MANHATTAN ASSOCIATES INC
Form 10-Q
October 29, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[Mark One]

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

For the quarterly period ended September 30, 2014

OR

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

For the transition period from ______ to ______

Commission File Number: 0-23999

MANHATTAN ASSOCIATES, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

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

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

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

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

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

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

The number of shares of the Registrant s class of capital stock outstanding as of October 27, 2014, the latest practicable date, is as follows: 74,631,702 shares of common stock, $0.01 par value per share.

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MANHATTAN ASSOCIATES, INC.

FORM 10-Q

Quarter Ended September 30, 2014

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(in thousands, except share and per share data)

	September 30, 2014 (unaudited)	December 31, 2013
ASSETS		
Current Assets:		
Cash and cash equivalents	$ **101,116**	$ 124,375
Short term investments	**10,406**	8,581
Accounts receivable, net of allowance of $3,810 and $3,156 in 2014 and 2013, respectively	**87,998**	71,136
Deferred income taxes	**7,382**	7,300
Prepaid expenses and other current assets	**9,964**	7,346
Total current assets	**216,866**	218,738
Property and equipment, net	**16,370**	14,342
Goodwill, net	**62,257**	62,272
Deferred income taxes	**426**	427
Acquisition-related intangible assets, net	**2,907**	
Other assets	**5,790**	2,049
Total assets	$ **304,616**	$ 297,828
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ **10,219**	$ 11,555
Accrued compensation and benefits	**22,656**	19,465
Accrued and other liabilities	**11,218**	12,225
Deferred revenue	**57,928**	53,812
Income taxes payable	**4,802**	7,131
Total current liabilities	**106,823**	104,188
Other non-current liabilities	**13,311**	12,054
Shareholders equity:		
Preferred stock, no par value; 20,000,000 shares authorized, no shares issued or outstanding in 2014 and 2013		

Common stock, $0.01 par value; 200,000,000 shares and 100,000,000 shares authorized at September 30, 2014 and December 31, 2013, respectively; 74,642,744 and 76,374,180 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively		**746**		764
Retained earnings		**191,937**		188,604
Accumulated other comprehensive loss		**(8,201)**		(7,782)
Total shareholders equity		**184,482**		181,586
Total liabilities and shareholders equity	**$**	**304,616**	$	297,828

See accompanying Notes to Condensed Consolidated Financial Statements.

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Item 1. Financial Statements (continued)

MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Income

(in thousands, except per share amounts)

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
	(unaudited)			
Revenue:				
Software license	**$ 16,945**	$ 14,768	**$ 52,041**	$ 45,149
Services	**98,518**	85,025	**278,950**	238,115
Hardware and other	**10,145**	8,009	**30,710**	23,655
Total revenue	**125,608**	107,802	**361,701**	306,919
Costs and expenses:				
Cost of license	**1,679**	2,445	**5,140**	6,160
Cost of services	**43,689**	35,835	**123,606**	105,939
Cost of hardware and other	**8,496**	6,812	**25,240**	20,049
Research and development	**12,236**	10,906	**35,906**	33,414
Sales and marketing	**11,476**	9,863	**36,344**	33,185
General and administrative	**10,856**	9,755	**32,761**	27,195
Depreciation and amortization	**1,675**	1,414	**4,652**	4,357
Total costs and expenses	**90,107**	77,030	**263,649**	230,299
Operating income	**35,501**	30,772	**98,052**	76,620
Other (loss) income, net	**(55)**	546	**24**	1,940
Income before income taxes	**35,446**	31,318	**98,076**	78,560
Income tax provision	**13,106**	11,630	**36,430**	28,110
Net income	**$ 22,340**	$ 19,688	**$ 61,646**	$ 50,450
Basic earnings per share	**$ 0.30**	$ 0.26	**$ 0.82**	$ 0.66
Diluted earnings per share	**$ 0.30**	$ 0.25	**$ 0.81**	$ 0.65
Weighted average number of shares:				
Basic	**74,687**	76,452	**75,255**	76,880
Diluted	**75,466**	77,552	**76,104**	78,104

See accompanying Notes to Condensed Consolidated Financial Statements.

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Item 1. Financial Statements (continued)

MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
			(unaudited)	
Net income	**$ 22,340**	$ 19,688	**$ 61,646**	$ 50,450
Foreign currency translation adjustment	**(1,697)**	(424)	**(420)**	(3,275)
Comprehensive income	**$ 20,643**	$ 19,264	**$ 61,226**	$ 47,175

See accompanying Notes to Condensed Consolidated Financial Statements.

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Item 1. Financial Statements (continued)

MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(in thousands)

	Nine Months Ended September 30, 2014	2013
	(unaudited)	
Operating activities:		
Net income	**$ 61,646**	$ 50,450
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**4,652**	4,357
Equity-based compensation	**6,967**	5,249
(Gain) loss on disposal of equipment	**(23)**	32
Tax benefit of stock awards exercised/vested	**7,395**	6,301
Excess tax benefits from equity-based compensation	**(7,359)**	(6,005)
Deferred income taxes	**122**	1,448
Unrealized foreign currency (gain) loss	**(36)**	56
Changes in operating assets and liabilities:		
Accounts receivable, net	**(17,147)**	(6,313)
Other assets	**(6,408)**	1,472
Accounts payable, accrued and other liabilities	**1,564**	(4,602)
Income taxes	**(2,442)**	6,906
Deferred revenue	**4,786**	7,035
Net cash provided by operating activities	**53,717**	66,386
Investing activities:		
Purchase of property and equipment	**(6,676)**	(3,201)
Net purchases of investments	**(1,849)**	(2,254)
Payment in connection with acquisition	**(2,773)**	
Net cash used in investing activities	**(11,298)**	(5,455)
Financing activities:		
Purchase of common stock	**(73,706)**	(48,715)
Proceeds from issuance of common stock from options exercised	**1,014**	5,369
Excess tax benefits from equity-based compensation	**7,359**	6,005
Net cash used in financing activities	**(65,333)**	(37,341)

Foreign currency impact on cash		**(345)**		(2,090)
Net change in cash and cash equivalents		**(23,259)**		21,500
Cash and cash equivalents at beginning of period		**124,375**		96,737
Cash and cash equivalents at end of period	**$**	**101,116**	$	118,237

See accompanying Notes to Condensed Consolidated Financial Statements.

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Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Manhattan Associates, Inc. and its subsidiaries (the Company) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information, with the instructions to Form 10-Q and with Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required for complete financial statements. In the opinion of management, these condensed consolidated financial statements contain all normal recurring adjustments considered necessary for a fair presentation of the Company s financial position at September 30, 2014, the results of operations for the three and nine months ended September 30, 2014 and 2013, and cash flows for the nine months ended September 30, 2014 and 2013. The results for the three and nine months ended September 30, 2014 are not necessarily indicative of the results to be expected for the full year. These statements should be read in conjunction with the Company s audited consolidated financial statements and management s discussion and analysis included in the Company s annual report on Form 10-K for the year ended December 31, 2013.

Principles of Consolidation

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

Stock Split and Increase of the Authorized Number of Shares of Common Stock

On December 19, 2013, the Board of Directors of the Company approved a four-for-one stock split of the Company s common stock, effected in the form of a stock dividend. Each shareholder of record at the close of business on December 31, 2013 received three additional shares for every outstanding share held on the record date. The additional shares were distributed on January 10, 2014 and trading began on a split-adjusted basis on January 13, 2014.

On May 15, 2014, the shareholders of the Company approved an amendment to the Company s articles of incorporation to increase the authorized number of shares of common stock from 100,000,000 to 200,000,000. The amendment was effective on May 15, 2014.

All references made to share or per share amounts in the accompanying condensed consolidated financial statements and applicable disclosures have been restated to reflect the effect of the four-for-one stock split for all periods presented. The Company retained the current par value of $0.01 per share for all shares of common stock.

2. Revenue Recognition

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

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

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Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

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

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

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

In accordance with the other presentation matters within the Revenue Recognition Topic of the Financial Accounting Standards Board s (FASB) Accounting Standards Codification (ASC), the Company recognizes amounts associated with reimbursements from customers for out-of-pocket expenses as revenue. Such amounts have been included in Hardware and other revenue in the Condensed Consolidated Statements of Income. The total amount of expense reimbursement recorded to revenue was \$5.4 million and \$4.1 million for the three months ended September 30, 2014 and 2013, respectively, and \$13.9 million and \$11.3 million for the nine months ended September 30, 2014 and 2013, respectively.

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Notes to Condensed Consolidated Financial Statements

(Unaudited)

3. Fair Value Measurement

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

Level 1 Quoted prices in active markets for identical instruments.

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

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

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

At September 30, 2014, the Company s cash, cash equivalents, and short-term investments balances were $60.7 million, $40.4 million, and $10.4 million, respectively. The Company currently has no long-term inve