and market needs. We identify further enhancements to existing solutions and opportunities for new solutions through our customer support organization, as well as through ongoing customer consulting engagements and implementations; interactions with our solution user groups; association with leading industry analyst 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. We intend to continue to enhance the functionality of our solutions to meet the dynamic requirements of these vertical markets as well as new vertical markets as business opportunities dictate.

Expand International Sales. We believe that our solutions offer significant benefits to customers in international markets. We have approximately 1,000 employees outside the United States focused on international sales, servicing our international clients and product development. 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, and Asia. Our Europe, Middle East, and Africa operations support the sales, implementation services and customer support functions for a number of customers across the Middle East. Our business activities are currently centralized within those countries that we consider to be politically and economically stable; such current customers and business activities are located in Saudi Arabia, United Arab Emirates, Kuwait, Turkey, and Oman. Our international strategy includes leveraging the strength of our relationships with current customers that also have significant overseas operations and pursuing strategic marketing partnerships with international systems integrators and third-party software application providers.

Expand Our Strategic Alliances and Indirect Sales Channels. We currently sell our products primarily through our direct sales personnel and select resellers. We have worked on joint projects and joint sales initiatives with industry-leading consultants and software systems implementers, including most of the large consulting firms and other systems consulting firms specializing in our targeted industries, to supplement our direct sales force and professional services organization. We have been expanding our indirect sales channels through reseller agreements, marketing agreements, and agreements with third-party logistics providers. These alliances extend our market coverage and provide us with new business leads and access to trained implementation personnel. We have strategic alliances with complementary software providers, third party integrators/consultants and hardware vendors. Some of our partners are CSC Consulting, Deloitte, Q4 Logistics, HP Technology, IBM, Kurt Salmon Associates, Microsoft, Motorola, and Sedlak.

Acquire or Invest in Complementary Businesses. We intend to pursue strategic acquisitions of technologies, solutions and businesses that enable us to enhance and expand our supply chain planning and execution solutions and service offerings. More specifically, we intend to pursue acquisitions that will provide us with complementary

solutions and technologies; expand our geographic presence and distribution channels; extend our presence into additional vertical markets with similar challenges and requirements to those we currently meet; and/or further solidify our leadership position within the primary components of supply chain planning and execution.

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In 2005, the Company acquired Evant, Inc., a provider of supply chain planning and replenishment solutions, for approximately \$50.0 million in cash.

Sales and Marketing

We employ multi-disciplinary sales teams that consist of professionals with industry experience in sales and technical sales support. To date, we have generated the majority of our revenue from sales of software through our direct sales force. We plan to continue to invest significantly to expand our sales, services and marketing organizations within the United States; Europe, the Middle East and Africa (EMEA); and Asia Pacific (APAC), and to pursue strategic marketing partnerships. We conduct comprehensive global marketing programs that include prospect profiling and targeting, lead generation, public relations, analyst relations, trade show attendance and sponsorships, supply chain conference hosting, online marketing, joint promotion programs with vendors and consultants and ongoing customer communication programs.

The sales cycle typically begins with the generation of a sales lead through in-house telemarketing efforts, targeted promotions, web inquiries, trade show presence, speaking engagements, hosted seminars, or other means of referral or the receipt of a request for proposal from a prospective customer. The sales lead or request for proposal is followed by the qualification of the lead or prospect, an assessment of the customer's requirements, a formal response to the request for proposal, presentations and product demonstrations, site visits and/or reference calls to an existing customer using our supply chain solutions and contract negotiation. The sales cycle can vary substantially from customer to customer, but typically requires three to nine months.

In addition to new customer sales, we will continue to leverage our existing customer base to provide for system upgrades, sales of additional licenses of purchased solutions and sales of new or add-on solutions. To efficiently penetrate emerging global markets, we leverage indirect sales channels, including sales through reseller agreements, marketing agreements and agreements with third-party logistics providers. To extend our market coverage and to provide us with new business leads and access to trained implementation personnel, we leverage strategic alliances with systems integrators skilled at implementing our solutions. Business referrals and leads continue to be positively influenced by systems integrators, which include most of the large consulting firms and other systems consulting firms specializing in our targeted industries. We believe that our leadership position in providing supply chain solutions perpetuates the willingness of systems integrators to recommend our solutions where appropriate.

We have an established program intended to foster joint sales and marketing efforts with our business partners. In some cases, this includes joint development work to make our products and our partner's products interface seamlessly. Among others, partnerships arising from our Manhattan Associates Partner Program (MAP2) include: Accenture a global management consulting, technology services, and outsourcing company committed to delivering innovation; CSC Consulting a global information technology (IT) services company; Deloitte a management consulting and technology services firm; Q4 Logistics, a division of Fortna a supply chain design and implementation solutions provider; Hewlett-Packard a technology solutions provider to consumers, businesses and institutions globally; IBM the world's largest information technology company which develops, manufactures and markets semiconductor and interconnect technologies, products and services; KSA Consulting a premier global management consulting firm offering integrated strategy, process and technology deployment solutions to the consumer products and retail industries; Microsoft the worldwide leader in software, services and solutions that help people and businesses realize their full potential; Motorola a leader in cellular communication revolution with the development of the world's first handheld portable cellular phone; and Sedlak a supply chain consulting company.

Customers

To date, our customers have been suppliers, manufacturers, distributors, retailers and logistics providers in a variety of industries. The following table sets forth a representative list of customers that contracted to purchase solutions and services from us in 2008.

A.N. Deringer, Inc.	Australian Pharmaceutical Industries Limited	Benjamin Moore & Co.
AF Logistics	Baekgaard, LTD	Bestin Supply Chain
Al-Azizia Panda United Inc.	Bakkavor Limited	Brown Shoe Company

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Al-Shiwari Group
American Eagle Outfitters
Amerisource Bergen Services
Corporation
Anvil Knitwear, Inc.
Archbrook Laguna LLC

Ballester Hermanos, Inc.
Bally Technologies, Inc.
Bay Valley Foods LLC
Bed Bath & Beyond, Inc.
Belk, Inc.

BUT International SAS
C&S Wholesale Grocers
C.R. England, Inc.
Carlisle Tire & Wheel Company
Carolina Logistics Services, LLC

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Chery Automobile Company, Ltd.	Landair, Inc.	Sara Lee Corporation
Clapper Technology Sdn Bhd	Lennox International, Inc.	Select Carrier Group, Inc.
Copernica, Inc. DBA Amplifier	LeSaint Logistics	Shanghai Bertelsmann Industry Company
Cosmax, Inc.	Loblaw Companies Limited	Shanghai Tingtong Logistics Co., Ltd.
Costa Group Pty Ltd	LoginUral, LLC	Simplehuman LLC
Crete Carrier Corporation	Loglibris	Sinopharm Logistics
David s Bridal, Inc.	Logolux	Skye Clothing (Pty) Ltd
Destra Vision (fka Magna Pacific)	Maersk Distribution Services	Skye Footwear (Pty) Ltd
DHL	Manutan International S.A.	Sportmaster Ltd.
Donaldson Company, Inc.	McKesson Corporation	Stampin Up!, Inc.
EMPiK	Mydin Mohamed Holdings Bhd	Staples, Inc.
Essilor of America, Inc.	Natasha	Sturm Foods, Inc.
Estes Express	Ocean State Jobbers Corporation	Sunglass Hut Trading Company
EXE c&t Co., Ltd	Olympus America, Inc.	Super Cheap Auto
Express Scripts, Inc.	Optimal LTD	Teva Pharmaceuticals USA
Fasteners for Retail	O Reilly Auto Parts	The Apparel Group, Ltd.
Fiskars Brands, Inc.	Ozburn-Hessey Logistics, Inc.	The Bunsha Company
Folica, Inc.	Palmers Textil AG	The Men s Wearhouse
Foschini Retail Group (Pty) Ltd.	Panalpina Management AG	Travis Association for the Blind
Genuine Parts Company	Pearl, Incorporated	Triplefin LLC
Giant Eagle, Inc.	Perfect 10 Satellite Distribution, Inc.	United Natural Foods, Inc.
GoldToeMoretz LLC	Performance Team Freight Systems	UWT Logistics LLC
Grays (NSW) Pty Lt.	Pfizer, Inc.	Volcom, Inc.
HoMedics	Polo Ralph Lauren	Wakefern Food Corporation.
Hunter Fan Company	Publix Super Markets	Walgreen Co.
Innotrac Corporation	QVC, Inc.	Warnaco, Inc.
InterDesign	Republic National Distributing Company	Whirlpool Corporation
J.J. Taylor Companies, Inc.	Robinson Manufacturing	Wincanton
Jones Apparel Group, Inc.	SamsonOpt	Wineworks Marlborough Ltd
Kenco Logistic Services	Santrade, Ltd.	Winzer Corporation
Keystone Distribution UK Ltd	Samsung India Electronics Pvt Ltd	Wirtz Corporation
LamRite West, Inc.		

Our top five customers in aggregate accounted for 11%, 13% and 16% of total revenue for each of the years ended December 31, 2008, 2007 and 2006, respectively. No single customer accounted for more than 10% of revenue in 2008, 2007 or 2006.

Product Development

Our development efforts are focused on adding new functionality to existing solutions; integrating our various solution offerings; enhancing the operability of our solutions across distributed and alternative hardware platforms, operating systems and database systems; and developing new solutions. We believe that our future success depends in part upon our ability to continue to enhance existing solutions, to respond to dynamically changing customer requirements, and to develop new or enhanced solutions that incorporate new technological developments and emerging supply chain and industry standards. To that end, our development efforts frequently focus on base system enhancements and the incorporation into our solutions of new user requirements and features identified and created through customer and industry interactions and systems implementations. As a result, we are able to continue to offer our customers a packaged, highly configurable solution with increasing functionality rather than a custom-developed

software program. We also have developed interface toolkits for most major ERP systems to enhance communication and improve data flows between our core solutions and our clients' host systems.

In the interest of informing our product strategy and research and development approaches with the most advanced thinking on supply chain opportunities, challenges and technologies, we leverage both internal and external science advisors. Our internal Research Team is comprised of Ph.D.-credentialed math and science experts who work on creating and solving algorithms and other constructs that advance the optimization capabilities and other aspects of our solutions. Our external Science Advisory Board unites the thinking of supply chain experts from leading educational institutions known for their supply chain disciplines, and practitioners from organizations deploying supply chain technology in innovative and market-advancing ways. Together, our Research Team and

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Science Advisory Board inform both the practical business approaches and the mathematical and scientific inventiveness of our solutions.

We plan to principally conduct our development efforts internally in order to retain development knowledge and promote the continuity of programming standards; however, some projects that can be performed separately and/or require special skills may be outsourced. Periodically, we use third-party research and development companies to localize our products into Chinese, Danish, French, German, Japanese, Korean, Spanish and Swedish. We also established a development center in Bangalore, India during 2002, which now has approximately 780 research and development professionals.

We continue to devote a significant portion of our research and development efforts to the enhancement and integration of all of our solutions. We have developed a release program which provides our customers with updates to our solutions. Our product development efforts will principally be focused on enhancing our existing solutions, developing new solutions and modules, and continuing to localize our solutions for various international markets.

Our research and development expenses for the years ended December 31, 2008, 2007 and 2006 were \$48.4 million, \$46.6 million and \$41.5 million, respectively. We intend to continue to invest significantly in product development.

Competition

Our solutions are fully focused on the supply planning and execution markets, which are rapidly consolidating, intensely competitive and characterized by rapid technological change. The principal competitive factors affecting the market for our solutions include:

Vendor and product reputation;

Vendor viability;

Compliance with industry standards;

Solution architecture;

Solution functionality and features;

Integration experience, particularly with ERP providers and material handling equipment providers;

Industry expertise;

Ease and speed of implementation;

Return on investment;

Solution quality and performance;

Total cost of ownership;

Solution price; and

Level of support.

We believe that we compete favorably with respect to each of these factors. Our competitors are diverse and offer a variety of solutions directed at various aspects of the supply chain, as well as the enterprise as a whole. Our existing competitors include:

the corporate information technology departments of current or potential customers capable of internally developing solutions;

Enterprise Resource Planning (ERP) vendors, including Oracle and SAP, among others;

supply chain execution vendors, including RedPrairie Corporation, Infor, Highjump Software LLC, CDC Software (a CDC Corporation company) and Sterling Commerce, Inc. (an AT&T company), among others;

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supply chain planning vendors, including JDA Software Group, Inc., SAS Institute Inc. and i2 Technologies, Inc., among others; and

smaller independent companies that have developed or are attempting to develop supply chain execution solutions and/or supply chain planning solutions that compete with our Supply Chain Solutions.

We anticipate facing increased competition in the future from ERP and SCM 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. For instance, both Oracle and SAP have entered the market for supply chain management applications. These companies, and many of our other competitors and potential competitors, have longer operating histories, significantly greater financial, technical, marketing and other resources, greater name recognition, a broader offering of products and a larger installed base of customers than we do. To the extent ERP and SCM vendors or other large competitors develop or acquire systems with functionality comparable or superior to our solutions, their significant installed customer bases, long-standing customer relationships and ability to offer a broad solution could provide them a significant competitive advantage over our solutions. In addition, it is possible that new competitors or alliances among current and new competitors may emerge and rapidly gain significant market share. Increased competition could result in price reductions, fewer customer orders, reduced gross margins and loss of market share.

We believe that the domain expertise required continually innovating targeted supply chain technology, effectively and efficiently implementing solutions, identifying and attracting sales opportunities, and compete successfully in the sales cycle provides us with a competitive advantage and is a significant barrier to market entry. However, in order to be successful in the future, we must continue to respond promptly and effectively to technological change and competitors' innovations, and consequently we cannot assure you that we will not be required to make substantial additional investments in connection with our research, development, marketing, sales and customer service efforts in order to meet any competitive threat, or that we will be able to compete successfully in the future.

International Operations: Segments

Manhattan Associates has three reporting segments, based on geographic locations of its operations: the Americas, EMEA and APAC. For further information on our segments, see Note 8 to our consolidated financial statements. Our international revenue was approximately \$81.5 million, \$68.7 million and \$59.0 million for the years ended December 31, 2008, 2007 and 2006, respectively, which represents approximately 24%, 20% and 20% of our total revenue for the years ended December 31, 2008, 2007 and 2006, respectively. International revenue includes all revenue derived from sales to customers outside the United States. We now have over 1,000 employees outside the United States. 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.

Our Europe, Middle East, and Africa operations support the sales, implementation services and customer support functions for a number of customers across the Middle East. Our business activities in the Middle East are currently centralized within those countries that we consider to be politically and economically stable; such current customers and business activities are located in Saudi Arabia, United Arab Emirates, Kuwait, Turkey, and Oman.

Proprietary Rights

We rely on a combination of copyright, trade secret, trademark, service mark and trade dress laws, confidentiality procedures and contractual provisions to protect our proprietary rights in our products and technology. We have registered trademarks for Manhattan Associates and the Manhattan Associates logo, as well as for a number of products and product features. We also have trademark applications submitted for Manhattan SCOPE, SCOPE, Transportation Lifecycle Management, Order Lifecycle Management, Distributed Order Management, Extended Enterprise Management and Flow Management. We generally enter into confidentiality and assignment-of-rights agreements with our employees, consultants, clients and potential clients and limit access to, and distribution of, our proprietary information. We license our solutions to our customers and restrict the customer's use for internal purposes and do not give customers the right to sublicense the solutions. However, we believe that this provides us only limited protection. Despite our efforts to safeguard and maintain our proprietary rights both in the United States and abroad,

we cannot assure you that we will successfully deter misappropriation or independent third-party development of our technology or prevent an unauthorized third party from copying or obtaining and using our products or technology. In addition, policing unauthorized use of our solutions is difficult, and while we are unable to determine the extent to which piracy of our software solutions exist, as is the case with any software company, piracy could become a problem.

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As the number of supply chain management solutions in the industry increases and the functionality of these solutions further overlaps, companies that develop software may increasingly become subject to claims of infringement or misappropriation of intellectual property rights. Third parties may assert infringement or misappropriation claims against us in the future for current or future products. Any claims or litigation, with or without merit, could be time-consuming, result in costly litigation, divert management's attention and cause product shipment delays or require us to enter into royalty or licensing arrangements. Any royalty or licensing arrangements, if required, may not be available on terms acceptable to us, if at all, which could have a material adverse effect on our business, financial condition and results of operations. Adverse determinations in such claims or litigation could also have a material adverse effect on our business, financial condition and results of operations.

We may be subject to additional risks as we enter into transactions in countries where intellectual property laws are not well developed or are poorly enforced. Legal protections of our rights may be ineffective in such countries. Litigation to defend and enforce our intellectual property rights could result in substantial costs and diversion of resources and could have a material adverse effect on our business, financial condition and results of operations, regardless of the final outcome of such litigation. Despite our efforts to safeguard and maintain our proprietary rights both in the United States and abroad, we cannot assure that we will be successful in doing so, or that the steps taken by us in this regard will be adequate to deter misappropriation or independent third party development of our technology or to prevent an unauthorized third party from copying or otherwise obtaining and using our products or technology. Any of these events could have a material adverse effect on our business, financial condition and results of operations.

Employees

As of December 31, 2008, we employed 2,084 full time employees, including 177 in sales and marketing, 1,004 in services, 733 in research and development (R&D) and 170 in general and administration. By geography, we have 1,062 employees based in the Americas, 781 employees in India, 151 employees in EMEA, and 90 employees in APAC. During 2008, we committed to and initiated plans to reduce our workforce by approximately 170 positions due to intermediate term market demand and to realign our capacity with demand forecasts.

Available Information

We file annual, quarterly and current reports and other information with the Securities and Exchange Commission (the SEC or the Commission). These materials can be inspected and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Copies of these materials may also be obtained by mail at prescribed rates from the SEC's Public Reference Room at the above address. Information about the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of the SEC's Internet site is www.sec.gov.

On our website, www.manh.com, we provide free of charge our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and any amendments thereto, as soon as reasonably practicable after they have been electronically filed or furnished to the SEC. Information contained on our website is not part of this Form 10-K or our other filings with the SEC.

Additionally, our code of business conduct and ethics and the charters of the Audit, Compensation and Nomination and Governance Committees of the Board of Directors are available on our website.

Item 1A. Risk Factors

You should consider the following factors in evaluating our business or an investment in our common stock. If any of the following or other risks actually occurs, our business, financial condition and results of operations could be materially adversely affected. In such case, the trading price of our common stock could decline.

Our performance may be negatively impacted by global macroeconomic or other external influences. We are a technology company selling technology-based solutions with total pricing, including software and services, in many cases, exceeding \$1.0 million. Reductions in the capital budgets of our customers and prospective customers could have an adverse impact on our ability to sell our solutions. We believe that the deterioration in the current business climate within the United States and/or other geographic regions in which we operate, continued delays in capital spending, or the timing of deals closed could have a material

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adverse impact on our business and our ability to compete, and is likely to further intensify in our already intensely competitive markets.

Disruptions in the financial and credit markets and economic downturns may adversely affect our business, results of operations and financial condition. Demand for our products depends in large part upon the level of capital and maintenance expenditures by many of our customers. Decreased capital and maintenance spending could have a material adverse effect on the demand for our products and our business, results of operations and financial condition. Disruptions in the financial markets, including the bankruptcy or restructuring of certain financial institutions, such as the events that occurred in the second half of 2008 and are continuing to some extent presently, may adversely impact the availability of credit already arranged and the availability and cost of credit in the future, which could result in the delay or cancellation of projects or capital programs on which our business depends.

In addition, continuing weakness or further deterioration in regional economies or the world economy could negatively impact the capital and maintenance expenditures of our customers and end users. There can be no assurance that government responses to the disruptions in the financial markets or to weakening economies will restore confidence, stabilize markets or increase liquidity and the availability of credit. These conditions may reduce the willingness or ability of our customers and prospective customers to commit funds to purchase our products and services, or their ability to pay for our products and services after purchase.

Our operating results are difficult to predict and could cause our stock price to fall. Our quarterly revenue and operating results are difficult to predict and may fluctuate significantly from quarter to quarter. If our quarterly revenue or operating results fall below the expectations of investors or public market analysts, the price of our common stock could fall substantially. Our quarterly revenue is difficult to forecast for several reasons, including the following:

- the varying sales cycle for our products and services from customer to customer, including multiple levels of authorization required by some customers;

- the varying demand for our products;

- customers' budgeting and purchasing cycles;

- delays in our implementations at customer sites;

- timing of hiring new services employees and the rate at which these employees become productive;

- timing of introduction of new products;

- development and performance of our distribution channels;

- market and economic disruptions; and

- timing of any acquisitions and related costs.

As a result of these and other factors, our license revenue is difficult to predict. Because our revenue from services is largely correlated to our license revenue, a decline in license revenue could also cause a decline in our services revenue in the same quarter or in subsequent quarters. In addition, an increase or decrease in hardware sales, which provide us with lower gross margins than sales of software licenses or services, may cause variations in our quarterly operating results.

Most of our expenses, including employee compensation and rent, are relatively fixed. In addition, our expense levels are based, in part, on our expectations regarding future revenue increases. As a result, any shortfall in revenue in relation to our expectations could cause significant changes in our operating results from quarter to quarter and could result in quarterly losses. As a result of these factors, we believe that period-to-period comparisons of our revenue levels and operating results are not necessarily meaningful. Although we have grown significantly during the

past seven years, our prior growth rates may not be a good indicator of future operating results. You should not rely on our historical quarterly revenue and operating results to predict our future performance.

Delays in implementations of our products could adversely impact us. Due to the size of most of our software implementations, our implementation cycle can be lengthy and may result in delays. These delays could cause customer dissatisfaction, which could harm our reputation. Additional delays could result if we fail to attract, train and retain services personnel,

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or if our alliance companies fail to commit sufficient resources towards implementing our software. These delays and resulting customer dissatisfaction could harm our reputation and cause our revenue to decline.

We may not be able to continue to successfully compete with other companies. We compete in markets that are intensely competitive and are expected to become more competitive as current competitors expand their product offerings. Our current competitors come from many segments of the software industry and offer a variety of solutions directed at various aspects of the extended supply chain, as well as the enterprise as a whole. We face competition for product sales from:

the corporate information technology departments of current or potential customers capable of internally developing solutions;

Enterprise Resource Planning (ERP) vendors, including Oracle and SAP, among others;

supply chain execution vendors, including RedPrairie Corporation, Infor, Highjump Software LLC, CDC Software (a CDC Corporation company) and Sterling Commerce, Inc. (an AT&T company), among others;

supply chain planning vendors, including JDA Software Group, Inc., SAS Institute Inc. and i2 Technologies, Inc., among others; and

smaller independent companies that have developed or are attempting to develop supply chain execution solutions and/or supply chain planning solutions that competes with our Supply Chain Solutions.

We anticipate facing increased competition in the future from ERP and SCM 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. For instance, both Oracle and SAP have entered the market for supply chain management applications. These companies, and many of our other competitors and potential competitors, have longer operating histories, significantly greater financial, technical, marketing and other resources, greater name recognition, a broader offering of products and a larger installed base of customers than we do. To the extent such ERP and SCM vendors or other large competitors develop or acquire systems with functionality comparable or superior to our solutions, their significant installed customer bases, long-standing customer relationships and ability to offer a broad solution could provide them a significant competitive advantage over our solutions. In addition, it is possible that new competitors or alliances among current and new competitors may emerge and rapidly gain significant market share. Increased competition could result in price reductions, fewer customer orders, reduced gross margins and loss of market share.

We believe that the domain expertise required to continually innovate targeted supply chain technology, effectively and efficiently implement solutions, identify and attracting sales opportunities, and compete successfully in the sales cycle provides us with a competitive advantage and is a significant barrier to market entry. However, in order to be successful in the future, we must continue to respond promptly and effectively to technological change and competitors innovations, and consequently we cannot assure you that we will not be required to make substantial additional investments in connection with our research, development, marketing, sales and customer service efforts in order to meet any competitive threat, or that we will be able to compete successfully in the future. Some of our competitors have significant resources at their disposal, and the degree to which we will compete with these new products in the marketplace is still undetermined.

Our pricing models may need to be modified due to price competition. The competitive markets in which we operate may oblige us to reduce our prices in order to contend with the pricing models of our competitors. If our competitors discount certain products or services, we may choose to lower prices on certain products or services in order to attract or retain customers. Any such price modifications would likely reduce margins and could adversely affect our results of operations.

Our international operations have many associated risks. We continue to expand our international operations, and these efforts require significant management attention and financial resources. We may not be able to successfully penetrate international markets or if we do, there can be no assurance that we will grow our business in these markets at the same rate as in North America. Because of the complex nature of this expansion, it may adversely affect our business and operating results.

In the last several years, we opened new international offices in China, France, Australia, India, Singapore and Japan. These openings constituted a substantial expansion of our international presence, which, prior to 2002, consisted principally of offices in the United Kingdom and the Netherlands. We have committed resources to the opening and integration of international sales offices and

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the expansion of international sales and support channels. Our efforts to develop and expand international sales and support channels may not be successful. International sales are subject to many risks, including the following:

building and maintaining a competitive presence in new markets;

difficulties in staffing and managing foreign operations;

difficulties in managing international systems integrators;

difficulties and expenses associated with complying with a variety of foreign laws;

difficulties in producing localized versions of our products;

import and export restrictions and tariffs;

difficulties in collecting accounts receivable;

unexpected changes in regulatory requirements;

currency fluctuations; and

political and economic instability abroad.

Seasonal fluctuations may arise from the lower sales that typically occur during the summer months in Europe and other parts of the world.

Our operating results may include foreign currency gains and losses. Due to our international operations, we conduct a portion of our business in currencies other than the United States dollar. Our revenues and operating results are positively affected when the dollar weakens in relation to other currencies but are negatively affected when the dollar strengthens in relation to other currencies. Fluctuations in the value of other currencies can significantly affect our revenues, expenses and operating results.

Our operating results are substantially dependent on one line of business. We continue to derive our revenues from sales of our software and related services and hardware. Any factor adversely affecting the markets for SCM solutions could have an adverse effect on our business, financial condition and results of operations. Accordingly, our future operating results will depend on the demand for our SCM products and related services and hardware by our customers, including new and enhanced releases that we subsequently introduce. We cannot assure you that the market will continue to demand our current products or that we will be successful in marketing any new or enhanced products. If our competitors release new products that are superior to our products in performance or price, demand for our products may decline. A decline in demand for our products as a result of competition, technological change or other factors would reduce our total revenues and harm our ability to maintain profitability.

Our research and development activities may not generate significant returns. Developing our products and software is costly, and recovering our investment in product development may take a lengthy amount of time, if it occurs at all. We anticipate continuing to make significant investments in software research and development and related product opportunities because we believe that we must continue to allocate a significant amount of resources to our research and development activities in order to compete successfully. We cannot estimate with any certainty when we will, if ever, receive significant revenues from these investments.

Our failure to manage the growth of our operations may adversely affect us. We plan to continue to increase the scope of our operations domestically and internationally. This growth may place a significant strain on our management systems and resources. If we are unable to manage our growth effectively, our business, financial condition and results of operations will be adversely affected. We may further expand domestically or internationally through internal growth or through acquisitions of related companies and technologies. For us to effectively manage our growth, we must continue to:

maintain continuity in our executive officers;

improve our operational, financial and management controls;

improve our reporting systems and procedures;

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enhance management and information control systems;

develop the management skills of our managers and supervisors; and

attract, retain, train and motivate our employees.

Our inability to attract, integrate and retain management and other personnel may adversely affect us.

Our success greatly depends on the continued service of our executives, as well as our other key senior management, technical and sales personnel. Our success will depend on the ability of our executive officers to work together as a team. The loss of any of our senior management or other key professional services, research and development, sales and marketing personnel particularly if they are lost to competitors could impair our ability to grow our business. We do not maintain key man life insurance on any of our executive officers.

Our future success will depend in large part upon our ability to attract, retain and motivate highly skilled employees. We face significant competition for individuals with the skills required to perform the services we offer, and thus we may encounter increased compensation costs that are not offset by increased revenue. We cannot assure you that we will be able to attract and retain sufficient numbers of these highly skilled employees or to motivate them. Because of the complexity of the SCM market, we may experience a significant time lag between the date on which technical and sales personnel are hired and the time at which these persons become fully productive.

Our employee retention and hiring may be hindered by immigration restrictions. Foreign nationals who are not U.S. citizens or permanent residents constitute a significant part of our professional U.S. workforce. Our ability to hire and retain these workers, and their ability to remain and work in the U.S. are impacted by laws and regulations as well as by processing procedures of various government agencies. Changes in laws, regulations or procedures may adversely affect our ability to hire or retain such workers and may affect our costs of doing business and/or our ability to deliver services.

Our growth is dependent upon the successful development of our direct and indirect sales channels. We believe that our future growth also will depend on developing and maintaining successful strategic relationships with systems integrators and other technology companies. Our strategy is to continue to increase the proportion of customers served through these indirect channels. We are currently investing, and plan to continue to invest, significant resources to develop these indirect channels. This investment could adversely affect our operating results if these efforts do not generate license and service revenue necessary to offset this investment. Also, our inability to partner with other technology companies and qualified systems integrators could adversely affect our results of operations. Because lower unit prices are typically charged on sales made through indirect channels, increased indirect sales could reduce our average selling prices and result in lower gross margins. In addition, sales of our products through indirect channels will reduce our consulting service revenues, as the third-party systems integrators provide these services. As indirect sales increase, our direct contact with our customer base will decrease, and we may have more difficulty accurately forecasting sales, evaluating customer satisfaction and recognizing emerging customer requirements. In addition, these systems integrators and third-party software providers may develop, acquire or market products competitive with our products.

Our strategy of marketing our products directly to customers and indirectly through systems integrators and other technology companies may result in distribution channel conflicts. Our direct sales efforts may compete with those of our indirect channels and, to the extent different systems integrators target the same customers, systems integrators may also come into conflict with each other. Any channel conflicts that develop may have a material adverse effect on our relationships with systems integrators or harm our ability to attract new systems integrators.

Our technology must be advanced if we are to remain competitive. The market for our products is characterized by rapid technological change, frequent new product introductions and enhancements, changes in customer demands and evolving industry standards. Our existing products could be rendered obsolete if we fail to continue to advance our technology. We have also found that the technological life cycles of our products are difficult to estimate, partially because of changing demands of other participants in the supply chain. We believe that our future success will depend upon our ability to continue to enhance our current product line while we concurrently develop and introduce new products that keep pace with competitive and technological developments. These developments require us to continue to make substantial product development investments. Although we are presently

developing a number of product enhancements to our product sets, we cannot assure you that these enhancements will be completed on a timely basis or gain customer acceptance.

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Our liability to clients may be substantial if our systems fail. Our products are often critical to the operations of our customers' businesses and provide benefits that may be difficult to quantify. If our products fail to function as required, we may be subject to claims for substantial damages. Courts may not enforce provisions in our contracts that would limit our liability or otherwise protect us from liability for damages. Although we maintain general liability insurance coverage, including coverage for errors or omissions, this coverage may not continue to be available on reasonable terms or in sufficient amounts to cover claims against us. In addition, our insurer may disclaim coverage as to any future claim. If claims exceeding the available insurance coverage are successfully asserted against us, or our insurer imposes premium increases, large deductibles or co-insurance requirements on us, our business and results of operations could be adversely affected.

Our software may contain undetected errors or bugs, resulting in harm to our reputation and operating results. Software products as complex as those offered by us might contain undetected errors or failures when first introduced or when new versions are released. We cannot assure you, despite testing by us and by current and prospective customers that errors will not be found in new products or product enhancements after commercial release. Any errors found could cause substantial harm to our reputation, result in additional unplanned expenses to remedy any defects, delay the introduction of new products and/or cause a loss in revenue. Further, such errors could subject us to claims from our customers for significant damages, and we cannot assure you that courts would enforce the provisions in our customer agreements that limit our liability for damages.

Our failure to adequately protect our proprietary rights may adversely affect us. Our success and ability to compete is dependent in part upon our proprietary technology. We cannot assure you that we will be able to protect our proprietary rights against unauthorized third-party copying or use. We rely on a combination of copyright, trademark and trade secret laws, as well as confidentiality agreements, licensing arrangements, and contractual commitments, to establish and protect our proprietary rights. Despite our efforts to protect our proprietary rights, existing copyright, trademark and trade secret laws afford only limited protection. In addition, the laws of certain foreign countries do not protect our rights to the same extent, as do the laws of the United States. Attempts may be made to copy or reverse engineer aspects of our products or to obtain and use information that we regard as proprietary. Any infringement of our proprietary rights could negatively impact our future operating results. Furthermore, policing the unauthorized use of our products is difficult, and litigation may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. Litigation could result in substantial costs and diversion of resources and could negatively impact our future operating results.

Our liability for intellectual property claims can be costly and result in the loss of significant rights. It is possible that third parties will claim that we have infringed their current or future products. We expect that SCM software developers like us will increasingly be subject to infringement claims as the number of products grows. Any claims, with or without merit, could be time-consuming, result in costly litigation, cause product shipment delays or require us to pay monetary damages or to enter into royalty or licensing agreements, any of which could negatively impact our operating results. We cannot assure you that these royalty or licensing agreements, if required, would be available on terms acceptable to us, if at all. We cannot assure you that legal action claiming patent infringement will not be commenced against us, or that we would prevail in litigation given the complex technical issues and inherent uncertainties in patent litigation. If a patent claim against us was successful and we could not obtain a license on acceptable terms or license a substitute technology or redesign to avoid infringement, we may be prevented from distributing our software or required to incur significant expense and delay in developing non-infringing software.

Fluctuations in our hardware sales may adversely affect us. A portion of our revenue in any period is comprised of the resale of a variety of third-party hardware products to purchasers of our software. Our customers may choose to purchase this hardware directly from manufacturers or distributors of these products. We view sales of hardware as non-strategic. We perform this service to our customers seeking a single source for their supply chain execution needs. Hardware sales are difficult to forecast and fluctuate from quarter to quarter, leading to unusual comparisons of total revenue and fluctuations in profits. If we are not able to increase our revenue from software licenses and services or maintain our hardware revenue, our profitability may be adversely affected.

Our business and our profitability may be adversely affected if we cannot integrate acquired companies.

We may from time to time acquire companies with complementary products and services. These acquisitions will expose us to increased risks and costs, including the following:

difficulties in assimilating new operations and personnel;

diverting financial and management resources from existing operations; and

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difficulties in integrating acquired technologies.

We may not be able to generate sufficient revenue from any of these acquisitions to offset the associated acquisition costs. We will also be required to maintain uniform standards of quality and service, controls, procedures and policies. Our failure to achieve any of these standards may hurt relationships with customers, employees and new management personnel. In addition, future acquisitions may result in additional issuances of stock that could be dilutive to our shareholders.

We may also evaluate joint venture relationships with complementary businesses. Any joint venture we enter into would involve many of the same risks posed by acquisitions, particularly the following:

risks associated with the diversion of resources;

the inability to generate sufficient revenue;

the management of relationships with third parties; and

potential additional expenses.

Many acquisition candidates have significant intangible assets, and an acquisition of these businesses would likely result in significant amounts of goodwill and other intangible assets. Goodwill and certain other intangible assets are not amortized to income, but are subject to at least annual impairment reviews. If the acquisitions do not perform as planned, future charges to income arising from such impairment reviews could be significant. Likewise, future quarterly and annual earnings could be significantly adversely affected. In addition, these acquisitions could involve acquisition-related charges, such as one-time acquired research and development charges.

Our business may require additional capital. We may require additional capital to finance our growth or to fund acquisitions or investments in complementary businesses, technologies or product lines. Our capital requirements may be impacted by many factors, including:

demand for our products;

the timing of and extent to which we invest in new technology;

the timing of and extent to which we acquire other companies;

the level and timing of revenue;

the expenses of sales and marketing and new product development;

the success and related expense of increasing our brand awareness;

the cost of facilities to accommodate a growing workforce;

the extent to which competitors are successful in developing new products and increasing their market share; and

the costs involved in maintaining and enforcing intellectual property rights.

To the extent that our resources are insufficient to fund our future activities, we may need to raise additional funds through public or private financing. However, additional funding, if needed, may not be available on terms attractive to us, or at all. Our inability to raise capital when needed could have a material adverse effect on our business, operating results and financial condition. If additional funds are raised through the issuance of equity securities, the percentage ownership of our company by our current shareholders would be diluted.

Our stock price has been highly volatile. The trading price of our common stock has fluctuated significantly since our initial public offering in April 1998. In addition, the trading price of our common stock could be subject to wide fluctuations in response to various factors, including:

quarterly variations in operating results;

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announcements of technological innovations or new products by us or our competitors;

developments with respect to patents or proprietary rights; and

changes in financial estimates by securities analysts.

In addition, the stock market has recently experienced volatility that has particularly affected the market prices of equity securities of many technology companies and that often has been unrelated or disproportionate to the operating performance of these companies. These broad market fluctuations may adversely affect the market price of our common stock.

Our articles of incorporation and bylaws and Georgia law may inhibit a takeover of our company. Our basic corporate documents and Georgia law contain provisions that might enable our management to resist a takeover of our company. These provisions might discourage, delay or prevent a change in the control of our company or a change in our management. These provisions could also discourage proxy contests and make it more difficult for you and other shareholders to elect directors and take other corporate actions. The existence of these provisions could also limit the price that investors might be willing to pay in the future for shares of our common stock.

Item 1B. Unresolved Staff Comments

As of December 31, 2008, we do not have any unresolved written comments that we received from the SEC more than 180 days before December 31, 2008.

Item 2. Properties

Our principal administrative, sales, marketing, support and research and development facility is located in approximately 176,000 square feet of modern office space in Atlanta, Georgia. Substantially all of this space is leased to us through September 30, 2018. We have additional offices under multi-year agreements in Indiana. We also occupy facilities outside of the United States under multi-year agreements in the United Kingdom, the Netherlands, France, Japan, China, Singapore, India and Australia. We also occupy offices under short-term agreements in other geographical regions. We believe our office space is adequate to meet our immediate needs; however, we may expand into additional facilities in the future.

Item 3. Legal Proceedings

From time to time, we are party to various legal proceedings arising in the ordinary course of business. The Company is not currently a party to any other legal proceeding the result of which it believes could have a material adverse impact upon its business, financial position or results of operations.

Many of our installations involve products that are critical to the operations of our clients' businesses. Any failure in our products could result in a claim for substantial damages against us, regardless of our responsibility for such failure. Although we attempt to limit contractually our liability for damages arising from product failures or negligent acts or omissions, there can be no assurance the limitations of liability set forth in our contracts will be enforceable in all instances.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year ended December 31, 2008.

PART II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Market for Common Stock

Our common stock is traded on the Nasdaq Global Select Market under the symbol **MANH**. The following table sets forth the high and low closing sales prices of the common stock as reported by the Nasdaq Global Select Market for the periods indicated:

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Fiscal Period	High Price	Low Price
2008		
First Quarter	\$25.75	\$21.74
Second Quarter	26.77	21.35
Third Quarter	25.87	21.34
Fourth Quarter	21.79	13.82
2007		
First Quarter	\$30.16	\$26.18
Second Quarter	30.45	26.54
Third Quarter	30.67	25.19
Fourth Quarter	30.16	24.93

On February 19, 2009, the last reported sales price of our common stock on the Nasdaq Global Select Market was \$14.74 per share. The number of shareholders of record of our common stock as of February 19, 2009 was approximately 35.

We do not intend to declare or pay cash dividends in the foreseeable future. Our management anticipates that all earnings and other cash resources, if any, will be retained for investment in our business.

Equity Compensation Plan Information

The following table provides information regarding our current equity compensation plans as of December 31, 2008:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	6,010,909	\$ 26.00	1,171,776
Equity compensation plans not approved by security holders			
Total	6,010,909	\$ 26.00	1,171,776

Additional information regarding our equity compensation plans can be found in Note 2 of the Notes to our Consolidated Financial Statements.

Purchase of Equity Securities

On October 16, 2008, it was announced that Manhattan Associates Board of Directors authorized the repurchase of an additional \$25.0 million of the Company's common stock under the Company's stock repurchase program. At December 31, 2008, the Company had \$15.0 million remaining in share repurchase authority. The following table provides information regarding our common stock repurchases under our publicly-announced repurchase program and shares withheld for taxes due upon vesting of restricted stock for the quarter ended December 31, 2008. All repurchases related to the repurchase program were made on the open market.

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Period	Total Number of Shares Purchased^(a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 - October 31, 2008	134,812	\$ 15.41	132,200	\$ 22,996,792
November 1 - November 30, 2008	519,414	15.40	519,414	14,999,274
December 1 - December 31, 2008				14,999,274
Total	654,226	\$ 15.40	651,614	\$ 14,999,274

(a) Includes 2,612 shares withheld for taxes due upon vesting of restricted stock.

The Company previously withheld 2,215 shares for taxes due upon vesting of restricted stock in the third quarter of 2008.

Item 6. Selected Financial Data

You should read the following selected consolidated financial data in conjunction with our Consolidated Financial Statements and related Notes thereto and with Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Form 10-K. The statement of income data for the years ended December 31, 2008, 2007 and 2006, and the balance sheet data as of December 31, 2008 and 2007, are derived from, and are qualified by reference to, the audited financial statements included elsewhere in this Form 10-K. The statement of income data for the years ended December 31, 2005 and 2004 and the balance sheet data as of December 31, 2006, 2005, and 2004 are derived from the audited financial statements not included herein. Historical results are not necessarily indicative of results to be expected in the future.

	Year Ended December 31,				
	2004	2005	2006	2007	2008
	(in thousands, except per share data)				
Statement of Income Data:					
License revenue	\$ 49,886	\$ 57,119	\$ 66,543	\$ 73,031	\$ 65,313
Total revenue	\$214,919	\$246,404	\$288,868	\$337,401	\$337,201
Operating income	\$ 31,609	\$ 30,277	\$ 30,755	\$ 43,058	\$ 25,963
Net income	\$ 21,634	\$ 18,635	\$ 19,331	\$ 30,751	\$ 22,798
Earnings per diluted share	\$ 0.70	\$ 0.64	\$ 0.69	\$ 1.13	\$ 0.94

	2004	2005	December 31, 2006	2007	2008
	(in thousands)				

Balance Sheet Data:

Cash, cash equivalents and investments	\$ 172,656	\$ 93,675	\$ 131,057	\$ 72,772	\$ 88,706
Total assets	\$ 290,239	\$ 273,398	\$ 314,893	\$ 271,660	\$ 270,221
Debt	\$ 148	\$	\$	\$	\$
Shareholders equity	\$ 239,017	\$ 205,398	\$ 237,140	\$ 185,705	\$ 179,839

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

All statements, trend analyses and other information contained in the following discussion relative to markets for our products and trends in revenue, gross margins and anticipated expense levels, as well as other statements including words such as anticipate, believe, plan, estimate, expect, and intend and other similar expressions forward-looking statements. These forward-looking statements are subject to business and economic risks and uncertainties, including those discussed under the caption Risk Factors in Item 1A of this Form 10-K, and our actual results of operations may differ materially from those contained in the forward-looking statements.

Table of Contents**Business Overview**

We are a leading developer and implementer of supply chain software solutions that help organizations optimize their supply chain operations from planning through execution. We call our portfolio of supply chain software solutions Manhattan SCOPE™ (Supply Chain Optimization from Planning through Execution). Built on a common Supply Chain Process Platform, SCOPE combines Planning and Forecasting, Inventory Optimization, Order Lifecycle Management, Transportation Lifecycle Management and Distribution Management to enable full-range supply chain optimization.

Early in the Company's history, our offerings were heavily focused on warehouse management solutions. As the Company grew in size and scope, its offerings expanded across the entire supply chain. As a result of the Company's historical beginnings however, we still enjoy significant presence in, and a relatively strong concentration of revenues from, warehouse management solutions, which are a component of our distribution management solution suite. Over time, as our non-warehouse management solutions have proliferated and increased in capability, the Company's revenue concentration in its management warehouse solutions has correspondingly decreased, a trend we expect to see continue.

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

license revenue generated from the sales of our supply chain software;

professional services derived from implementing our solutions along with customer support services and software enhancements (services), and

hardware sales and other revenue.

In 2008, we generated \$337.2 million in total revenue with a revenue mix of: license revenues 19%; services 70%; and hardware and other revenue 11%.

We manage our business based on three geographic regions: Americas (North America and Latin America), EMEA (Europe, Middle East and Africa), and APAC (Asia Pacific). Geographic revenue is based on the location of the sale. Our international revenue was approximately \$81.5 million, \$68.7 million and \$59.0 million for the years ended December 31, 2008, 2007 and 2006, respectively, which represents approximately 24%, 20% and 20% of our total revenue for the years ended December 31, 2008, 2007 and 2006, respectively. International revenue includes all revenue derived from sales to customers outside the United States. At December 31, 2008, we employed 2,084 employees worldwide, of which 1,022 employees are based outside the United States. Of the 1,022 international employees, approximately 75%, or nearly 800 employees, are located in our India Development Center. 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.

Global Economic Trends and Industry Factors

Global macro economic trends, technology spending and supply chain management market growth are important barometers for our business. Approximately 76% of our total revenue is generated in the United States, 13% in EMEA and the balance in APAC, Canada and Latin America. In addition, industry analysts project that approximately two-thirds of every supply chain software solutions dollar invested is spent in the United States; consequently, the health of the U.S. economy has a meaningful impact on our financial results.

According to the International Monetary Fund (IMF) January 28, 2009 World Economic Outlook Update (WEO Update), World growth is projected to fall to 2 percent in 2009, its lowest rate since World War II. Despite wide-ranging policy actions, financial strains remain acute, pulling down the real economy. A sustained economic recovery will not be possible until the financial sector's functionality is restored and credit markets are unclogged.

Against this uncertain backdrop, output in the advanced economies is now expected to contract by 2 percent in 2009. According to the WEO Update, the global economy grew 3.4% in 2008 compared to 5.2% in 2007. In 2008 the United States economy grew 1.1%, and is projected to contract by 1.6% in 2009. Western Europe's economy also grew 1.0% in 2008, and is forecast to shrink by 2.0% in 2009. The United Kingdom separately grew 0.7% in 2008 and is forecast

to decline by 2.8% in 2009.

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The IMF notes the uncertainty surrounding the WEO Update's outlook is unusually large as downside risks continue to dominate due to the unprecedented scale and scope of the current financial crisis. Global output and trade plummeted in the final months of 2008, due to the continuation of the financial crisis. The associated high level of uncertainty has prompted households and businesses to postpone expenditures, reducing demand for consumer and capital goods. At the same time, widespread disruptions in credit are constraining household spending and curtailing production and trade.

A slowing macro-economic environment impacts the timing of closing software transactions and lengthens the software sales cycles, which in turn affects our revenue and earnings per share. In the first half of 2008, our consolidated license revenue increased 1% (compared to 15% growth in the first half of 2007), while in the second half of 2008, license revenue decreased 23% compared to the second half of 2007. Our Americas license revenue for the first half of 2008 versus the first half of 2007 decreased 11% and for the second half of 2008 declined 23% versus the second half of 2007 as the economy worsened. We began to see the deceleration of America's license revenue in the latter half of 2007 as second half license revenue declined 3% compared to the prior comparable period in 2006, largely, management believes, due to the slowing of the U.S. economy driven by turbulence in the financial markets, the U.S. housing market collapse and rising commodity prices.

With the current macro-economic environment, we believe companies will seek to protect their balance sheets and hoard cash, which in turn will drive lower information technology spending. According to Gartner, a leading supply chain industry analyst, estimated overall information technology spending growth for 2009 in the U.S. is projected at 2.2% as of December 2008, confirming a significant reduction to Gartner's September 2008 forecast. The Company is consequently predicting the continuation of a very difficult selling environment throughout the 2009 year.

We sell technology-based solutions with total pricing, including software and services, in many cases exceeding \$1.0 million. Reductions in the capital budgets of our customers and prospective customers could have an adverse impact on our ability to sell our solutions. We believe that deterioration in the current business climate within the United States and geographic regions in which we operate, continued delays in capital spending, or the timing of deals closed could have a material adverse impact on our business and our ability to compete and is likely to further intensify in our already highly competitive markets.

Revenue

License revenue: License revenue, a leading indicator of our business, is primarily derived from software license fees that customers pay for supply chain solutions. In 2008, license revenue totaled \$65.3 million, or 19% of total revenue, with gross margins of 91%. Our annual license revenue percentage mix of new to existing customers was approximately 50% to 50%, and over the past three years has averaged about 45% to 55%. We believe our mix of new customer to existing customer license sales is well balanced, reflecting solid demand from our installed base, as well as from new customers. 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 of which the timing of the closing of a few large license transactions can have a material impact on our quarterly license revenues, operating profit and earnings per share. For example, \$1.0 million of license revenue in 2008 equates to approximately 2.5 cents of diluted earnings per share impact.

Our software solutions are singularly focused on the supply chain planning and execution markets, which are intensely competitive, rapidly consolidating 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 AMR, ARC 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. We do anticipate facing increased competition in the future from ERP and SCM 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 training) and customer support services and software enhancements. In 2008, our services revenue totaled \$236.0 million, or 70% of total revenue, with gross margins of 51%. Professional services accounted for approximately 70% of total services revenue

and nearly 50% of total revenue in 2008. When comparing our operating margins to other technology companies, our operating margin profile can be lower 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 as services margins are lower than license revenue margins.

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At December 31, 2008, our consulting services business totaled 1,004 employees, about 50% 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 consulting services are optional, the majority of our customers use at least some portion of these services for the implementation and ongoing support of our software solutions. Consulting 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 consulting services lag license revenue by several quarters, as implementation services are performed after the purchase of the software. Services revenue growth is contingent upon license revenue growth, which is influenced by the strength of general economic and business conditions and the competitive position of our software products. In addition, our consulting 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 customer support services and software enhancements (CSSE), we offer a comprehensive program that provides our customers with software upgrades that offer additional or improved functionality and technological advances incorporating emerging supply chain and industry initiatives. We offer 24 hour customer support every day of the year plus software upgrades for an annual fee that is paid in advance.

Our CSSE revenues totaled \$77.0 million in 2008, representing approximately 30% of services revenue and approximately 20% of total revenue, respectively. The growth of CSSE revenues is influenced by: 1) new license revenue growth, 2) annual renewal of support contracts, 3) increase in customers through acquisitions, and 4) fluctuations in currency rates. Substantially all of our customers renew their annual support contracts. Over the last three years, our annual 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 12 months. CSSE renewal revenue is not recognized unless payment is received from the customer.

Hardware and other revenue: Our hardware and other revenues totaled \$35.9 million in 2008 representing 11% of total revenue with gross margins of 19%. In conjunction with the licensing of our software, and as a convenience for our customers, we resell a variety of hardware products developed and manufactured by third parties. These products include computer hardware, radio frequency terminal networks, RFID chip readers, bar code printers and scanners, and other peripherals. We resell all third-party hardware products pursuant to agreements with manufacturers or through distributor-authorized reseller agreements pursuant to which we are entitled to purchase hardware products at discount prices and to receive technical support in connection with product installations and any subsequent product malfunctions. We generally purchase hardware from our vendors only after receiving an order from a customer. As a result, we do not maintain significant hardware inventory.

Product Development

We intend to continue to invest significantly in research and development (R&D), which historically has averaged about 14 cents of every revenue dollar, to provide market 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 for the years ended December 31, 2008, 2007 and 2006 were \$48.4 million, \$46.6 million and \$41.5 million, respectively. At December 31, 2008, our R&D organization totaled 733 employees, located in the U.S. and India, representing about 35% of our total employees worldwide.

We will continue to focus our R&D resources on the development and enhancement of supply chain software solutions. We offer what we believe to be the broadest solution portfolio in the supply chain solutions marketplace, to address all aspects of planning and forecasting, inventory optimization, order lifecycle management, transportation

lifecycle management and distribution management. The underpinning of our product portfolio is the services-based Supply Chain Process Platform, which provides the foundation for ensuring that all our solutions reside on a common architecture, leverage common master and transaction data and

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utilize the same business services to accomplish tasks common to multiple solutions, enabling our customers to lower their total cost of ownership while optimizing their supply chain effectiveness and efficiency.

We also plan to continue to provide enhancements to existing solutions and to introduce new solutions to address evolving industry standards and market needs. We identify further enhancements to existing solutions and opportunities for 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 2008, we generated cash flow from operating activities of \$63.8 million and have generated a cumulative total of \$146.2 million for the three years ended 2006, 2007 and 2008. Our cash and investments at December 31, 2008 totaled \$88.7 million, with no debt on our balance sheet. We currently have no credit facilities. During the past three years, our primary uses of our cash have been to continue funding of R&D investment and operations to drive earnings growth and to repurchase common stock.

At the end of 2008, we had \$15.0 million in remaining share repurchase authority. In 2009, we anticipate that our priorities for use of cash will be similar to prior years, with our first priority being continued investment in product development and profitably growing our business to extend our market leadership. We will continue to evaluate acquisition opportunities that are complementary to our product footprint and technology direction. We will also continue to weigh our share repurchase options against cash for acquisitions and investing in the business. We do not anticipate any borrowing requirements in 2009 for general corporate purposes.

Application of Critical Accounting Policies and Estimates

The SEC defines critical accounting policies as those that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements and related footnotes. We believe that estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. To the extent there are material differences between those estimates, judgments or assumptions and actual results, our financial statements will be affected. The accounting policies that reflect our more significant estimates, judgments and assumptions are: Revenue Recognition, Allowance for Doubtful Accounts, Valuation of Goodwill, Accounting for Income Taxes, Stock-based Compensation, and Business Combinations.

Revenue Recognition

Our revenue consists of revenues from the licensing and hosting of software, fees from implementation and training services (collectively, professional services), plus customer support services and software enhancements, and sales of hardware and other (other consists of reimbursements of out of pocket expenses incurred by professional services). All revenue is recognized net of any related sales taxes.

We recognize 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), 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) collectibility is probable. SOP 98-9 requires recognition of revenue using the residual method when (1) 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; (2) vendor-specific objective evidence of fair value does not exist for one or more of the delivered elements in the arrangement; and (3) 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.

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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. Our 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, we may be unable to determine that collectibility is probable, and we could be required to defer the recognition of revenue until we receive customer payments.

Our services revenue consists of fees generated from professional services, customer support services and software enhancements related to our software products. Fees from professional services performed by us 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 enhancements 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 our software solutions. As part of a complete solution, our customers periodically purchase hardware from us 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. We generally purchase hardware from our vendors only after receiving an order from a customer. As a result, we do 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, we recognize amounts associated with reimbursements from customers for out-of-pocket expenses as revenue. Such amounts have been included in hardware and other revenue. The total amount of expense reimbursement recorded to revenue was \$12.7 million, \$13.0 million and \$9.7 million for 2008, 2007 and 2006, respectively.

Allowance for Doubtful Accounts

We continuously monitor collections and payments from our customers and maintain an allowance for estimated credits based upon our historical experience and any specific customer collection issues that we have identified. Additions to the allowance for doubtful accounts generally represent a sales allowance on services revenue, which are recorded to operations as a reduction to services revenue. While such credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past.

Valuation of Goodwill

In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*, we do not amortize goodwill and other intangible assets with indefinite lives. Our goodwill is subject to an annual impairment test, which requires us to estimate the fair value of our business compared to the carrying value. The impairment reviews require an analysis of future projections and assumptions about our operating performance. Should such review indicate the assets are impaired, we would record an expense for the impaired assets.

Annual tests or other future events could cause us to conclude that impairment indicators exist and that our goodwill is impaired. For example, if we had reason to believe that our recorded goodwill had become impaired due to decreases in the fair market value of the underlying business, we would have to take a charge to income for that portion of goodwill that we believed was impaired. Any resulting impairment loss could have a material adverse impact on our financial position and results of operations. At December 31, 2008, our goodwill balance was \$62.3 million.

Accounting for Income Taxes

We provide for the effect of income taxes on our financial position and results of operations in accordance with SFAS No. 109, *Accounting for Income Taxes*. Under this accounting pronouncement, income tax expense is recognized for the amount of income taxes payable or refundable for the current year and for the change in net deferred tax assets or liabilities resulting from events

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that are recorded for financial reporting purposes in a different reporting period than recorded in the tax return. Management must make significant assumptions, judgments and estimates to determine our current provision for income taxes and also our deferred tax assets and liabilities and any valuation allowance to be recorded against our net deferred tax asset.

Our judgments, assumptions and estimates relative to the current provision for income tax take into account current tax laws, our interpretation of current tax laws, allowable deductions, projected tax credits and possible outcomes of current and future audits conducted by foreign and domestic tax authorities. We do not recognize a tax benefit unless we conclude that it is more likely than not that the benefit will be sustained on audit by the taxing authority based solely on the technical merits of the associated tax position. If the recognition threshold is met, we recognize a tax benefit measured at the largest amount of the tax benefit that, in our judgment, is greater than 50 percent likely to be realized. Changes in tax law or our interpretation of tax laws and the resolution of current and future tax audits could significantly impact the amounts provided for income taxes in our financial position and results of operations. Our assumptions, judgments and estimates relative to the value of our net deferred tax asset take into account predictions of the amount and category of future taxable income. Actual operating results and the underlying amount and category of income in future years could render our current assumptions, judgments and estimates of recoverable net deferred taxes inaccurate, thus materially impacting our financial position and results of operations.

Stock-Based Compensation

We estimate the fair value of options granted on the date of grant using the Black-Scholes option pricing model. We base our estimate of fair value on certain assumptions, including the expected term of the option, the expected volatility of the price of the underlying share for the expected term of the option, the expected dividends on the underlying share for the expected term, and the risk-free interest rate for the expected term of the option. We base our expected volatilities on a combination of the historical volatility of our stock and the implied volatility of publicly traded options (issued by third party) for our common stock. Due to the limited trading volume of publicly traded options for our common stock, we place a greater emphasis on historical volatility of our common stock. We also use historical data to estimate the term that options are expected to be outstanding and the forfeiture rate of options granted. We base the risk-free interest rate on the rate for U.S. Treasury zero-coupon issues with a term approximating the expected term.

We recognize compensation cost for awards with graded vesting using the straight-line attribution method, with the amount of compensation cost recognized at any date at least equal to the portion of the grant-date value of the award that is vested at that date. Compensation cost recognized in any period is impacted by the number of stock options granted and the vesting period (which generally is four years), as well as the underlying assumptions used in estimating the fair value on the date of grant. This estimate is dependent upon a number of variables such as the number of options awarded, cancelled or exercised and fluctuations in our share price during the year.

Business Combinations

In accordance with business combination accounting, we allocate the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets.

Management makes estimates of fair value based upon assumptions believed to be reasonable. These estimates are based on historical experience and information obtained from the management of the acquired companies and are inherently uncertain. Critical estimates in valuing certain of the intangible assets include but are not limited to future expected cash flows from customer contracts and acquired developed technologies; the acquired company's brand awareness and market position, as well as assumptions about the period of time the acquired brand will continue to be used in the combined company's product portfolio; and discount rates. Unanticipated events and circumstances may occur which may affect the accuracy or validity of such assumptions, estimates or actual results.

In connection with purchase price allocations, we estimate the fair value of the support obligations assumed in connection with acquisitions. The estimated fair value of the support obligations is determined utilizing a cost build-up approach. The cost build-up approach determines fair value by estimating the costs related to fulfilling the obligations plus a normal profit margin. The estimated costs to fulfill the support obligations are based on the historical direct costs related to providing the support services and to correct any errors in the software products

acquired. We do not include any costs associated with selling efforts, upgrades, or research and development or the related fulfillment margins on these costs. Profit associated with selling effort is excluded because the acquired entities would have concluded the selling effort on the support contracts prior to the acquisition date. The estimated research

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and development costs are not included in the fair value determination, as these costs are not deemed to represent a legal obligation at the time of acquisition. The sum of the costs and operating profit approximates, in theory, the amount that we would be required to pay a third party to assume the support obligation.

2008 Accounting Charges

Asset Impairment Charges. During 2008, we recorded an other-than-temporary impairment charge of \$1.7 million, writing down the remaining balance of a \$2.0 million investment in an RFID technology company we made in July 2003. We recorded the additional impairment due to a combination of continued negative financial results reported by this company in a very competitive sector and a down round of financing (i.e., a round of financing that was dilutive to our investment) in which our preferred share ownership was converted into common stock, eliminating our preference rights associated with liquidation, thereby substantially impairing our ability to recoup our investment.

In addition, we recorded an other-than-temporary impairment charge of \$3.5 million on an investment in an auction rate security. We reduced the carrying value to zero due to a combination of credit downgrades of the underlying issuer and the bond insurer as well as increased publicly reported exposure to bankruptcy risk by the issuer and continued significant deterioration in the credit markets limiting the issuer's ability to re-finance the underlying bond.

Restructuring charge. During 2008, we committed to and initiated plans to reduce our workforce by approximately 170 positions due to intermediate term market demand and to realign our capacity with demand forecasts. As a result of this initiative, we recorded a restructuring charge of approximately \$4.7 million pretax (\$3.0 million after-tax or \$0.13 per fully diluted share) in the fourth quarter of 2008. The restructuring charge primarily consists of employee severance and outplacement services.

Highlights of Full Year 2008 Consolidated Financial Results

Summarized highlights for our 2008 results, as compared to 2007, are:

Total revenue was essentially flat at \$337.2 million compared to \$337.4 million for 2007;

- o License revenue decreased 11% to \$65.3 million;

- o Services revenue increased 4% to \$236.0 million;

Operating income was \$26.0 million compared to \$43.1 million in 2007; 2008 includes the \$9.9 million of unusual adjustments taken in the second half of 2008 described above under "2008 Accounting Charges";

Diluted earnings per share was \$0.94, a decrease of 17%;

Cash flow from operations totaled \$63.8 million, a 67% increase over 2007;

Cash and investments on hand at December 31, 2008 was \$88.7 million, increasing \$16.0 million over December 31, 2007; and

The Company repurchased approximately 1.7 million shares of common stock during the year totaling \$35.0 million at an average price of \$20.52 under its publicly-announced buy-back program. As of December 31, 2008, the Company had approximately \$15.0 million remaining in share repurchase authority.

Results of Operations

The following table summarizes selected Statement of Income data for the years ended December 31, 2008, 2007 and 2006.

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	Year Ended December 31,			% Change	
	2008	2007	2006	2008 to 2007	2007 to 2006
	(in thousands)				
Revenue:					
Software license	\$ 65,313	\$ 73,031	\$ 66,543	-11%	10%
Services	235,967	226,153	194,521	4%	16%
Hardware and other	35,921	38,217	27,804	-6%	37%
Total revenue	337,201	337,401	288,868		17%
Costs and expenses:					
Cost of license	5,961	5,334	5,796	12%	-8%
Cost of services	116,707	109,758	93,427	6%	17%
Cost of hardware and other	29,270	32,268	24,515	-9%	32%
Research and development	48,407	46,594	41,468	4%	12%
Sales and marketing	51,177	53,406	45,888	-4%	16%
General and administrative	37,145	33,366	29,143	11%	14%
Depreciation and amortization	12,699	13,617	13,247	-7%	3%
Asset impairment charges ⁽¹⁾	5,205		270	100%	-100%
Restructuring and acquisition-related charges ⁽²⁾	4,667		1,503	100%	-100%
Settlement charges ⁽³⁾			2,856		-100%
Total costs and expenses	311,238	294,343	258,113	6%	14%
Operating Income	\$ 25,963	\$ 43,058	\$ 30,755	-40%	40%
Operating margin	7.7%	12.8%	10.6%		

(1) The impairment charge for 2008 includes a \$1.7 million charge for writing down the remaining balance of a \$2.0 million investment in a RFID technology company we made in July 2003. We recorded the additional impairment due

to a down round of financing (i.e., a round of financing that was dilutive to our investment) in which our preferred share ownership was converted into common stock, eliminating our preference rights associated with liquidation, thereby substantially impairing our ability to recoup our investment. In addition, we recorded an impairment charge of \$3.5 million on an investment in an auction rate security. We reduced the carrying value to zero due to credit downgrades of the underlying issuer and the bond insurer as well as increasing publicly reported exposure to bankruptcy risk by the issuer. The impairment charge for 2006 represents an impairment charge of \$0.3 million against our \$2.0 million

investment in a
RFID
technology
company
discussed
above.

- (2) The restructuring charge of \$4.7 million in 2008 mainly represents employee severance and outplacement services resulting from the workforce reduction initiative executed in the fourth quarter of 2008. Acquisition charges for 2006 include employee retention bonuses associated with our Evant, Inc. acquisition in 2005.
- (3) Settlement charges for 2006 represent legal settlements resulting from disputes over the implementation of our software.

We manage our business based on three geographic regions: the Americas, EMEA, and APAC. Geographic revenue information is based on the location of sale. The revenues represented below are from external customers only. The geographical-based 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. During 2008, 2007 and 2006, we derived the majority of our revenues from sales to customers within our Americas region. The following table summarizes revenue and operating profit by region:

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	Year Ended December 31,			% Change	
	2008	2007	2006	2008 to 2007	2007 to 2006
	(in thousands)				
Revenue:					
License					
Americas	\$ 51,392	\$ 61,708	\$ 57,579	-17%	7%
EMEA	8,885	9,311	5,285	-5%	76%
APAC	5,036	2,012	3,679	150%	-45%
Total license	\$ 65,313	\$ 73,031	\$ 66,543	-11%	10%
Services					
Americas	\$ 192,483	\$ 187,019	\$ 158,603	3%	18%
EMEA	32,163	25,617	20,793	26%	23%
APAC	11,321	13,517	15,125	-16%	-11%
Total services	\$ 235,967	\$ 226,153	\$ 194,521	4%	16%
Hardware and Other					
Americas	\$ 33,371	\$ 35,595	\$ 26,138	-6%	36%
EMEA	1,750	1,921	1,273	-9%	51%
APAC	800	701	393	14%	78%
Total hardware and other	\$ 35,921	\$ 38,217	\$ 27,804	-6%	37%
Total Revenue					
Americas	\$ 277,246	\$ 284,322	\$ 242,320	-2%	17%
EMEA	42,798	36,849	27,351	16%	35%
APAC	17,157	16,230	19,197	6%	-15%
Total revenue	\$ 337,201	\$ 337,401	\$ 288,868	0%	17%
Operating income:					
Americas	\$ 18,849	\$ 40,300	\$ 32,747	-53%	23%
EMEA	6,640	2,422	(2,817)	174%	186%
APAC	474	336	825	41%	-59%
Total operating income	\$ 25,963	\$ 43,058	\$ 30,755	-40%	40%

The results of our operations for year 2008, 2007, and 2006 are discussed below.

Revenue

Our revenue consists of fees generated from the licensing and hosting of software; fees from professional services, customer support services and software enhancements; and sales of complementary radio frequency and computer equipment.

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	Year Ended December, 31					% of Total Revenue		
	2008	2007	2006	% Change		2008	2007	2006
				2008 to 2007	2007 to 2006			
	(in thousands)							
License	\$ 65,313	\$ 73,031	\$ 66,543	-11%	10%	19%	22%	23%
Services	235,967	226,153	194,521	4%	16%	70%	67%	67%
Hardware and other	35,921	38,217	27,804	-6%	37%	11%	11%	10%
Total revenue	\$ 337,201	\$ 337,401	\$ 288,868	0%	17%	100%	100%	100%

License revenue*Year 2008 compared with year 2007*

License revenue decreased 11% or \$7.7 million in 2008 compared to 2007. Americas and EMEA license revenue declined \$10.3 million and \$0.4 million, respectively, driven by the current global macro-economic slowdown, which has lengthened sales cycles in our markets in 2008. This decrease was partially offset by an increase in APAC license revenue of \$3.0 million.

License sales mix across our product suite remained strong with approximately 55% of sales in our warehouse management solutions and 45% in non-warehouse management solutions in 2008. Sales of warehouse management solutions and non-warehouse management solutions declined 7% and 15%, respectively, in 2008 compared to 2007.

Year 2007 compared with year 2006

License revenue increased 10% in 2007 over 2006 driven by strong growth in our Americas and EMEA segments. Americas license and hosting revenues increased \$4.1 million, or 7%, and EMEA license revenue increased \$4.0 million, or 76%, in 2007 over 2006. This increase was partially offset by a decline in APAC license sales of \$1.7 million.

License sales mix across our product suite remained balanced with approximately 52% of our sales in our warehouse management solutions and 48% in non-warehouse management solutions in 2007. Revenue from our warehouse management solutions grew 2% and non-warehouse management solutions grew 20% in 2007 over 2006. From period to period, we continue to see an increase in the diversity of products purchased from us by new and existing customers as our newer products gain greater market acceptance. This diversification is contributing to the fluctuations in the sales mix of our solutions groups.

Services revenue*Year 2008 compared with year 2007*

Services revenue increased 4% or \$9.8 million in 2008 over 2007 principally due to a 15% or \$9.9 million increase of software enhancements revenue. The EMEA and Americas segments led the growth with an increase in services revenue of \$6.5 million, or 26%, and \$5.5 million, or 3%, respectively, from 2007 to 2008. These increases were partially offset by a decrease in APAC services revenue of \$2.2 million, or 16%, from 2007 to 2008 due to the lack of large license sales closed in 2007.

Year 2007 compared with year 2006

Services revenue increased \$31.6 million, or 16%, in 2007 over 2006 principally due to a 16% increase of professional services revenue required to implement larger projects, increased license sales and existing customer upgrades to more current versions of our offerings and a 15% increase in revenue from software enhancement agreements. The Americas segment led the growth with an increase in services revenue of \$28.4 million, or 18%, from 2006 to 2007. Services revenue in EMEA also increased by \$4.8 million, or 23%, from 2006 to 2007. These increases were partially offset by a decrease in APAC services revenue of \$1.6 million from 2006 to 2007 due to the lack of large license sales closed in 2007.

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Over the past several years, our services revenue growth and margins have been affected by some pricing pressures. We believe that the pricing pressures are attributable to deteriorating global macro-economic conditions and competition. In addition, our services revenue growth will be affected by timing of license revenue growth and the mix of products sold. For instance, individual engagements involving our non-warehouse management solutions typically require less implementation services resources.

Hardware and other

Sales of hardware decreased \$2.0 million, or 8%, in 2008 compared to 2007. Sales of hardware increased \$7.0 million, or 39% in 2007 over 2006. Over 90% of this revenue is generated from the Americas segment. Sales of hardware are largely dependent upon customer-specific desires, which fluctuate. Reimbursements for out-of-pocket expenses are required to be classified as revenue and are included in hardware and other revenue. For 2008, 2007 and 2006, reimbursements by customers for out-of-pocket expenses were approximately \$12.7 million, \$13.0 million and \$9.7 million, respectively.

Cost of Revenue

	Year Ended December 31,			% Change	
	2008	2007	2006	2008 to 2007	2007 to 2006
	(in thousands)				
Cost of license	\$ 5,961	\$ 5,334	\$ 5,796	12%	-8%
Cost of services	116,707	109,758	93,427	6%	17%
Cost of hardware and other	29,270	32,268	24,515	-9%	32%
Total cost of revenue	\$ 151,938	\$ 147,360	\$ 123,738	3%	19%

Cost of License

Cost of license consists of the costs associated with software reproduction; hosting services; funded development; media, packaging and delivery, documentation and other related costs; and royalties on third-party software sold with or as part of our products. Cost of license increased \$0.6 million, or 12%, to \$6.0 million in 2008 due to an increase in costs associated with our hosting services. Cost of licenses decreased \$0.5 million, or 8%, in 2007 compared with 2006.

Cost of Services*Year 2008 compared with year 2007*

Cost of services consists primarily of salaries and other personnel-related expenses of employees dedicated to professional and technical services and customer support services. The 6% increase in cost of services in 2008, from \$109.8 million to \$116.7 million was primarily due to: (i) a \$6.7 million increase in salary-related costs resulting from a 10% increase in the average number of personnel dedicated to the delivery of professional services, prior to our fourth quarter workforce reduction; (ii) an \$0.8 million increase in travel expenses, and (iii) a \$0.5 million increase in third-party software maintenance, partially offset by a decrease of \$1.4 million in bonus and commission expense.

The services gross margin decreased 90 basis points to 50.5% in 2008. The reduction in the services gross margin in 2008 was caused by the more intricate services work required as our sales mix shifts from our heritage System i platform to our Open Systems platform. We expect to see downward pressure on services revenue growth as a result of lower America's license revenues combined with the slowing in upgrade activity given the global economic climate.

Year 2007 compared with year 2006

The 17% increase in cost of services in 2007, from \$93.4 million to \$109.8 million, was primarily due to: (i) increases in salary-related costs resulting from a 22% increase in the average number of personnel dedicated to the delivery of professional services; (ii) an increase of \$2.7 million in bonus expense based on our cumulative

performance relative to internal plans; and was (iii) partially off-set by a decrease of \$1.1 million in stock compensation expense due to completed vesting of options issued prior to 2006 combined with a reduction in stock awards granted.

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The services gross margin decreased 60 basis points to 51.4% in 2007. The reduction in the services gross margin in 2007 was caused by the more intricate services work required as our sales mix shifts from our heritage System i platform to our Open Systems platform.

Cost of Hardware and other

Cost of hardware decreased \$2.2 million to approximately \$17.0 million in 2008 compared to 2007 as a direct result of a decrease in sales of hardware. In 2007, cost of hardware increased to \$19.2 million from \$14.8 million in 2006 as a direct result of increased hardware sales in 2007. Cost of hardware and other includes out-of-pocket expenses to be reimbursed by customers of approximately \$12.3 million, \$13.0 million and \$9.7 million for 2008, 2007 and 2006, respectively. The fluctuation in reimbursed out-of-pocket expenses is due to variations in travel related to the changeability in services projects.

Operating Expenses

	Year Ended December 31,			% Change	
	2008	2007	2006	2008 to 2007	2007 to 2006
	(in thousands)				
Research and development	\$ 48,407	\$ 46,594	\$ 41,468	4%	12%
Sales and marketing	51,177	53,406	45,888	-4%	16%
General and administrative	37,145	33,366	29,143	11%	14%
Depreciation and amortization	12,699	13,617	13,247	-7%	3%
Asset impairment charges	5,205		270	100%	-100%
Restructuring and acquisition-related charges	4,667		1,503	100%	-100%
Settlement charges			2,856	100%	-100%
Operating expenses	\$ 159,300	\$ 146,983	\$ 134,375	8%	9%

Research and Development

Our principal research and development activities during 2008, 2007 and 2006 focused on the expansion and integration of new products acquired and new product releases and expanding the product footprint of our supply chain optimization solutions called Supply Chain Optimization from Planning through Execution. The Manhattan SCOPE Platform provides not only a sophisticated service oriented architecture based application framework, but a platform that facilitates the integration with Enterprise Resource Planning (ERP) and other supply chain solutions.

For the years ended December 31, 2008, 2007, and 2006, we capitalized no research and development costs because the costs incurred following the attainment of technological feasibility for the related software product through the date of general release were insignificant.

Year 2008 compared with year 2007

Research and development expenses primarily consist of salaries and other personnel-related costs for personnel involved in our research and development activities. Consistent with prior years, we typically invest approximately 14% of revenue in research and development. The \$1.8 million, or 4%, increase in research and development expenses in 2008 to \$48.4 million is principally attributable to a realignment of resources from service projects to research and development activities.

Year 2007 compared with year 2006

Research and development expenses increased \$5.1 million, or 12%, in 2007 to \$46.6 million primarily because of: (i) increases in the number of personnel dedicated to ongoing research and development activities (the number of research and development personnel increased 8% to 772 at December 31, 2007 as compared to 713 at December 31, 2006) and (ii) \$1.2 million in bonus expense.

Table of Contents***Sales and Marketing******Year 2008 compared with year 2007***

Sales and marketing expenses include salaries, commissions, travel and other personnel-related costs of sales and marketing personnel and the costs of our marketing and alliance programs and related activities. Sales and marketing expenses decreased \$2.2 million, or 4% to \$51.2 million, in 2008 compared to 2007. The decrease in sales and marketing expense in 2008 is principally caused by the decrease of \$2.9 million in bonus and commissions due to the year over year decrease in license revenue, partially offset by a \$0.7 million increase in stock compensation expense.

Year 2007 compared with year 2006

Sales and marketing expenses increased \$7.5 million, or 16% to \$53.4 million in 2007 over 2006. The incremental sales and marketing expense are primarily attributable to: (i) a \$3.3 million increase in compensation in 2007 caused by increase in sales and marketing headcount; (ii) a \$1.5 million increase in bonus and incentive compensation expense relating to the higher license fees; (iii) a \$1.1 million increase in travel and travel-related expenses; (iv) a \$0.7 million increase in our marketing programs; and (vi) \$0.4 million of incremental stock compensation expense.

General and Administrative***Year 2008 compared with year 2007***

General and administrative expenses consist primarily of salaries and other personnel-related costs of executive, financial, human resources, information technology and administrative personnel, as well as facilities, legal, insurance, accounting and other administrative expenses. The increase in general and administrative expenses from 2007 to 2008 of \$3.8 million to \$37.1 million was primarily attributable to: (i) a \$1.5 million reserve for transaction tax exposure, (ii) a \$1.2 million reduction in recoveries of previously expensed sales tax resulting from the expiration of the sales tax audit statutes in certain states in 2007, (iii) \$1.3 million of incremental stock compensation expense, and (iv) a \$1.0 million increase in salary-related costs resulting from a 7% increase in the average number of personnel, partially offset by a \$0.8 million decrease in travel expenses.

Year 2007 compared with year 2006

The increase in general and administrative expenses of \$4.2 million from 2006 to \$33.4 million in 2007 was attributable to: (i) a \$2.5 million increase in salary-related costs and bonuses resulting from additional personnel combined with annual compensation increases and higher earnings; and (ii) an increase of \$0.3 million in stock compensation expense; partially offset by (iii) a decrease of approximately \$0.1 million in recoveries of previously expensed sales tax resulting from the expiration of the sales tax audit statutes in certain states.

Depreciation and Amortization

Depreciation expense amounted to \$9.4 million, \$9.0 million and \$8.4 million, during 2008, 2007, and 2006, respectively. Amortization of intangibles amounted to \$3.3 million, \$4.6 million and \$4.9 million during 2008, 2007, and 2006, respectively. We have recorded goodwill and other acquisition-related intangible assets as part of the purchase accounting associated with various acquisitions, including the acquisitions of Evant in August 2005, *eebiznet* in July 2004, Avere, Inc. in January 2004, ReturnCentral, Inc. in June 2003, and Logistics.com, Inc. in December 2002. The decreases in amortization expense in 2008 and 2007 of \$1.3 million and \$0.3 million, respectively, were mainly associated with certain intangible assets related to prior acquisitions which became fully amortized.

Impairment charges

Asset impairment charges of \$5.2 million in 2008 consist of a \$3.5 million impairment on an investment in an auction-rate security and a \$1.7 million impairment on an investment in an RFID technology company. We reduced the carrying value of the auction-rate security investment to zero due to a combination of credit downgrades of the underlying issuer and the bond insurer as well as increased publicly reported exposure to bankruptcy risk by the issuer and continued significant deterioration in the credit markets limiting the issuer's ability to re-finance the underlying bond. We wrote down the remaining balance of our \$2.0 million investment in the company due to a combination of continued negative financial results reported by this company in

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a very competitive sector and a down round of financing (i.e. a round of financing that was dilutive to our investment) in which our preferred share ownership was converted into common stock, eliminating our preference rights associated with liquidation, thereby substantially impairing our ability to recoup our investment.

In 2006, based on our assessment of uncertainties associated with the fair value of our investment in an RFID technology company following its unsuccessful public offering during the third quarter of 2006, we wrote down \$0.3 million of our \$2.0 million investment.

Restructuring and acquisition-related charges

During 2008, we committed to and initiated plans to reduce our workforce by approximately 170 positions due to intermediate term market demand and to realign our capacity with demand forecasts. As a result of this initiative, we recorded a restructuring charge of approximately \$4.7 million pretax (\$3.0 million after-tax or \$0.13 per fully diluted share) in fourth quarter 2008. The restructuring charge consisted of employee severance and outplacement services.

The \$1.5 million of charges for 2006 represent the remaining expense of \$2.8 million paid for employee retention bonuses incurred in connection with the acquisition of Evant, Inc. in September 2005.

Settlement charges

The \$2.9 million pretax (\$2.5 million after-tax or \$0.09 per fully diluted share) in legal settlement costs in 2006 relate to two litigation matters, one with a large German customer and one with a domestic customer regarding implementation of warehouse management systems. In both litigation matters, a settlement was reached in January 2007. The recorded charges represent our portion of the settlement agreed to with our insurance carrier, subsequent to December 31, 2006.

Operating Income

Operating income in 2008 decreased by \$17.1 million on a flat consolidated revenue year over year. Operating margins declined from 12.8% in 2007 to 7.7% in 2008. The decline in profit contribution and margin in 2008 was largely driven by the following factors: (i) lower license revenues in 2008, which have a relatively higher margin compared to services revenues, (ii) \$5.2 million of asset write-downs, (iii) a \$4.7 million restructuring charge, (iv) a \$1.2 million increase in stock option expense, and (v) a \$1.8 million increase in research and development investment. Operating income in the Americas segment decreased by \$21.5 million, or 53%, due to incremental stock compensation expense of \$1.2 million, asset write-downs of \$5.2 million and a restructuring charge of \$4.4 million. Operating income in EMEA and APAC increased \$4.3 million on strong revenue growth.

Operating income in 2007 increased by \$12.3 million on consolidated revenue growth of 17%. Operating margins increased to 12.8% from 10.6% in 2006. The incremental profit contribution and margin was largely driven by the following factors: (i) record revenue and operating profit; (ii) lower expenses in 2007 due to 2006 unusual expenses for settlement charges, acquisition charges and impairment charges of \$2.9 million, \$1.5 million and \$0.3 million in 2006, respectively; and (iii) a reduction in stock compensation expense of \$0.6 million in 2007. Operating income in the Americas segment increased by \$7.6 million in 2007, or 23%, due to the decline in stock compensation expense of \$0.4 million as well as acquisition-related charges of \$1.5 million and legal settlements of \$0.8 million in 2006. Operating income in EMEA improved by \$5.2 million in 2007 due to record revenues and \$2.0 million of settlement charges in 2006, plus a \$0.2 million reduction in stock compensation expense. Operating income for APAC decreased by \$0.5 million mainly due to lower revenue.

Other Income and Income Taxes

	Year Ended December 31,			% Change	
	2008	2007	2006	2008 to 2007	2007 to 2006
Other income, net	\$5,545	\$ 4,608	\$ 3,638	20%	27%
Income tax provision	8,710	16,915	15,062	-49%	12%

Table of Contents***Other Income, net***

Other income, net primarily includes interest income and foreign currency gains and losses. Interest income was \$1.8 million for the year ended December 31, 2008 and \$3.4 million for each of the years ended December 31, 2007 and 2006. The decrease of \$1.6 million in interest income in 2008 compared to 2007 was due to overall lower average investment balances driven by our share repurchase programs. Interest income remained consistent from 2006 to 2007. The weighted-average interest rate earned on cash and investment securities was 2.3%, 3.3% and 3.1% for the year ended December 31, 2008, 2007 and 2006, respectively. We recorded net foreign currency gains of \$3.9 million, \$1.2 million and \$0.2 million in 2008, 2007 and 2006, respectively. The foreign currency gains mainly resulted from gains on intercompany transactions denominated in foreign currencies with subsidiaries due to the fluctuation of the U.S. dollar relative to other foreign currencies, primarily the Indian Rupee, the British Pound and the Euro.

Income Tax Provision

Our effective income tax rates were 27.6%, 35.5%, and 43.8% in 2008, 2007 and 2006, respectively. Our effective income tax rate takes into account the source of taxable income, domestically by state and internationally by country, and available income tax credits. The reduction in the effective income tax rate in 2008 compared to 2007 primarily resulted from a release of income tax reserves resulting from expiring tax audit statutes for U.S. federal income tax returns filed for 2004 and prior, partially offset by the asset impairment charges for which no tax benefit was recorded. The lower effective tax rate in 2007 compared to 2006 was primarily attributable to higher deductible stock option expense and the impact of legal settlements in 2006, partially offset by tax on certain intercompany balances.

Liquidity and Capital Resources

During 2008, 2007, and 2006, we funded our operations through cash generated from operations. As of December 31, 2008, we had \$88.7 million in cash, cash equivalents and investments as compared to \$72.8 million at December 31, 2007.

Our operating activities provided cash of \$63.8 million, \$38.3 million and \$44.1 million in 2008, 2007, and 2006, respectively. Cash from operating activities for 2008 increased by \$25.6 million due to strong accounts receivable collections. In addition, cash flow from operations in 2007 included legal settlement payments of \$3.0 million for legal settlements in the fourth quarter of 2006. Days sales outstanding (DSO) was 78 days at December 31, 2008 compared to 79 at December 31, 2007. Cash from operating activities for 2007 decreased \$5.8 million compared to 2006, principally because of an increase in accounts receivable driven by record revenues that increased days sales outstanding to 79 days at December 31, 2007 as compared to 73 days at December 31, 2006.

During 2008, our investing activities provided cash of approximately \$13.9 million from net maturities and sales of investments of \$21.6 million, partially offset by payments in connection with purchases of capital equipment of \$7.7 million. Our investing activities provided cash of approximately \$75.1 million during the year ended December 31, 2007, primarily from the net maturities of investments of \$84.5 million which was used mainly to fund stock repurchases, partially offset by payments of \$9.4 million for capital equipment to support our business and infrastructure. During 2006, our investing activities used cash of approximately \$47.9 million, primarily for the purchase of approximately \$9.6 million in capital equipment to support our business and infrastructure and \$38.1 million in net investments.

Our financing activities used cash of approximately \$31.8 million and \$88.3 million in 2008 and 2007, respectively, and provided cash of approximately \$2.5 million in 2006. The principal use of cash for financing activities was to repurchase shares of our common stock for approximately \$35.1 million, \$99.9 million, and \$16.0 million in 2008, 2007, and 2006, respectively. These repurchases were partially offset by the proceeds from the issuance of our common stock pursuant to the exercise of stock options of \$3.2 million, \$10.9 million, and \$16.2 million in 2008, 2007, and 2006, respectively. As of December 31, 2008, we had \$15.0 million of Board approved share repurchase authority remaining.

Periodically, opportunities may arise to grow our business through the acquisition of complementary and synergistic companies, products and technologies. Any material acquisition could result in a decrease to our working capital depending on the amount, timing and nature of the consideration to be paid. We believe that existing balances of cash, cash equivalents and short-term investments will be sufficient to meet our working capital and capital

expenditure needs at least for the next twelve months, although there can be no assurance that this will be the case. We anticipate that we will be able to continue fund our operations with cash flow from operations in the future. We do not maintain any bank lines of credit. However, if the Company should encounter a need to raise additional capital, recent turmoil in the credit and capital markets could make such capital unavailable, or available only at unfavorable costs.

Table of Contents**New Accounting Pronouncements**

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations. SFAS No. 141(R) will significantly change the accounting for business combinations. Under SFAS No. 141(R), an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS No. 141(R) will change the accounting treatment for certain specific acquisition-related items including expensing acquisition-related costs as incurred and expensing restructuring costs associated with an acquired business. SFAS No. 141(R) also includes a substantial number of new disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009. We expect that SFAS No. 141(R) will have an impact on our accounting for future business combinations once adopted but the extent of the impact is dependent upon the number, size, and complexity of acquisitions that we make in the future.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS No. 159 does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in FASB Statements No. 157, Fair Value Measurements, and No. 107, Disclosures about Fair Value of Financial Instruments. SFAS No. 159 is effective for the entity's fiscal year that begins after November 15, 2007. We do not elect to measure at fair value any of our financial instruments under the provisions of SFAS No. 159, thus the adoption of this statement effective January 1, 2008 did not have an impact on our consolidated financial statements.

In September 2006, FASB issued 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 non-financial assets and liabilities recognized or disclosed at fair value on a non-recurring basis. We partially adopted SFAS No. 157 on January 1, 2008 related to all financial assets and liabilities and non-financial assets and liabilities recognized or disclosed at fair value on a recurring basis. We are currently assessing the potential impact this statement will have on the Consolidated Financial Statements once it is adopted for non-financial assets and liabilities recognized or disclosed at fair value on a non-recurring basis. See Note 1, *Organization and Summary of Significant Accounting Policies*, for further discussion of the adoption.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Our principal commitments as of December 31, 2008 consist of obligations under operating leases. We expect to fulfill all of the following commitments from our working capital. We have no off-balance sheet arrangements within the meaning of SEC rules.

Lease Commitments

We lease our facilities and some of our equipment under noncancelable operating lease arrangements that expire at various dates through 2018. Rent expense for these leases aggregated \$7.2 million, \$6.7 million and \$7.0 million during 2008, 2007, and 2006, respectively.

The following table summarizes our contractual commitments as of December 31, 2008 (in thousands):

	Total	2009	2010	2011	2012	Thereafter
Non-cancelable operating leases	\$52,561	\$7,859	\$5,395	\$5,176	\$4,788	\$29,343
<i>Indemnifications</i>						

Our sales agreements with customers generally contain infringement indemnity provisions. Under these agreements, we agree to indemnify, defend and hold harmless the customer in connection with patent, copyright or trade secret infringement claims made by third parties with respect to the customer's authorized use of our products and services. The indemnity provisions generally provide

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for our control of defense and settlement and cover costs and damages finally awarded against the customer, as well as our modification of the product so it is no longer infringing or, if it cannot be corrected, return of the product for a refund. Our sales agreements with customers sometimes also contain indemnity provisions for death, personal injury or property damage caused by our personnel or contractors in the course of performing services to customers. Under these agreements, we agree to indemnify, defend and hold harmless the customer in connection with death, personal injury and property damage claims made by third parties with respect to actions of our personnel or contractors. The indemnity provisions generally provide for our control of defense and settlement and cover costs and damages finally awarded against the customer. The indemnity obligations contained in sales agreements generally have no specified expiration date and no specified monetary limitation on the amount of award covered. We have not previously incurred costs to settle claims or pay awards under these indemnification obligations. We account for these indemnity obligations in accordance with SFAS No. 5, *Accounting for Contingencies*, and record a liability for these obligations when a loss is probable and reasonably estimable. We have not recorded any liabilities for these agreements as of December 31, 2008.

Warranties

We warrant to our customers that our software products will perform in all material respects in accordance with our standard published specifications in effect at the time of delivery of the licensed products to the customer for 90 days after first use of the licensed products, but no more than 24 months after execution of the license agreement. Additionally, we warrant to our customers that our services will be performed consistent with generally accepted industry standards or specific service levels through completion of the agreed upon services. If necessary, we would provide for the estimated cost of product and service warranties based on specific warranty claims and claim history. However, we have not incurred significant recurring expense under our product or service warranties. As a result, we believe the estimated fair value of these agreements is nominal. Accordingly, we have no liabilities recorded for these agreements as of December 31, 2008.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk**Foreign Business**

Our international business is subject to risks typical of an international business, including, but not limited to: differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions, and foreign exchange rate volatility. Our international operations currently include business activity out of offices in the United Kingdom, the Netherlands, France, Australia, Japan, China, Singapore and India. When the U.S. dollar strengthens against a foreign currency, the value of our sales and expenses in that currency converted to U.S. dollars decreases. When the U.S. dollar weakens, the value of our sales and expenses in that currency converted to U.S. dollars increases. We recognized a foreign exchange rate gain of \$3.9 million, \$1.2 million and \$0.2 million in 2008, 2007 and 2006, respectively. Foreign exchange rate transaction gains and losses are classified in Other income (loss), net in our Consolidated Statements of Income. A fluctuation of 10% in the period end exchange rates at December 31, 2008 and 2007 relative to the U.S. dollar would result in changes of approximately \$0.1 million and \$1.0 million in the reported foreign currency gain or loss, respectively.

Interest Rates

We invest our cash in a variety of financial instruments, including taxable and tax-advantaged floating rate and fixed rate obligations of corporations, municipalities, and local, state and national governmental entities and agencies. These investments are denominated in U.S. dollars. Cash balances in foreign currencies overseas are derived from operations. At December 31, 2008, our cash and investments balance totaled \$88.7 million, of which \$85.7 million is 100% liquid. The remaining investments totaling \$3.0 million are invested in auction rate securities.

Our 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. At December 31, 2008, we hold \$6.5 million of 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. The fair values of these auction rate securities considered the credit worthiness of the counterparty, estimates of interest rates, expected holding periods, and the timing and value of expected future cash flows. Changes in the assumptions of our valuation could have a significant impact on the value of these

securities, which may cause losses and affect our liquidity specifically for these securities potentially requiring us to record an impairment charge on these investments in the future. Certain auctions failed during 2008 and the underlying securities were not called by the issuer. During 2008, we recorded an other-than-temporary impairment charge of \$3.5 million on one of these investments resulting in \$3.0 million in total auction rate securities investments on the balance sheet at December 31, 2008. We reduced the carrying value to zero due to credit downgrades of the underlying issuer and the bond insurer as well as

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increasing publicly reported exposure to bankruptcy risk by the issuer. The remaining \$3.0 million of auction rate securities held by us at December 31, 2008 were issued by state or regional educational loan authorities and are collateralized by federally insured student loans. These investments have high credit ratings, and we intend and have the ability to hold these securities until maturity or until called. However, due to liquidity concerns rather than creditworthiness, we have recorded an unrealized loss of \$0.1 million as of December 31, 2008 for the temporary decline in the fair value of these investments. The unrealized loss is included as a separate component of stockholders equity and in total comprehensive income. We will continue to evaluate the fair value of our investments in auction rate securities each reporting period for a potential other-than-temporary impairment.

Investments in both fixed rate and floating rate interest-earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates, or we may suffer losses in principal if forced to sell securities that have seen a decline in market value due to changes in interest rates. The weighted-average interest rate of return on cash and investment securities was 2.3% for the year ended December 31, 2008 as compared to 3.3% for the year ended December 31, 2007. The fair value of cash equivalents and investments held at December 31, 2008 and 2007 was \$49.3 million and \$58.5 million, respectively. Based on the average investments outstanding during 2008 and 2007, increases or decreases of 25 basis points would result in increases or decreases to interest income of approximately \$135 thousand and \$226 thousand in 2008 and 2007, respectively, from the reported interest income.

Item 8. Financial Statements and Supplementary Data*Financial Statements*

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<u>Management's Annual Report on Internal Control over Financial Reporting</u>	42
<u>Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting</u>	43
<u>Report of Independent Registered Public Accounting Firm on the Consolidated Financial Statements</u>	44
<u>Consolidated Statements of Income</u>	45
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<u>Consolidated Statements of Cash Flows</u>	47
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MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Manhattan Associates, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed under the supervision of the Company's principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

The Company's internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As of the end of the Company's 2008 fiscal year, management conducted an assessment of the Company's internal control over financial reporting based on the framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2008 was effective.

Ernst & Young, the independent registered public accounting firm, that audited the Company's financial statements for the year ended December 31, 2008, has audited the Company's internal control over financial reporting as of December 31, 2008 and has issued an attestation report regarding the Company's internal control over financial reporting appearing on page 43, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2008.

/s/ Peter F. Sinisgalli
Peter F. Sinisgalli
President and Chief Executive Officer

/s/ Dennis B. Story
Dennis B. Story
Senior Vice President and Chief Financial
Officer

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The Board of Directors and Shareholders

Manhattan Associates, Inc. and Subsidiaries

We have audited Manhattan Associates, Inc. and subsidiaries internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Manhattan Associates, Inc. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Manhattan Associates, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Manhattan Associates, Inc. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, shareholders equity, comprehensive income and cash flows for each of the three years in the period ended December 31, 2008 of Manhattan Associates, Inc. and subsidiaries and our report dated February 23, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Atlanta, Georgia

February 23, 2009

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
ON THE CONSOLIDATED FINANCIAL STATEMENTS**

The Board of Directors and Shareholders

Manhattan Associates, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Manhattan Associates, Inc. and subsidiaries (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of income, shareholders' equity, comprehensive income and cash flows for each of the three years in the period ended December 31, 2008. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 3 to the consolidated financial statements, the Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* and *an Interpretation of FASB Statement No. 109*, effective January 1, 2007.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Manhattan Associates, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 23, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Atlanta, Georgia
February 23, 2009

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

	Year Ended December 31,		
	2008	2007	2006
Revenue:			
Software license	\$ 65,313	\$ 73,031	\$ 66,543
Services	235,967	226,153	194,521
Hardware and other	35,921	38,217	27,804
Total Revenue	337,201	337,401	288,868
Costs and Expenses:			
Cost of license	5,961	5,334	5,796
Cost of services	116,707	109,758	93,427
Cost of hardware and other	29,270	32,268	24,515
Research and development	48,407	46,594	41,468
Sales and marketing	51,177	53,406	45,888
General and administrative	37,145	33,366	29,143
Depreciation and amortization	12,699	13,617	13,247
Asset impairment charges	5,205		270
Restructuring and acquisition-related charges	4,667		1,503
Settlement charges			2,856
Total costs and expenses	311,238	294,343	258,113
Operating income	25,963	43,058	30,755
Interest income, net	1,823	3,390	3,443
Other income, net	3,722	1,218	195
Income before income taxes	31,508	47,666	34,393
Income tax provision	8,710	16,915	15,062
Net income	\$ 22,798	\$ 30,751	\$ 19,331
Basic earnings per share	\$ 0.95	\$ 1.17	\$ 0.71
Diluted earnings per share	\$ 0.94	\$ 1.13	\$ 0.69
Weighted average number of shares:			
Basic	24,053	26,174	27,183
Diluted	24,328	27,329	27,971

The accompanying notes are an integral part of these Consolidated Statements of Income.

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MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	December 31,	
	2008	2007
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 85,739	\$ 44,675
Short term investments		17,904
Accounts receivable, net of allowance of \$5,566 and \$6,618 in 2008 and 2007, respectively	63,896	72,534
Deferred income taxes	6,667	6,602
Prepaid expenses	5,410	6,777
Other current assets	1,569	1,869
Total current assets	163,281	150,361
Property and equipment, net	21,721	24,421
Long-term investments	2,967	10,193
Acquisition-related intangible assets, net	6,438	9,691
Goodwill, net	62,276	62,285
Deferred income taxes	10,932	9,846
Other assets	2,606	4,863
Total assets	\$ 270,221	\$ 271,660
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 8,480	\$ 9,112
Accrued compensation and benefits	17,429	19,357
Accrued and other liabilities	16,188	10,040
Deferred revenue	32,984	31,817
Income taxes payable	2,365	8,156
Total current liabilities	77,446	78,482
Deferred rent long-term	8,387	6,781
Other non-current liabilities	4,549	692
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; 23,581,109 and 24,899,919 shares issued and outstanding at December 31, 2008 and 2007, respectively	234	249
Additional paid-in capital		17,744

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Retained earnings	182,882	165,189
Accumulated other comprehensive (loss) income	(3,277)	2,523
Total shareholders' equity	179,839	185,705
Total liabilities and shareholders' equity	\$ 270,221	\$ 271,660

The accompanying notes are an integral part of these Consolidated Balance Sheets.

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

	Year Ended December 31,		
	2008	2007	2006
Operating activities:			
Net income	\$ 22,798	\$ 30,751	\$ 19,331
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	12,699	13,617	13,247
Asset impairment charge	5,205		270
Stock compensation	8,864	6,199	6,762
Loss on disposal of equipment	156	12	22
Tax benefit of stock awards exercised/vested	202	1,835	4,546
Excess tax benefits from stock based compensation	(100)	(721)	(2,519)
Deferred income taxes	(1,389)	(2,759)	(574)
Unrealized foreign currency gain	(694)	(1,419)	(317)
Changes in operating assets and liabilities:			
Accounts receivable, net	7,077	(10,618)	(1,617)
Other assets	2,691	3,451	(1,884)
Accounts payable, accrued and other liabilities	5,997	(5,339)	3,814
Income taxes	(1,324)	1,528	367
Deferred revenue	1,659	1,737	2,672
Net cash provided by operating activities	63,841	38,274	44,120
Investing activities:			
Purchases of property and equipment	(7,708)	(9,401)	(9,641)
Purchases of available-for-sale investments	(323,956)	(688,172)	(831,932)
Maturities and sales of available-for-sale investments	345,579	772,689	793,799
Payments in connection with various acquisitions			(126)
Net cash provided by (used in) investing activities	13,915	75,116	(47,900)
Financing activities:			
Purchase of common stock	(35,107)	(99,931)	(16,029)
Proceeds from issuance of common stock from options exercised	3,177	10,910	16,156
Excess tax benefits from stock based compensation	100	721	2,519
Payment of capital lease obligations			(147)
Net cash (used in) provided by financing activities	(31,830)	(88,300)	2,499
Foreign currency impact on cash	(4,862)	1,136	311

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Net change in cash and cash equivalents	41,064	26,226	(970)
Cash and cash equivalents at beginning of Period	44,675	18,449	19,419
Cash and cash equivalents at end of Period	\$ 85,739	\$ 44,675	\$ 18,449
Supplemental disclosures of cash flow information:			
Cash paid for interest	\$	\$	\$ 5
Cash paid for taxes	\$ 11,135	\$ 16,261	\$ 10,371
Supplemental disclosures of cash flow information- noncash investing activity:			
Tenant improvements funded by landlord	\$	\$ 7,918	\$

The accompanying notes are an integral part of these Consolidated Statements of Cashflows.

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MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY
(In thousands, except share data)

	Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive Income	Deferred	Total Shareholders Equity
	Shares	Amount	Capital	Earnings	(Loss)	Compensation	Equity
Balance, December 31, 2005	27,207,260	\$ 272	\$ 87,476	\$ 116,990	\$ 863	\$ (203)	\$ 205,398
Repurchase of common stock	(773,301)	(8)	(16,021)				(16,029)
Reclassification of deferred compensation			(203)			203	
Stock option exercises	1,176,146	12	16,144				16,156
Tax effects of stock based compensation			4,546				4,546
Restricted stock expense			119				119
Stock option expense			6,643				6,643
Foreign currency translation adjustment					757		757
Unrealized gain on investments					219		219
Net income				19,331			19,331
Balance, December 31, 2006	27,610,105	276	98,704	136,321	1,839		237,140
Repurchase of common stock	(3,562,619)	(36)	(99,895)				(99,931)
Stock option exercises	580,433	6	10,904				10,910
Stock option expense			4,274				4,274
Restricted stock issuance/expense	272,000	3	1,922				1,925
Tax effects of stock based compensation			1,835				1,835
Foreign currency translation adjustment					678		678
Unrealized gain on investments					6		6
Adoption of FIN 48				(1,883)			(1,883)
Net income				30,751			30,751
Balance, December 31, 2007	24,899,919	249	17,744	165,189	2,523		185,705
Repurchase of common stock	(1,710,441)	(17)	(29,985)	(5,105)			(35,107)
Stock option exercises	203,275	2	3,175				3,177
Stock option expense			5,458				5,458
Restricted stock issuance/expense	188,356		3,406				3,406
Tax effects of stock based compensation			202				202
Foreign currency translation adjustment					(5,768)		(5,768)
Unrealized gain on investments					(32)		(32)
Net income				22,798			22,798
Balance, December 31, 2008	23,581,109	\$ 234	\$	\$ 182,882	\$ (3,277)	\$	\$ 179,839

The accompanying notes are an integral part of these Consolidated Statements of Shareholders Equity.

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**MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)**

	Year Ended December 31,		
	2008	2007	2006
Net income	\$ 22,798	\$ 30,751	\$ 19,331
Other comprehensive (loss) income, net of tax:			