MANHATTAN ASSOCIATES INC
Form 10-Q
May 01, 2009

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

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

For the quarterly period ended March 31, 2009

OR

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

For the transition period from __________ to __________

Commission File Number: 0-23999

MANHATTAN ASSOCIATES, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

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

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

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

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

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

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

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

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FORM 10-Q
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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements.

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

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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Item 1. Financial Statements (continued)

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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Item 1. Financial Statements (continued)

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

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2009
(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Manhattan Associates, Inc. and its subsidiaries (the Company) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required for complete financial statements. In the opinion of management, these condensed consolidated financial statements contain all normal recurring adjustments considered necessary for a fair presentation of the Company s financial position at March 31, 2009, the results of operations for the three months ended March 31, 2009 and 2008 and cash flows for the three months ended March 31, 2009 and 2008. The results for the three months ended March 31, 2009 are not necessarily indicative of the results to be expected for the full year. These statements should be read in conjunction with the Company s audited consolidated financial statements and management s discussion and analysis included in the Company s annual report on Form 10-K for the year ended December 31, 2008.

2. Principles of Consolidation

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

3. Revenue Recognition

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

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

The accounting related to license revenue recognition in the software industry is complex and affected by interpretations of the rules which are subject to change. Judgment is required in assessing the probability of collection, which is generally based on evaluation of customer-specific information, historical collection experience and economic market conditions. If market conditions decline, or if the financial condition of our customers deteriorates, the Company may be unable to determine that collectibility is probable, and the Company could be required to defer the recognition of revenue until the Company receives customer payments.

The Company s services revenue consists of fees generated from professional services and customer support and software enhancements related to the Company s software products. Fees from professional services performed by the Company are generally billed on an hourly basis, and revenue is recognized as the services are performed. Professional services are sometimes rendered under agreements in which billings are limited to

MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (continued)
March 31, 2009
(unaudited)

contractual maximums or based upon a fixed-fee for portions of or all of the engagement. Revenue related to fixed-fee based contracts is recognized on a proportional performance basis based on the hours incurred on discrete projects within an overall services arrangement. Project losses are provided for in their entirety in the period in which they become known. Revenue related to customer support services and software enhancement is generally paid in advance and recognized ratably over the term of the agreement, typically 12 months.

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

In accordance with the Financial Accounting Standard Board s (FASB s) Emerging Issues Task Force (EITF) Issue No. 01-14, Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred (EITF No. 01-14), the Company recognizes amounts associated with reimbursements from customers for out-of-pocket expenses as revenue. Such amounts have been classified to hardware and other revenue. The total amount of expense reimbursement recorded to revenue was $2.0 million and $3.0 million for the three months ended March 31, 2009 and 2008, respectively.

4. Investments

Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS No. 157) establishes a fair value hierarchy disclosure framework that prioritizes and ranks the level of market price observability used in measuring assets and liabilities at fair value. Market price observability is impacted by a number of factors, including the type of asset or liability and their characteristics. This hierarchy prioritizes the inputs into three broad levels as follows:

Level 1 Quoted prices in active markets for identical instruments.

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

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

The Company s investments in marketable securities consist principally of debt instruments of state and local government agencies and U.S. corporate commercial paper. These investments are categorized as available-for-sale securities and recorded at fair market value, as defined by SFAS No. 157. Investments with maturities of 90 days or less from the date of purchase are classified as cash equivalents; investments with maturities of greater than 90 days from the date of purchase but less than one year are generally classified as short-term investments; and investments with maturities of greater than one year from the date of purchase are generally classified as long-term investments. Unrealized holding gains and losses are reflected as a net amount in a separate component of shareholders equity until realized. For the purposes of computing realized gains and losses, cost is determined on a specific identification basis.

The Company s long-term investments consist of corporate or U.S. government debt instruments with maturities between one year and five years. At March 31, 2009, our cash and investments balance totaled $39.6 million and $49.6 million, respectively, of which $86.3 million is liquid. The remaining investments totaling $2.9 million are invested in auction rate securities with original maturities greater than one year. Previously, auctions were held for

these securities that reset their yield every 7 to 35 days. During 2008 and the first quarter of 2009 however, auctions for these securities failed to attract sufficient buyers, resulting in the Company continuing to hold

MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (continued)
March 31, 2009
(unaudited)

these securities. Accordingly, the Company began classifying these securities as long-term investments in marketable securities in the consolidated balance sheet due to uncertainty surrounding the timing of a market recovery. In determining the fair values of auction rate securities, the Company considered the credit worthiness of the counterparty, estimates of interest rates, expected holding periods, and the timing and value of expected future cash flows. The Company uses quoted prices from active markets which are classified at level 1 as a highest level observable input in the disclosure hierarchy framework as defined by SFAS No. 157 for all other available-for-sale securities. The $2.9 million of auction rate securities held by the Company at March 31, 2009 were issued by state or regional educational loan authorities and are collateralized by federally insured student loans. These investments have high credit ratings, and the Company intends and has the ability to hold these securities until maturity or until redeemed. However, due to liquidity concerns rather than creditworthiness, the Company has recorded an unrealized loss of $0.1 million as of March 31, 2009 for the temporary decline in the fair value of these investments. The unrealized loss is included as a separate component of shareholders equity and in total comprehensive income. The Company will continue to evaluate the fair value of its investments in auction rate securities each reporting period for a potential other-than-temporary impairment.

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

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

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

5. Stock-Based Compensation

During the three months ended March 31, 2009 and 2008, the Company granted options to purchase 553,025 shares and 588,736 shares of common stock, respectively. The Company recorded stock option expense of $1.4 million and $1.3 million during the three months ended March 31, 2009 and 2008, respectively.

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

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

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

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

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MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
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A summary of changes in unvested shares of restricted stock for the quarter ended March 31, 2009 is as follows:

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

6. Income Taxes

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

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

The Company conducts business globally and, as a result, files income tax returns in the United States Federal jurisdiction and in many state and foreign jurisdictions. The Company is no longer subject to US Federal or significant state, local, or non-US jurisdiction income tax examinations for the years before 2005.

7. Comprehensive Income

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

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

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

8. Net Income Per Share

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

MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (continued)
March 31, 2009
(unaudited)

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

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

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

9. Contingencies

From time to time, the Company may be involved in litigation relating to claims arising out of its ordinary course of business. Many of the Company s installations involve products that are critical to the operations of its clients businesses. Any failure in a product could result in a claim for substantial damages against the Company, regardless of its responsibility for such failure. Although the Company attempts to limit contractually its liability for damages arising from product failures or negligent acts or omissions, there can be no assurance that the limitations of liability set forth in the Company s contracts will be enforceable in all instances. The Company is not presently involved in any material litigation. However, it is involved in various legal proceedings. The Company believes that any liability that may arise as a result of these proceedings will not have a material adverse effect on its financial condition, results of operations or cash flows. The Company expenses legal costs associated with loss contingencies as such legal costs are incurred.

10. Operating Segments

The Company operates its business in three geographical segments: the Americas (North America and Latin America), Europe, Middle East and Africa (EMEA) and Asia Pacific (APAC). The information for the periods presented below reflects these segments. All segments derive revenue from the sale and implementation of the Company s supply chain execution and planning solutions. The individual products sold by the segments are similar in nature and are all designed to help companies manage the effectiveness and efficiency of their supply chain. The Company uses the same accounting policies for each operating segment. The Chief Executive Officer and Chief Financial Officer evaluate performance based on revenue and operating results for each region.

The Americas segment charges royalty fees to the EMEA and APAC segments based on software licenses sold by those operating segments. The royalties, which totaled approximately $0.3 million and $1.2 million for the three

months ended March 31, 2009 and 2008, respectively, are included in cost of revenue in EMEA and APAC with a corresponding reduction in the

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MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (continued)
March 31, 2009
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Americas cost of revenue. The revenues represented below are from external customers only. The geographical-based costs consist of costs of personnel, direct sales and marketing expenses, and general and administrative costs to support the business. There are certain corporate expenses included in the Americas region that are not charged to the other segments including research and development, certain marketing and general and administrative costs that support the global organization and the amortization of acquired developed technology. Included in the Americas costs are all research and development costs including the costs associated with the Company s India operations.

The following table presents the revenues, expenses and operating income by reporting segment for the three months ended March 31, 2009 and 2008 (in thousands):

	For the Three Months ended March 31,							
	2009				2008			
	Americas	EMEA	APAC	Total	Americas	EMEA	APAC	Total
Revenue:								
License	**$ 3,826**	**$ 445**	**$ 651**	**$ 4,922**	$ 13,427	$ 3,571	$ 1,314	$ 18,312
Services	**42,173**	**6,402**	**2,268**	**50,843**	49,151	8,032	2,654	59,837
Hardware and other	**4,828**	**183**	**49**	**5,060**	9,551	425	199	10,175
Total revenue	**50,827**	**7,030**	**2,968**	**60,825**	72,129	12,028	4,167	88,324
Costs and Expenses:								
Cost of revenue	**22,579**	**3,983**	**2,140**	**28,702**	31,277	6,600	2,813	40,690
Operating expenses	**24,948**	**2,166**	**1,154**	**28,268**	30,767	3,202	1,328	35,297
Depreciation and amortization	**2,981**	**143**	**41**	**3,165**	3,020	171	57	3,248
Restructuring cost	**59**		**4**	**63**				
Total costs and expenses	**50,567**	**6,292**	**3,339**	**60,198**	65,064	9,973	4,198	79,235
Operating income	**$ 260**	**$ 738**	**$ (371)**	**$ 627**	$ 7,065	$ 2,055	$ (31)	$ 9,089

The Company s services revenues, which consist of fees generated from professional services and customer support and software enhancements related to its software products, for the three months ended March 31, 2009 and 2008 are as follows (in thousands):

	For the Three Months Ended March 31,	
	2009	2008
Professional services	**$ 32,345**	$ 41,718
Customer support and software enhancements	**18,498**	18,119
Total services revenue	**$ 50,843**	$ 59,837

License revenues related to the Company s warehouse and non-warehouse product groups for the three months ended March 31, 2009 and 2008 are as follows (in thousands):

	For the Three Months Ended March 31,	
	2009	**2008**
Warehouse	**$ 2,903**	$ 9,163
Non-Warehouse	**2,019**	9,149
Total license revenue	**$ 4,922**	$ 18,312

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MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (continued)
March 31, 2009
(unaudited)

11. Restructuring charge

During the quarter ended December 31, 2008, the Company committed to and initiated plans to reduce its workforce by approximately 170 positions due to intermediate term market demand and to realign its capacity with demand forecasts. As a result of this initiative, the Company 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. In the first quarter of 2009, the Company recorded additional employee severance expense of $0.1 million related to the fourth quarter action. The restructuring charge primarily consists of employee severance and outplacement services. The restructuring charge is classified in Restructuring charge in the Company s Condensed Consolidated Statements of Income.

The following table summarizes the segment activity in the restructuring accrual for the three months ended March 31, 2009:

	Americas	EMEA	APAC	Consolidated
		(in thousands)		
Restructuring accrual balance at December 31, 2008	$ 1,724	$	$ 63	$ 1,787
Restructuring charge	59		4	63
Cash payments	(1,466)		(67)	(1,533)
Restructuring accrual balance at March 31, 2009	$ 317	$	$	$ 317

The balance at March 31, 2009 is included in Accrued compensation and benefits in the Company s Condensed Consolidated Balance Sheets. The remaining balance is expected to be paid during 2009.

12. Subsequent Events

On April 16, 2009, the Company s Board of Directors authorized the repurchase of an additional $20.0 million to a total of $25.0 million of the Company s common stock under the Company s stock repurchase program.

On April 21, 2009, the Company committed to and initiated plans to reduce its workforce by about 100 positions along with other expense reduction initiatives to realign its capacity based on the revenue outlook for 2009. This action was based on continued deterioration of the global macro-economic environment in the first quarter as reflected by downward revisions by most economists of Global GDP growth rates, which resulted in lower than planned first quarter 2009 license revenue results and a revised revenue outlook for the remainder of 2009. In connection with this workforce reduction, the Company expects to record a pre-tax restructuring charge in the second quarter of 2009 of approximately $4.0 million. The Company estimates that all related payments will be completed by the end of 2009.

13. 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. The Company expects that SFAS No. 141(R) will have an impact on its accounting for future

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

business combinations once adopted but the extent of the impact is dependent upon the number, size, and complexity of acquisitions that the Company makes in the future.

In September 2006, FASB issued 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, FASB 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. The Company 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. The Company has adopted SFAS No. 157 for non-financial assets and liabilities measured at fair value on a nonrecurring basis at January 1, 2009 and will continue to apply its provisions prospectively from January 1, 2009. The application of SFAS No. 157 for non-financial assets and liabilities did not have a significant impact on earnings nor the financial position in the first quarter 2009.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking Statements

Certain statements contained in this filing are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including but not limited to statements related to plans for future business development activities, anticipated costs of revenues, product mix and service revenues, research and development and selling, general and administrative activities, and liquidity and capital needs and resources. When used in this report, the words expect, anticipate, intend, plan, believe, seek, estimate, and similar expressions are gene intended to identify forward-looking statements. You should not place undue reliance on these forward-looking statements, which reflect our opinions only as of the date of this quarterly report. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to

differ materially from future results expressed or implied by such forward-looking statements. For further information about these and other factors that could affect our future results, please see Risk Factors in Item 1A of our annual report on Form 10-K for the year ended December 31, 2008. Investors are cautioned that any forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements. The following discussion should be read in conjunction with the condensed consolidated financial statements for the three months ended March 31, 2009 and 2008, including the notes to those statements, included elsewhere in this quarterly report (the Condensed Consolidated Financial Statements). We also recommend the following discussion be read in conjunction with management s discussion and analysis and consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2008.

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

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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™ (**S**upply **C**hain **O**ptimization from **P**lanning through **E**xecution). 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. 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.

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 $13.7 million and $18.9 million for the quarters ended March 31, 2009 and 2008, respectively, which represents approximately 22% and 21% of our total revenue for the quarters ended March 31, 2009 and 2008, respectively. International revenue includes all revenue derived from sales to customers outside the United States. At March 31, 2009, we employed 2,044 employees worldwide, of which 1,004 employees are based outside the United States. Of the 1,004 international employees, approximately 75%, or nearly 770 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. Historically, about 75% of our total revenue is generated in the United States and 25% from our International operation. In addition, industry analysts estimate 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.

As we noted in our 2008 Form 10-K, the International Monetary Fund (IMF) published on January 28, 2009 its World Economic Outlook Update (WEO Update) stating that world growth is projected to fall to 1/2 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. The IMF added 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.

On April 22, 2009, the IMF provided a WEO Update revising its growth estimates downward based on an assessment that financial market stabilization will take longer than originally envisaged. The world economy is now projected to shrink 1.3% compared to a January forecasted growth of 0.5%. Overall, advanced economies are now forecast to shrink 3.8% in 2009 compared to a previously forecast contraction of 2%. The U.S. economy is now projected to contract 2.8% in 2009 versus a previous forecast contraction of 1.6%.

In a rapidly contracting macro-economic environment with a recession that is regarded in some aspects as the most severe since World War II, the timing of closing software transactions has been significantly impacted as evidenced in our license

revenue trends since the second-half of 2007, which in turn affects our revenue and earnings per share. In the first quarter of 2009, our license revenues declined 73% compared to the first quarter of 2008 as demand was well below our plans.

For 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.

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 competition 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 the first quarter of 2009, license revenue totaled $4.9 million, or 8% of total revenue, with gross margins of 71.1%. Our typical license revenue percentage mix of new to existing customers is approximately 50/50. However, due to lower license revenue for quarters ended March 31, 2009, the mix was 20/80 of new to existing, respectively.

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 2009 equates to approximately 3.0 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 the first quarter of 2009, our services revenue totaled $50.8 million, or 84% of total revenue, with gross margins of 54.5%. Professional services accounted for approximately 65% of total services revenue and approximately 50% of total revenue in the first quarter of 2009. 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.

At March 31, 2009, our consulting services business totaled 988 employees, nearly 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, when and if available, 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 $18.5 million in the first quarter of 2009, representing approximately 35% of services revenue and approximately 30% 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 $5.1 million in the first quarter of 2009 representing 8% of total revenue with gross margins of 18.6%. 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 quarters ended March 31, 2009 and 2008 were $10.2 million and $12.7 million,

respectively. At March 31, 2009, our R&D organization totaled 714 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 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 the quarters ended March 31, 2009 and 2008, we generated cash flow from operating activities of $12.7 million and $6.1 million, respectively. Our cash and investments at March 31, 2009 totaled $89.2 million, with no debt on our balance sheet. We currently have no credit facilities. During the past three years, our primary uses of cash have been funding of R&D investment, operations to drive earnings growth and repurchases of common stock.

At March 31, 2009, we had approximately $5.0 million in remaining in share repurchase authority. In April 2009, our Board of Directors increased our repurchase authority to a total of $25.0 million. In 2009, we anticipate that our priorities for the 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.

Recent Developments

On April 21, 2009, the Company committed to and initiated plans to reduce our workforce by about 100 positions along with other expense reduction initiatives to realign our capacity based on our revenue outlook for 2009. This action was based on continued deterioration of the global macro-economic environment in the first quarter as reflected by downward revisions by most economists of Global GDP growth rates, which resulted in lower than planned first quarter 2009 license revenue results and a revised revenue outlook for the remainder of 2009. In connection with this workforce reduction, the Company expects to record an estimated pre-tax restructuring charge in the second quarter of 2009 of approximately $4.0 million. The Company estimates that all related payments will be completed by the end of 2009.

Financial summary of First Quarter 2009 Condensed Consolidated Financial Results

- Consolidated revenue decreased 31% to $60.8 million;
  - o License revenue decreased 73% to $4.9 million;
  - o Services revenue decreased 15% to $50.8 million;
- Operating income was $0.6 million compared to $9.1 million in the first quarter of the prior year;

Diluted earnings per share was $0.01 per share compared to $0.30 per share in the first quarter of 2008;

Cash Flow from Operations was $12.7 million, increasing 108% compared to the same quarter of the prior year;

Cash and Investments on hand was $89.2 million and $88.7 million at March 31, 2009 and December 31, 2008, respectively;

The Company repurchased 678,500 common shares under its publicly-announced repurchase program during the first quarter of 2009 totaling $10.0 million at an average share price of $14.74.

Results of Operations

The following table summarizes our consolidated results for the three months ended March 31, 2009 and 2008.

	Three Months Ended March 31,	
	2009	**2008**
	(in thousands, except per share data)	
Revenue	**$ 60,825**	$ 88,324
Costs and expenses	**60,198**	79,235
Operating income	**627**	9,089
Other (expense) income, net	**(233)**	2,301
Income before taxes	**394**	11,390
Net income	**$ 262**	$ 7,432
Diluted net income per share	**$ 0.01**	$ 0.30
Diluted weighted average number of shares	**23,058**	24,889

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 the three months ended March 31, 2009 and 2008, 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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	Three Months Ended March 31,		
	2009	2008	% Change 2009 to 2008
	(in thousands)		
Revenue:			
License			
Americas	**$ 3,826**	$ 13,427	-72%
EMEA	**445**	3,571	-88%
APAC	**651**	1,314	-50%
Total license	**$ 4,922**	$ 18,312	-73%
Services			
Americas	**$ 42,173**	$ 49,151	-14%
EMEA	**6,402**	8,032	-20%
APAC	**2,268**	2,654	-15%
Total services	**$ 50,843**	$ 59,837	-15%
Hardware and Other			
Americas	**$ 4,828**	$ 9,551	-49%
EMEA	**183**	425	-57%
APAC	**49**	199	-75%
Total hardware and other	**$ 5,060**	$ 10,175	-50%
Total Revenue			
Americas	**$ 50,827**	$ 72,129	-30%
EMEA	**7,030**	12,028	-42%
APAC	**2,968**	4,167	-29%
Total revenue	**$ 60,825**	$ 88,324	-31%
Operating income:			
Americas	**$ 260**	$ 7,065	-96%
EMEA	**738**	2,055	-64%
APAC	**(371)**	(31)	-1097%
Total operating income	**$ 627**	$ 9,089	-93%

Three Months Ended March 31, 2009 Compared to Three Months Ended March 31, 2008

The results of our operations for the first quarter of 2009 and 2008 are discussed below.

Revenue

Three Months Ended March 31,
% Change

	2009	2008	2009 to 2008	% of Total Revenue 2009	% of Total Revenue 2008
	(in thousands)				
License	**$ 4,922**	$ 18,312	-73%	**8%**	21%
Services	**50,843**	59,837	-15%	**84%**	68%
Hardware and other	**5,060**	10,175	-50%	**8%**	11%
Total revenue	**$ 60,825**	$ 88,324	-31%	**100%**	100%

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

License revenue. License revenue decreased $13.4 million, or 73% in the quarter ended March 31, 2009 over the same period in the prior year primarily driven by the current macroeconomic environment which has decreased sales and lengthened sales cycles in the global market in 2009. Our Americas, EMEA and APAC license revenues decreased $9.6 million, $3.1 million and $0.7 million, respectively, compared to the same period in the prior year.

License sales mix across our product suite remained well-balanced in the quarter with approximately 60% of sales in the Company s historically preeminent warehouse management solutions, and 40% in non-warehouse management solutions. Our warehouse management solutions decreased $6.3 million, or 68%, in the first quarter of 2009 compared to the same quarter in the prior year, and non-warehouse management solutions decreased $7.1 million, or 78%, compared to the same quarter in the prior year.

Services revenue. Services revenue decreased $9.0 million, or 15%, in the first quarter of 2009 compared to the same quarter in the prior year principally due to a $9.4 million, or 22%, decrease in revenue from professional services due to decreased license sales partially offset by a $0.4 million or 2%, increase in customer support and software enhancements. Services revenue for the Americas, EMEA and APAC segments decreased $7.0 million, $1.6 million and $0.4 million, respectively, in the first quarter of 2009 compared to the first quarter of 2008.

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 global macroeconomic 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 fewer implementation services.

Hardware and other. Hardware sales decreased by $4.0 million, or 57% to $3.1 million in the first quarter of 2009 compared to $7.1 million in the first quarter of 2008. Sales of hardware are largely dependent upon customer-specific desires, which fluctuate from quarter to quarter. Reimbursements for out-of-pocket expenses are required to be classified as revenue and are included in hardware and other revenue. Reimbursements by customers for out-of-pocket expenses were approximately $2.0 million and $3.0 million for the quarters ended March 31, 2009 and 2008, respectively.

Cost of Revenue

	Three Months Ended March 31,		
			% Change 2009 to
	2009	2008	2008
	(in thousands)		
Cost of license	**$ 1,424**	$ 1,144	24%
Cost of services	**23,157**	31,280	-26%
Cost of hardware and other	**4,121**	8,266	-50%
Total cost of revenue	**$ 28,702**	$ 40,690	-29%

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 by $0.3 million, or 24%, in the first quarter of 2009 compared to the first quarter of 2008.

Cost of services. 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 $8.1 million decrease in cost of services in the quarter ended March 31, 2009 was principally due to (i) a $5.0 million decrease in employee-related costs such as salary, benefits and payroll taxes resulting from an 15% decrease in the number of

personnel dedicated to the delivery of professional services due to the headcount reduction initiative in the fourth quarter of 2008, (ii) a $1.7 million decrease in bonus due to decline in total revenue, and (iii) a $1.1 million decrease in travel expenses due to fewer service projects.

Services gross margin increased 6.8 percentage points to 54.5% in the first quarter of 2009 from 47.7% in the first quarter of 2008. The increase in margin is primarily attributable to the decrease in professional services costs in the current year quarter due to lower headcount.

Cost of hardware and other. Cost of hardware decreased $3.3 million to approximately $2.1 million in the first quarter of 2009 from approximately $5.4 million in the first quarter of 2008. Cost of hardware and other includes out-of-pocket expenses to be reimbursed by customers of approximately $2.0 million and $2.9 million for the quarters ended March 31, 2009 and 2008, respectively.

Operating Expenses

	Three Months Ended March 31,		
	2009	**2008**	**% Change 2009 to 2008**
	(in thousands)		
Research and development	**$ 10,227**	$ 12,654	**-19%**
Sales and marketing	**10,079**	13,572	**-26%**
General and administrative	**7,962**	9,071	**-12%**
Depreciation and amortization	**3,165**	3,248	**-3%**
Restructuring charge	**63**		**100%**
Operating expenses	**$ 31,496**	$ 38,545	**-18%**

Research and development. Research and development expenses primarily consist of salaries and other personnel-related costs for personnel involved in our research and development activities. Research and development expenses for the quarter ended March 31, 2009 decreased $2.4 million, or 19% compared to the same quarter of the prior year. This decrease was mainly attributable to the decrease of $1.3 million in employee-related costs such as salary, benefits and payroll taxes and a $0.6 million decrease in bonus expense caused by decline in total revenue and earnings per share.

Our principal research and development activities have 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 **S**upply **C**hain **O**ptimization from **P**lanning through **E**xecution. The Manhattan SCOPE Platform provides not only a sophisticated service-oriented architecture-based application framework, but a platform that facilitates integration with Enterprise Resource Planning (ERP) and other supply chain solutions. For the quarters ended March 31, 2009 and 2008, we did not capitalize any research and development costs.

Sales and marketing. Sales and marketing expenses include salaries, commissions, travel and other personnel-related costs and the costs of our marketing and alliance programs and related activities. Sales and marketing expenses decreased by $3.5 million, or 26% in the first quarter of 2009 compared to the same quarter of the prior year. This decrease was mainly attributable to a (i) $1.7 million decrease in employee-related costs such as salary, benefits and payroll taxes resulting from lower headcount, (ii) a $1.5 million decrease in bonus and commission, and (iii) a $0.6 million decrease in travel expense as a result of fewer license deals.

General and administrative. 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 $1.1 million, or 12% decrease in general and administrative expenses during the quarter ended March 31, 2009 was primarily attributable to (i) a decrease of $0.4 million of employee-related expenses such as salary benefits and payroll taxes, and (ii) a $0.4 million decrease in bonus expense caused by the decline in total revenue and earnings per share.

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Depreciation and amortization. Depreciation expense amounted to $2.4 million for both quarters ended March 31, 2009 and 2008. Amortization of intangibles associated with various acquisitions totaled $0.7 million and $0.9 million for the quarters ended March 31, 2009 and 2008, respectively.

Restructuring charge. During the fourth quarter of 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. During the first quarter of 2009, we recorded additional employee severance expense of $0.1 million related to the restructuring action taken in previous quarter.

Operating Income

Operating income for the first quarter of 2009 decreased by $8.5 million, or 93%. Operating margins decreased to 1.0% for the first quarter of 2009 from 10.3% for the first quarter of 2008. Operating income and margins declined primarily due to lower license revenues.

Other (Expense) Income and Taxes

	Three Months Ended March 31,		
	2009	**2008**	**% Change 2009 to 2008**
Other (expense) income, net	**$(233)**	$2,301	-110%
Income tax provision	**132**	3,958	-97%

Other (expense) income, net. Other (expense) income, net principally includes interest income and foreign currency gains and losses. Other (expense) income, net decreased $2.5 million in the first quarter of 2009 compared to the first quarter of 2008 due to the fluctuation of the U.S. dollar relative to foreign currencies and the decrease in interest income. We recorded a net foreign currency loss of $0.4 million and a net foreign currency gain of $1.6 million during the three months ended March 31, 2009 and 2008, respectively. The foreign currency gains and losses principally resulted from gains or losses on intercompany balances with subsidiaries due to the fluctuation of the U.S. dollar relative to other foreign currencies, principally the Indian Rupee, the British Pound, and the Euro. Interest income decreased to $0.1 million for the first quarter of 2009 from $0.7 million for the first quarter of 2008 due to the lower average interest rate earned in the first quarter of 2009. The weighted-average interest rate earned on cash and investment securities during the three month periods ended March 31, 2009 and 2008 was less than 1% and approximately 1%, respectively.

Income tax provision. Our effective income tax rate was 33.5% and 34.75% for the quarters ended March 31, 2009 and 2008, respectively. The reduction in the effective tax rate is principally due to the mix of foreign profits compared to U.S. profits.

Liquidity and Capital Resources

As of March 31, 2009, we had approximately $89.2 million in cash, cash equivalents and investments, as compared to $88.7 million at December 31, 2008. Our main source of operating cash flows is cash collections from our customers which we use to fund our operations. Our primary use of cash is to support continuing operations and capital expenditure requirements and to repurchase our common stock in the open market.

Our operating activities generated cash flow of approximately $12.7 million for the three months ended March 31, 2009 and $6.1 million for the three months ended March 31, 2008. Cash flow from operations increased due to strong accounts receivable collections. Days sales outstanding (DSO) were 68 days at March 31, 2009 and 78 days at December 31, 2008.

Our investing activities used cash of approximately $0.9 million for the three months ended March 31, 2009 and provided cash of $4.6 million for the three months ended March 31, 2008. The use of cash for investing

activities for the three months ended March 31, 2009 was for capital expenditures of approximately $0.9 million. The sources of cash provided by investing activities for the three months ended March 31, 2008 was net maturities of investments of approximately $7.3 million offset by capital expenditures of approximately $2.7 million.

Our financing activities used cash of approximately $10.3 million and $11.8 million for the three months ended March 31, 2009 and 2008, respectively. The principal use of cash for financing activities for the three months ended March 31, 2009 was to purchase approximately $10.5 million of our common stock including $0.5 million for shares withheld for taxes due upon vesting of restricted stock, partially offset by proceeds generated from options exercised of $0.2 million. The principal use of cash for financing activities for the three months ended March 31, 2008 was to purchase approximately $12.4 million of our common stock, partially offset by proceeds generated from options exercised of $0.6 million.

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 and 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.

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 the 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 were 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 we believe reflect our more significant estimates, judgments and assumptions, which we have identified as our critical accounting policies 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 and software enhancements, and sales of hardware and other revenues (other revenues 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 (a) there is vendor-specific objective evidence of the fair values of all undelivered elements in a multiple-element arrangement that is not accounted for using long-term contract accounting; (b) vendor-specific objective evidence of fair value does not exist for one or more of the delivered elements in the arrangement; and (c) all revenue-recognition criteria in SOP 97-2, other than the requirement for vendor-specific objective evidence of the fair value of each delivered element of the arrangement are satisfied. For those contracts that contain significant customization or modifications, license revenue is recognized using contract accounting.

The accounting related to license revenue recognition in the software industry is complex and affected by interpretations of the rules which are subject to change. 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 reimbursements recorded as revenue for quarters ended March 31, 2009 and 2008 were $2.0 million and $3.0 million, 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 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 March 31, 2009, 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 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 our publicly traded stock options. Due to the limited trading volume of our publicly traded options,