

MANHATTAN ASSOCIATES INC
Form 10-Q
October 31, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[Mark One]

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

For the quarterly period ended September 30, 2013

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)

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Georgia
(State or Other Jurisdiction of

58-2373424
(I.R.S. Employer

Incorporation or Organization)

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 No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

The number of shares of the Registrant's class of capital stock outstanding as of October 29, 2013, the latest practicable date, is as follows:
19,207,191 shares of common stock, \$0.01 par value per share.

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MANHATTAN ASSOCIATES, INC.

FORM 10-Q

Quarter Ended September 30, 2013

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Table of Contents**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, 2013 (unaudited)	December 31, 2012
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 118,237	\$ 96,737
Short term investments	7,656	6,310
Accounts receivable, net of allowance of \$4,654 and \$6,235 in 2013 and 2012, respectively	68,223	62,102
Deferred income taxes	7,525	7,787
Prepaid expenses and other current assets	7,061	8,571
Total current assets	208,702	181,507
Property and equipment, net	14,248	15,650
Goodwill, net	62,269	62,265
Deferred income taxes	675	732
Other assets	1,550	1,659
Total assets	\$ 287,444	\$ 261,813
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 8,500	\$ 10,229
Accrued compensation and benefits	16,253	16,720
Accrued and other liabilities	10,331	12,233
Deferred revenue	54,775	47,935
Income taxes payable	9,934	4,024
Total current liabilities	99,793	91,141
Other non-current liabilities	10,761	9,163
Shareholders' equity:		
Preferred stock, no par value; 20,000,000 shares authorized, no shares issued or outstanding in 2013 and 2012		
Common stock, \$.01 par value; 100,000,000 shares authorized; 19,212,561 and 19,620,967 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively	192	196
Retained earnings	184,676	166,016
Accumulated other comprehensive loss	(7,978)	(4,703)
Total shareholders' equity	176,890	161,509

Total liabilities and shareholders' equity	\$	287,444	\$	261,813
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See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**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,		Nine Months Ended September 30,	
	2013 (unaudited)	2012 (unaudited)	2013 (unaudited)	2012 (unaudited)
Revenue:				
Software license	\$ 14,768	\$ 16,164	\$ 45,149	\$ 47,096
Services	85,025	71,886	238,115	211,578
Hardware and other	8,009	7,791	23,655	22,215
Total revenue	107,802	95,841	306,919	280,889
Costs and expenses:				
Cost of license	2,445	2,086	6,160	5,351
Cost of services	35,835	32,614	105,939	94,646
Cost of hardware and other	6,812	6,428	20,049	18,416
Research and development	10,906	11,400	33,414	33,753
Sales and marketing	9,863	10,999	33,185	34,817
General and administrative	9,755	9,258	27,195	28,806
Depreciation and amortization	1,414	1,379	4,357	4,141
Total costs and expenses	77,030	74,164	230,299	219,930
Operating income	30,772	21,677	76,620	60,959
Other income (loss), net	546	(247)	1,940	431
Income before income taxes	31,318	21,430	78,560	61,390
Income tax provision	11,630	7,621	28,110	22,007
Net income	\$ 19,688	\$ 13,809	\$ 50,450	\$ 39,383
Basic earnings per share	\$ 1.03	\$ 0.71	\$ 2.62	\$ 1.99
Diluted earnings per share	\$ 1.02	\$ 0.69	\$ 2.58	\$ 1.93
Weighted average number of shares:				
Basic	19,113	19,568	19,220	19,745
Diluted	19,388	20,130	19,526	20,372

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**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,	
	2013	2012	2013	2012
			(unaudited)	
Net income	\$ 19,688	\$ 13,809	\$ 50,450	\$ 39,383
Other comprehensive income, net of tax:				
Foreign currency translation adjustment	(424)	1,868	(3,275)	1,134
Unrealized loss on investments				92
Other comprehensive income	(424)	1,868	(3,275)	1,226
Comprehensive income	\$ 19,264	\$ 15,677	\$ 47,175	\$ 40,609

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

Table of Contents**Item 1. Financial Statements** (continued)**MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Cash Flows**

(in thousands)

	Nine Months Ended September 30,	
	2013	2012
	(unaudited)	
Operating activities:		
Net income	\$ 50,450	\$ 39,383
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,357	4,141
Equity-based compensation	5,249	5,795
Loss (gain) on disposal of equipment	32	(46)
Tax benefit of stock awards exercised/vested	6,301	7,034
Excess tax benefits from equity-based compensation	(6,005)	(5,726)
Deferred income taxes	1,448	2,807
Unrealized foreign currency loss	56	411
Changes in operating assets and liabilities:		
Accounts receivable, net	(6,313)	(16,772)
Other assets	1,472	1,215
Accounts payable, accrued and other liabilities	(4,602)	(1,595)
Income taxes	6,906	12,266
Deferred revenue	7,035	2,494
Net cash provided by operating activities	66,386	51,407
Investing activities:		
Purchase of property and equipment	(3,201)	(4,336)
Net purchases of investments	(2,254)	(236)
Net cash used in investing activities	(5,455)	(4,572)
Financing activities:		
Purchase of common stock	(48,715)	(71,667)
Proceeds from issuance of common stock from options exercised	5,369	25,708
Excess tax benefits from equity-based compensation	6,005	5,726
Net cash used in financing activities	(37,341)	(40,233)
Foreign currency impact on cash	(2,090)	308
Net change in cash and cash equivalents	21,500	6,910
Cash and cash equivalents at beginning of period	96,737	92,180
Cash and cash equivalents at end of period	\$ 118,237	\$ 99,090

See accompanying Notes to Condensed Consolidated Financial Statements.

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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, 2013, the results of operations for the three and nine months ended September 30, 2013 and 2012, and cash flows for the nine months ended September 30, 2013 and 2012. The results for the three and nine months ended September 30, 2013 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, 2012.

Principles of Consolidation

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

2. Revenue Recognition

The Company's revenue consists of fees from the licensing and hosting of software (collectively included in Software license revenue in the Condensed Consolidated Statements of Income), fees from implementation and training services (collectively, professional services) and customer support services and software enhancements (collectively 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 professional services rendered (collectively included in Hardware and other revenue in the Condensed Consolidated Statements of Income). All revenue is recognized net of any related sales taxes.

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

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

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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 collectibility 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 collectibility 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 our 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, the Company recognizes amounts associated with reimbursements from customers for out-of-pocket expenses as revenue. Such amounts have been included in Hardware and other revenue in the Condensed Consolidated Statements of Income. The total amount of expense reimbursement recorded to revenue was \$4.1 million and \$3.6 million for the three months ended September 30, 2013 and 2012, respectively, and \$11.3 million and \$9.2 million for the nine months ended September 30, 2013 and 2012, respectively.

3. Fair Value Measurement

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

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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, 2013, the Company's cash, cash equivalents, and short-term investments balances were \$76.8 million, \$41.4 million, and \$7.7 million, respectively. The Company currently has no long-term investments. Cash equivalents consist of highly liquid money market funds and certificates of deposit. Short-term investments consist of certificates of deposit. The Company uses quoted prices from active markets that are classified at Level 1 as a highest level observable input in the disclosure hierarchy framework for all available-for-sale securities. At September 30, 2013 and December 31, 2012, the Company had \$30.4 million and \$35.2 million in money market funds, respectively, which are classified as Level 1 and are included in cash and cash equivalents on the Condensed Consolidated Balance Sheets. The Company has no investments classified as Level 2 or Level 3.

4. Equity-Based Compensation

In January 2012, in order to simplify equity grant administration, the Company changed its practice of granting restricted stock in favor of granting restricted stock *units*, or RSUs, which convert to the Company's common stock upon vesting. There is no material difference between the grant of restricted stock and the grant of RSUs to either the Company or the recipients receiving the grants; however, in contrast to the granting of restricted stock, no stock will actually be issued under the granting of RSUs until the units vest. The Company does not currently grant stock options.

The Company recorded equity-based compensation related to stock options granted in prior years of \$11,000 and \$138,000 during the three months ended September 30, 2013 and 2012, respectively, and \$170,000 and \$398,000 for the nine months ended September 30, 2013 and 2012, respectively.

A summary of changes in outstanding options for the nine months ended September 30, 2013 is as follows:

	Number of Options
Outstanding at December 31, 2012	371,750
Exercised	(236,592)
Forfeited and expired	(6,906)
Outstanding at September 30, 2013	128,252

The Company granted 278 RSUs and 10,830 RSUs during the three months ended September 30, 2013 and 2012, respectively, and 211,570 RSUs and 226,905 RSUs during the nine months ended September 30, 2013 and 2012, respectively. The Company recorded equity-based compensation expense related to restricted stock and RSUs of \$1.2 million and \$2.0 million during the three months ended September 30, 2013 and 2012, respectively, and \$5.1 million and \$5.4 million during the nine months ended September 30, 2013 and 2012.

A summary of changes in unvested shares/units for the nine months ended September 30, 2013 is as follows:

	Number of shares/units
Outstanding at December 31, 2012	597,199
Granted	211,570
Vested	(223,633)
Forfeited	(135,038)
Outstanding at September 30, 2013	450,098

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The Company's effective tax rate was 37.1% and 35.6% for the quarters ended September 30, 2013 and 2012, respectively, and 35.8% for the nine months ended September 30, 2013 and 2012. The effective rate for the three and nine months ended September 30, 2013 include the reinstatement of the federal research and development tax credit in January 2013 for the 2012 and 2013 tax years. In addition, the effective tax rate for the three and nine months ended September 30, 2013 included the establishment of US federal and state income tax reserves and the reversal of certain domestic tax reserves due to the expiration of the applicable statute of limitations.

The Company applies the provisions for income taxes related to, among other things, accounting for uncertain tax positions and disclosure requirements in accordance with the Income Taxes Topic of the FASB Accounting Standards Codification (ASC 740). For the three months ended September 30, 2013, the Company's uncertain tax positions increased \$0.6 million. There has been no change to the Company's policy that recognizes potential interest and penalties related to uncertain tax positions within its global operations in income tax expense.

The Company conducts business globally and, as a result, files income tax returns in the U.S. federal jurisdiction and in many state and foreign jurisdictions. The Company is no longer subject to income tax examinations for the years before 2010 in the U.S. federal, substantially all state and local, and substantially all non-US jurisdictions.

6. Net Earnings Per Share

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

The following is a reconciliation of the net income and share amounts used in the computation of basic and diluted net earnings per common share for the three and nine months ended September 30, 2013 and 2012 (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands, except per share data)		(in thousands, except per share data)	
Net income	\$ 19,688	\$ 13,809	\$ 50,450	\$ 39,383
Earnings per share:				
Basic	\$ 1.03	\$ 0.71	\$ 2.62	\$ 1.99
Effect of CESs	(0.01)	(0.02)	(0.04)	(0.06)
Diluted	\$ 1.02	\$ 0.69	\$ 2.58	\$ 1.93
Weighted average number of shares:				
Basic	19,113	19,568	19,220	19,745
Effect of CESs	275	562	306	627
Diluted	19,388	20,130	19,526	20,372

There were no anti-dilutive CESs during 2012 and 2013.

7. Contingencies

From time to time, the Company may be involved in litigation relating to claims arising out of its ordinary course of business, and occasionally legal proceedings not in the ordinary course. Many of the Company's product installations involve software products that are critical to the operations of its customers' 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. The Company expenses legal costs associated with loss contingencies as such claims are incurred.

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8. 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 \$0.8 million and \$0.4 million for the three months ended September 30, 2013 and 2012, respectively, and approximately \$2.1 million and \$2.3 million for the nine months ended September 30, 2013 and 2012, respectively, are included in cost of revenue in EMEA and APAC with a corresponding reduction in the 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.

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The following table presents the revenues, expenses and operating income by reporting segment for the three and nine months ended September 30, 2013 and 2012 (in thousands):

	Three Months Ended September 30,							
	2013				2012			
	Americas	EMEA	APAC	Consolidated	Americas	EMEA	APAC	Consolidated
Revenue:								
License	\$ 11,708	\$ 1,793	\$ 1,267	\$ 14,768	\$ 14,649	\$ 796	\$ 719	\$ 16,164
Services	68,868	10,515	5,642	85,025	57,677	9,479	4,730	71,886
Hardware and other	7,401	378	230	8,009	7,331	314	146	7,791
Total revenue	87,977	12,686	7,139	107,802	79,657	10,589	5,595	95,841
Costs and Expenses:								
Cost of revenue	35,246	6,522	3,324	45,092	32,959	5,298	2,871	41,128
Operating expenses	25,844	3,453	1,227	30,524	27,716	2,517	1,424	31,657
Depreciation and amortization	1,274	78	62	1,414	1,264	67	48	1,379
Total costs and expenses	62,364	10,053	4,613	77,030	61,939	7,882	4,343	74,164
Operating income	\$ 25,613	\$ 2,633	\$ 2,526	\$ 30,772	\$ 17,718	\$ 2,707	\$ 1,252	\$ 21,677

	Nine Months Ended September 30,							
	2013				2012			
	Americas	EMEA	APAC	Consolidated	Americas	EMEA	APAC	Consolidated
Revenue:								
Software license	\$ 36,699	\$ 4,230	\$ 4,220	\$ 45,149	\$ 37,999	\$ 8,112	\$ 985	\$ 47,096
Services	192,658	30,755	14,702	238,115	171,142	26,285	14,151	211,578
Hardware and other	22,040	1,096	519	23,655	20,805	933	477	22,215
Total revenue	251,397	36,081	19,441	306,919	229,946	35,330	15,613	280,889
Costs and Expenses:								
Cost of revenue	103,495	18,894	9,759	132,148	92,674	17,377	8,362	118,413
Operating expenses	80,133	9,836	3,825	93,794	83,939	9,533	3,904	97,376
Depreciation and amortization	3,936	229	192	4,357	3,800	189	152	4,141
Total costs and expenses	187,564	28,959	13,776	230,299	180,413	27,099	12,418	219,930
Operating income	\$ 63,833	\$ 7,122	\$ 5,665	\$ 76,620	\$ 49,533	\$ 8,231	\$ 3,195	\$ 60,959

License revenues related to the Company's warehouse and non-warehouse product groups for the three and nine months ended September 30, 2013 and 2012 are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Warehouse	\$ 10,611	\$ 11,680	\$ 29,237	\$ 30,103
Non-Warehouse	4,157	4,484	15,912	16,993
Total software license revenue	\$ 14,768	\$ 16,164	\$ 45,149	\$ 47,096

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The Company's services revenues, which consist of fees generated from professional services and customer support and software enhancements related to its software products, for the three and nine months ended September 30, 2013 and 2012 are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Professional services	\$ 57,690	\$ 47,082	\$ 159,333	\$ 139,200
Customer support and software enhancements	27,335	24,804	78,782	72,378
Total services revenue	\$ 85,025	\$ 71,886	\$ 238,115	\$ 211,578

9. New Accounting Pronouncements

In February 2013, the FASB issued an Accounting Standards Update (ASU) on reporting of amounts reclassified out of accumulated other comprehensive income, an amendment to the Presentation of Comprehensive Income Topic of the FASB Accounting Standards Codification. The ASU requires disclosure of amounts reclassified out of accumulated other comprehensive income by component. In addition, companies are required to present either on the face of the financial statements or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required to be reclassified to net income in its entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, companies are required to cross-reference to other disclosures that provide additional detail about those amounts. This guidance is effective prospectively for annual and interim periods beginning after December 15, 2012. The Company adopted the ASU in its first quarter of 2013 reporting, which did not have an impact on its financial statements.

In July 2013, the FASB issued an ASU on presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists, an amendment to the Income Taxes Topic of the FASB Accounting Standards Codification. The ASU requires companies to net the liability related to an unrecognized tax benefit against a deferred tax asset for a loss or other carryforward that would apply in settlement of the uncertain tax positions. In addition, under this ASU, unrecognized tax benefits will be netted against all available same-jurisdiction loss or other tax carryforwards that would be utilized, rather than only against carryforwards that are created by the unrecognized tax benefits. This guidance is effective prospectively for annual and interim periods beginning after December 15, 2013. The Company does not anticipate the adoption of this ASU will have a material impact on its financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. Forward-Looking Statements

Certain statements contained in this filing are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including but not limited to statements related to 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 generally intended to identify forward-looking statements. Undue reliance should not be placed 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, 2012. Investors are cautioned that forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements. The following discussion should be read in conjunction with the condensed consolidated financial statements for the three and nine months ended September 30, 2013 and 2012, including the notes to those statements, included elsewhere in this quarterly report. We also recommend the following discussion be read in conjunction with management's discussion and analysis and consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2012. References in this filing to the Company, Manhattan, Manhattan Associates, we, our, and us refer to Manhattan Associates, Inc., our predecessors, and our wholly-owned and consolidated subsidiaries.

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Business Overview

We are a leading developer and implementer of supply chain commerce software solutions that help organizations optimize their supply chain operations from planning through execution. Our platform-based supply chain software solution portfolios – Manhattan SCOPE and Manhattan SCALE™ – are designed to deliver both business agility and total cost of ownership advantages to customers. Manhattan SCOPE (Supply Chain Optimization, Planning through Execution) leverages our Supply Chain Process Platform (SCPP) to unify the full breadth of the supply chain, while Manhattan SCALE (Supply Chain Architected for Logistics Execution) leverages Microsoft's .NET platform to unify logistics functions.

Early in the Company's history, our offerings were heavily focused on warehouse management solutions. As the Company grew in size and scope, our offerings expanded across the entire supply chain, while still maintaining a significant presence in, and a relatively strong concentration of revenues from warehouse management solutions, which is a component of our distribution management solution suite. Over time, as our non-warehouse management solutions have proliferated and increased in capability, the Company's revenue concentration in its warehouse management solutions has correspondingly decreased.

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

licenses of our supply chain software;

professional services, including solutions planning and implementation, related consulting, customer training, and customer support services and software enhancements (collectively, "services"); and

hardware sales and other revenue.

In the three and nine months ended September 30, 2013, we generated \$107.8 million and \$306.9 million, in total revenue, respectively, with a revenue mix of: license revenue 15%; services revenue 77%; and hardware and other revenue 8% for the nine months ended September 30, 2013.

We manage our business based on three geographic regions: North America and Latin America (Americas); Europe, Middle East, and Africa (EMEA); and Asia Pacific (APAC). Geographic revenue is based on the location of the sale. Our international revenue was approximately \$30.1 million and \$80.6 million for the three and nine months ended September 30, 2013, respectively, which represents approximately 28% and 26% of our total revenue for the respective periods. International revenue includes all revenue derived from sales to customers outside the United States. At September 30, 2013, we employed approximately 2,510 employees worldwide, of which 1,170 employees are based in the Americas, 175 employees in EMEA, and 1,165 employees in APAC (including India). We have offices in Australia, China, France, India, Japan, the Netherlands, Singapore, and the United Kingdom, as well as representatives in Mexico and reseller partnerships in Latin America, Eastern Europe, the Middle East, South Africa, and Asia.

Global Economic Trends and Industry Factors

Global macroeconomic trends, technology spending, and supply chain management market growth are important barometers for our business. In the three and nine month periods ended September 30, 2013, approximately 72% and 74%, respectively of our total revenue was generated in the United States, 14% in EMEA, and the balance in APAC, Canada, and Latin America. Gartner Inc., an information technology research and advisory company, estimates that nearly 80% of every supply chain software solutions dollar invested is spent in the United States (50%) and Western Europe (28%); consequently, the health of the U.S. and Western European economies has a meaningful impact on our financial results.

We sell technology-based solutions with total pricing, including software and services, in many cases exceeding \$1.0 million. Our software often is a part of our customers' and prospects' much larger capital commitment associated with facilities expansion and business improvement. We believe that, given the lingering uncertainty in the global macro environment, the current sales cycles for large license deals of \$1.0 million or greater in our target markets have been extended. The current business climate within the United States and geographic regions in which we operate continues to affect customers' and prospects' decisions regarding timing of strategic capital expenditures. Delays with respect to such decisions can have a material adverse impact on our business, and may further intensify competition in our already highly competitive markets.

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In October 2013, the International Monetary Fund (IMF) provided a World Economic Outlook (WEO) update lowering its previous 2013 world economic growth forecast to 2.9 percent growth in 2013, which is the same as 2012 growth rate. The WEO update noted that the global economy could grow by only slightly more than 3 percent a year over the medium terms, instead of accelerating to over 4 percent. The WEO update projected that advanced economies, which represent our primary revenue markets, would grow at about 1.2 percent in 2013 and 2.0 percent in 2014, while the emerging and developing economies would continue to grow at a solid pace of about 4.5 percent in 2013 and 5.1 percent in 2014.

During 2012 and continuing into 2013, the overall trend has been steady for the Company's large license deals, with recognized \$1.0 million or larger software license sales totaling twelve for 2012 and totaling nine in the first nine months of 2013. However, the large deal flow has been inconsistent from quarter to quarter, reflecting what we believe to be ongoing macroeconomic uncertainty in the United States and Western Europe. While we are encouraged by our 2012 and first nine months of 2013 results, we, along with many of our customers, still remain cautious regarding the pace of global economic recovery. With global GDP growth continuing to be well below pre-2008 levels, we believe global economic volatility likely will continue to shape customers' and prospects' enterprise software buying decisions, making it more difficult to forecast sales cycles for our products and the timing of large enterprise software license deals.

Revenue

License revenue. License revenue, a leading indicator of our business, is primarily derived from software license fees that customers pay for supply chain solutions. License revenue totaled \$14.8 million, or 14% of total revenue, with gross margins of 83.4% for the three months ended September 30, 2013, and \$45.1 million, or 15% of total revenue, with gross margins of 86.4% for the nine months ended September 30, 2013. Our license revenue percentage mix of new to existing customers for the three months ended September 30, 2013 was approximately 50/50 which is consistent with historically normal levels. However, for the nine months ended September 30, 2013, the percentage mix of new to existing customers was approximately 35/65. We believe our current mix of new customer to existing customer license sales will fluctuate with continuing global macroeconomic uncertainty; however, we anticipate that the mix will be at historically normal levels on a more consistent basis in improved global economic conditions.

License revenue growth is influenced by the strength of general economic and business conditions and the competitive position of our software products. Our license revenue generally has long sales cycles and the timing of the closing of a few large license transactions can have a material impact on our quarterly license revenues, operating profit, operating margins, and earnings per share. For example, \$1.0 million of license revenue in the third quarter of 2013 equates to approximately \$0.03 of diluted earnings per share impact.

Our software solutions are singularly focused on the supply chain commerce planning and execution markets, which are intensely competitive and characterized by rapid technological change. We are a market leader in the supply chain management software solutions market as defined by industry analysts such as ARC Advisory Group and Gartner. Our goal is to extend our position as a leading global supply chain solutions provider by growing our license revenues faster than our competitors through investment in innovation. We expect to continue to face increased competition from Enterprise Resource Planning (ERP) and Supply Chain Management applications vendors and business application software vendors that may broaden their solution offerings by internally developing, or by acquiring or partnering with independent developers of supply chain planning and execution software. Increased competition could result in price reductions, fewer customer orders, reduced gross margins, and loss of market share.

Services revenue. Our services business consists of professional services (consulting and customer training) and customer support services and software enhancements (CSSE). Services revenue totaled \$85.0 million, or 79% of total revenue, with gross margins of 57.9% for the three months ended September 30, 2013, and \$238.1 million, or 78% of total revenue, with gross margins of 55.5% for the nine months ended September 30, 2013. Professional services accounted for approximately 68% and 67% of total services revenue and approximately 54% and 52% of total revenue in the three and nine months ended September 30, 2013, respectively. Our operating margin profile may be lower than those of various other technology companies due to our large services revenue mix as a percentage of total revenue. While we believe our services margins are very strong, they do lower our overall operating margin profile as services margins are inherently lower than license revenue margins.

At September 30, 2013, our services organization totaled approximately 1,540 employees, accounting for 61% 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 more rapidly than if they were to rely on internal or other third party services, enable the customer to maximize value from our solution, strengthen our customer relationships, and add to our industry-specific knowledge base for use in future implementations and product innovations.

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Although our professional services are optional, the majority of our customers use at least some portion of these services for their planning, implementation, or related needs. Professional services are typically rendered under time and materials-based contracts with services typically billed on an hourly basis. Professional services are sometimes rendered under fixed-fee based contracts with payments due on specific dates or milestones.

Historically, our professional services have lagged license revenue by several quarters, as implementation services and related consulting are performed after the purchase of the software. Services revenue growth is contingent upon license revenue growth and customer upgrade cycles, which are influenced by the strength of general economic and business conditions and the competitive position of our software products. In addition, our business has competitive exposure to offshore providers and other consulting companies. All of these factors potentially create the risk of pricing pressure, fewer customer orders, reduced gross margins, and loss of market share.

For CSSE, we offer a comprehensive 24 hour per day, 365 days per year program that provides our customers with software upgrades, when and if available, which include additional or improved functionality and technological advances incorporating emerging supply chain and industry initiatives.

Our CSSE revenues totaled \$27.3 million and \$78.8 million for the three and nine months ended September 30, 2013, respectively, representing approximately 32% and 33% of services revenue, respectively and approximately 25% of total revenue for both periods. The growth of CSSE revenues is influenced by: (i) new license revenue growth, (ii) annual renewal of support contracts, and (iii) fluctuations in currency rates. Substantially all of our customers renew their annual support contracts. Over the last three years, our annual revenue renewal rate of customers subscribing to comprehensive support and software enhancements has been greater than 90%. CSSE fees generally are paid in advance, and our CSSE revenue generally is recognized ratably over the term of the agreement, typically twelve months. CSSE renewal revenue is not recognized unless payment is received from the customer.

Hardware and other revenue. Our hardware and other revenue totaled \$8.0 million, representing 7% of total revenue with gross margins of 14.9% for the three months ended September 30, 2013, and \$23.7 million, representing 8% of total revenue with gross margins of 15.2% for the nine months ended September 30, 2013. 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 generally do not maintain hardware inventory.

Other revenue represents amounts associated with reimbursements from customers for out-of-pocket expenses. The total amount of expense reimbursement recorded to hardware and other revenue was \$4.1 million and \$11.3 million for the three and nine months ended September 30, 2013.

Product Development

We continue to invest significantly in research and development to provide leading solutions that help global manufacturers, wholesalers, distributors, retailers, and logistics providers successfully manage accelerating and fluctuating demands as well as the increasing complexity and volatility of their local and global supply chains. Our research and development expenses were \$10.9 million and \$33.4 million for the three and nine months ended September 30, 2013, respectively. At September 30, 2013, our R&D organization totaled approximately 640 employees, located in the U.S. and India, representing approximately 25% of our total employees worldwide.

We expect to continue to focus our R&D resources on the development and enhancement of supply chain software solutions. We offer what we believe to be the broadest solution portfolio in the supply chain solutions marketplace, to address all aspects of planning and forecasting, inventory optimization, order lifecycle management, transportation lifecycle management, and distribution management. We also plan to continue to enhance our existing solutions and to introduce new solutions to address evolving industry standards and market needs. We identify opportunities to further enhance our solutions and to develop and provide new solutions through our customer support organization, as well as through ongoing customer consulting engagements and implementations, interactions with our user groups, association with leading industry analysts and market research firms, and participation on industry standards and research committees. Our solutions address the needs of customers in various vertical markets, including retail, consumer goods, food and grocery, logistics service providers, industrial and wholesale, high technology and electronics, life sciences, and government.

Table of Contents**Cash Flow and Financial Condition**

For the three and nine months ended September 30, 2013, we generated cash flow from operating activities of \$32.7 million and \$66.4 million, respectively. Our cash, cash equivalents, and investments at September 30, 2013 totaled \$125.9 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 investment in R&D and operations to drive earnings growth and repurchases of our common stock.

We repurchased 573,676 shares of Manhattan Associates' outstanding common stock under our repurchase program during the nine months ended September 30, 2013. In October 2013, our Board of Directors approved raising the Company's remaining share repurchase authority to \$50.0 million of Manhattan Associates' outstanding common stock.

For the remainder of 2013, we anticipate that our priorities for the use of cash will be in developing sales and services resources and continued investment in product development to drive and support profitable growth and 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 the remainder of 2013 for general corporate purposes.

Results of Operations

The following table summarizes our consolidated results for the three and nine months ended September 30, 2013 and 2012.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands, except per share data)			
Revenue	\$ 107,802	\$ 95,841	\$ 306,919	\$ 280,889
Costs and expenses	77,030	74,164	230,299	219,930
Operating income	30,772	21,677	76,620	60,959
Other income, net	546	(247)	1,940	431
Income before income taxes	31,318	21,430	78,560	61,390
Net income	\$ 19,688	\$ 13,809	\$ 50,450	\$ 39,383
Diluted earnings per share	\$ 1.02	\$ 0.69	\$ 2.58	\$ 1.93
Diluted weighted average number of shares	19,388	20,130	19,526	20,372

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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 expenses include costs of personnel, direct sales and marketing expenses, and general and administrative costs to support the business. There are certain corporate expenses included in the Americas 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 and nine months ended September 30, 2013 and 2012, 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:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2013 (in thousands)	2012	% Change vs. Prior Year	2013 (in thousands)	2012	% Change vs. Prior Year
Revenue:						
Software license						
Americas	\$ 11,708	\$ 14,649	20%	\$ 36,699	\$ 37,999	3%
EMEA	1,793	796	125%	4,230	8,112	48%
APAC	1,267	719	76%	4,220	985	328%
Total software license	\$ 14,768	\$ 16,164	9%	\$ 45,149	\$ 47,096	4%
Services						
Americas	\$ 68,868	\$ 57,677	19%	\$ 192,658	\$ 171,142	13%
EMEA	10,515	9,479	11%	30,755	26,285	17%
APAC	5,642	4,730	19%	14,702	14,151	4%
Total services	\$ 85,025	\$ 71,886	18%	\$ 238,115	\$ 211,578	13%
Hardware and Other						
Americas	\$ 7,401	\$ 7,331	1%	\$ 22,040	\$ 20,805	6%
EMEA	378	314	20%	1,096	933	17%
APAC	230	146	58%	519	477	9%
Total hardware and other	\$ 8,009	\$ 7,791	3%	\$ 23,655	\$ 22,215	6%

Summarizes revenue and operating profit by region (continued):

Total Revenue						
Americas	\$ 87,977	\$ 79,657	10%	\$ 251,397	\$ 229,946	9%
EMEA	12,686	10,589	20%	36,081	35,330	2%
APAC	7,139	5,595	28%	19,441	15,613	25%
Total revenue	\$ 107,802	\$ 95,841	12%	\$ 306,919	\$ 280,889	9%
Operating income:						
Americas	\$ 25,613	\$ 17,718	45%	\$ 63,833	\$ 49,533	29%
EMEA	2,633	2,707	3%	7,122	8,231	13%
APAC	2,526	1,252	102%	5,665	3,195	77%
Total operating income	\$ 30,772	\$ 21,677	42%	\$ 76,620	\$ 60,959	26%

Summary of the Third Quarter 2013 Condensed Consolidated Financial Results

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Diluted earnings per share was \$1.02 in the third quarter of 2013, compared to \$0.69 in the third quarter of 2012.

Consolidated total revenue was \$107.8 million in the third quarter of 2013, compared to \$95.8 million in the third quarter of 2012. License revenue was \$14.8 million in the third quarter of 2013, compared to \$16.2 million in the third quarter of 2012.

Operating income was \$30.8 million in the third quarter of 2013, compared to \$21.7 million in the third quarter of 2012.

Cash flow from operations was \$32.7 million in the third quarter of 2013, compared to \$17.5 million in the third quarter of 2012. Days Sales Outstanding was 58 days at September 30, 2013, compared to 61 days at June 30, 2013.

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Cash and investments on-hand were \$125.9 million at September 30, 2013, compared to \$106.5 million at June 30, 2013.

During the three months ended September 30, 2013, we repurchased 151,856 shares of Manhattan Associates common stock under the share repurchase program authorized by the Board of Directors, for a total investment of \$13.5 million. In October 2013, the Board of Directors approved raising our share repurchase authority to an aggregate of \$50.0 million of our outstanding common stock. The results of our operations for the third quarters of 2013 and 2012 are discussed below.

Revenue

	Three Months Ended September 30,				
	2013 (in thousands)	2012	% Change vs. Prior Year	% of Total Revenue	
				2013	2012
Software license	\$ 14,768	\$ 16,164	9%	14%	17%
Services	85,025	71,886	18%	79%	75%
Hardware and other	8,009	7,791	3%	7%	8%
Total revenue	\$ 107,802	\$ 95,841	12%	100%	100%

Our revenue consists of fees generated from the licensing and hosting of software; fees from professional services, customer support services, and software enhancements; hardware sales of complementary radio frequency and computer equipment; and other revenue representing amounts associated with reimbursements from customers for out-of-pocket expenses.

License revenue. License revenue decreased \$1.4 million, or 9%, in the quarter ended September 30, 2013 compared to the same period in the prior year. We completed two large software license deals greater than \$1.0 million in the third quarter of 2013. The license sales percentage mix across our product suite in the quarter ended September 30, 2013 was approximately 70/30 of warehouse management solutions to non-warehouse management solutions.

Services revenue. Services revenue increased \$13.1 million, or 18%, in the third quarter of 2013 compared to the same quarter in the prior year due to a \$10.6 million increase in professional services revenue and a \$2.5 million increase in customer support and software enhancements. The increase in services revenue was due to customer-specific initiatives in conjunction with customer upgrade activity and large license deals signed. Services revenue for the Americas, EMEA and APAC segments increased \$11.2 million, \$1.0 million and \$0.9 million, respectively, in the third quarter of 2013 compared to the third quarter of 2012.

Hardware and other. Hardware sales decreased by \$0.3 million to \$3.9 million in the third quarter of 2013 compared to \$4.2 million for the third quarter of 2012. Sales of hardware are largely dependent upon customer-specific desires, which fluctuate from quarter to quarter. Other revenue represents reimbursements for professional service travel expenses that 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 \$4.1 million and \$3.6 million for the quarters ended September 30, 2013 and 2012, respectively.

Table of Contents**Cost of Revenue**

	Three Months Ended September 30,		
	2013	2012	% Change vs. Prior Year
Cost of software license	\$ 2,445	\$ 2,086	17%
Cost of services	35,835	32,614	10%
Cost of hardware and other	6,812	6,428	6%
Total cost of revenue	\$ 45,092	\$ 41,128	10%

Cost of license. Cost of license consists of the costs associated with software reproduction, hosting services and royalties on third-party software sold with or as part of our products. Cost of license increased by \$0.4 million in the third quarter of 2013 compared to the same quarter of 2012 due to royalty fees for increased sales of third party software.

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 \$3.2 million, or 10%, increase in cost of services in the quarter ended September 30, 2013 compared to the same quarter in the prior year was principally due to a \$2.9 million increase in compensation and other personnel-related expenses resulting from increased headcount in our services organization, a \$0.6 million increase in third party software maintenance costs and internal computer systems costs offset by a \$0.5 million decrease in performance-based compensation expenses.

Cost of hardware and other. Cost of hardware increased by \$0.4 million to \$6.8 million in the third quarter of 2013 compared to \$6.4 million in the same quarter of 2012. Cost of hardware and other includes professional services billed travel expenses reimbursed by customers of approximately \$4.1 million and \$3.5 million for the quarters ended September 30, 2013 and 2012, respectively.

Operating Expenses

	Three Months Ended September 30,		
	2013	2012	% Change vs. Prior Year
	(in thousands)		
Research and development	\$ 10,906	\$ 11,400	4%
Sales and marketing	9,863	10,999	10%
General and administrative	9,755	9,258	5%
Depreciation and amortization	1,414	1,379	3%
Operating expenses	\$ 31,938	\$ 33,036	3%

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 September 30, 2013 decreased by \$0.5 million as compared to the quarter ended September 30, 2012. This decrease is primarily due to a decrease in performance-based compensation expenses.

Our principal research and development activities have focused on the integration of acquired products, new product releases and the expansion of our existing products, including the product footprint of our supply chain optimization solutions suite, which we call Supply Chain Optimization from Planning through Execution (SCOPE). The Manhattan SCOPE Platform provides not only a sophisticated service-oriented architecture-based application framework, but a platform that facilitates integration with ERP and other supply chain solutions. For each of the quarters ended September 30, 2013 and 2012, we did not capitalize any research and development costs.

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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 \$1.1 million, or 10%, in the third quarter of 2013 compared to the same quarter of the prior year primarily due to a decrease of \$0.9 million in stock compensation expense.

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. General and administrative expenses increased by \$0.5 million, or 5%, in the current year quarter compared to the same quarter in the prior year principally due to an increase in headcount.

Depreciation and amortization. Depreciation expense was \$1.4 million for each of the quarters ended September 30, 2013 and 2012. Amortization of intangibles associated with various acquisitions in prior years was immaterial as they are nearly fully amortized.

Operating Income

Operating income for the third quarter of 2013 was \$30.8 million compared to \$21.7 million for the third quarter of 2012. Operating margins were 28.5% for the third quarter of 2013 versus 22.6% for the same quarter in the prior year. Operating income and margin increased primarily due to strong revenue growth and expense management during the year.

Other Income, Net and Taxes

	Three Months Ended September 30,		
	2013	2012	% Change vs. Prior Year
Other income, net	\$ 546	\$ (247)	321%
Income tax provision	11,630	7,621	53%

Other income, net. Other income, net principally includes interest income, foreign currency gains and losses, and other non-operating expenses. Other income, net increased \$0.8 million in the third quarter of 2013 compared to the third quarter of 2012 primarily due to a \$0.9 million increase in foreign currency gains related to the fluctuation of the U.S. dollar relative to foreign currencies, principally the Indian Rupee. We recorded net foreign currency gains of approximately \$0.3 million and net foreign currency losses of \$0.6 million during the quarters ended September 30, 2013 and 2012, respectively.

Income tax provision. Our effective income tax rate was 37.1% and 35.6% for the quarters ended September 30, 2013 and 2012, respectively. The increase in the effective tax rate for the quarter ended September 30, 2013 compared to the same quarter in the prior year is principally due to an increase in foreign taxes and reserves for uncertain tax positions, partially offset by the reinstatement of the federal research and development tax credit for the 2013 tax year.

Summary of the First Nine Months of 2013 Condensed Consolidated Financial Results

Diluted earnings per share for the nine months ended September 30, 2013 was \$2.58, compared to \$1.93 for the nine months ended September 30, 2012.

Consolidated revenue for the nine months ended September 30, 2013 was a \$306.9 million, compared to \$280.9 million for the nine months ended September 30, 2012. License revenue was \$45.1 million for the nine months ended September 30, 2013, compared to \$47.1 million for the nine months ended September 30, 2012.

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Operating income was \$76.6 million for the nine months ended September 30, 2013, compared to \$61.0 million for the nine months ended September 30, 2012.

During the nine months ended September 30, 2013, we repurchased 573,676 shares of Manhattan Associates common stock under the share repurchase program authorized by the Board of Directors, for a total investment of \$43.9 million. The results of our operations for the nine months ended September 30, 2013 and 2012 are discussed below.

Revenue

	Nine Months Ended September 30,				
	2013 (in thousands)	2012	% Change vs. Prior Year	% of Total Revenue 2013	2012
Software license	\$ 45,149	\$ 47,096	4%	15%	17%
Services	238,115	211,578	13%	78%	75%
Hardware and other	23,655	22,215	6%	7%	8%
Total revenue	\$ 306,919	\$ 280,889	9%	100%	100%

License revenue. License revenue decreased by \$1.9 million, or 4%, in the nine months ended September 30, 2013 over the same period in the prior year. Our license revenue performance depends heavily on the number and relative value of large deals we close in the period. We completed nine large deals greater than \$1.0 million in each of the first nine months of 2013 and 2012. Due to the sluggish economic recovery in the United States and other geographic regions in which we operate, the sales cycle on enterprise software deals remains somewhat less predictable.

The license sales percentage mix across our product suite in the nine months ended September 30, 2013 was approximately 65/35 of warehouse management solutions to non-warehouse management solutions, respectively.

Services revenue. Services revenue increased \$26.5 million, or 13%, in the nine months ended September 30, 2013 compared to the same period in the prior year due to a \$20.1 million increase in professional services revenue and a \$6.4 million increase in customer support and software enhancements. The increase in services revenue was primarily due to customer-specific initiatives in conjunction with customer upgrade activity and implementation services for large license deals signed. Services revenue for the Americas, EMEA and APAC segments increased \$21.5 million, \$4.5 million and \$0.5 million, respectively, in the nine months of 2013 compared to the nine months of 2012.

Hardware and other. Hardware sales decreased by \$0.7 million, or 5%, to \$12.4 million in the nine months ended September 30, 2013 compared to \$13.0 million for the same period in the prior year. Sales of hardware are largely dependent upon customer-specific desires, which fluctuate from year to year. 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 \$11.3 million and \$9.2 million for the nine months ended September 30, 2013 and 2012, respectively.

Cost of Revenue

	Nine Months Ended September 30,		
	2013	2012	% Change vs. Prior Year
Cost of software license	\$ 6,160	\$ 5,351	15%
Cost of services	105,939	94,646	12%
Cost of hardware and other	20,049	18,416	9%

Total cost of revenue	\$ 132,148	\$ 118,413	12%
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Cost of license. Cost of license consists of the costs associated with software reproduction; hosting services and royalties on third-party software sold with or as part of our products. Cost of license increased by \$0.8 million, or 15%, in the first nine months of 2013 compared to the same period of 2012 principally due to the increase in royalty fees for third party software.

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 \$11.3 million, or 12%, increase in cost of services in the nine months ended September 30, 2013 compared to the same period in the prior year was principally due to a \$9.9 million increase in compensation and other personnel-related expenses resulting from increased headcount in our services organization and an increase of \$0.8 million in computer costs and facility charges for increased headcount.

Cost of hardware and other. Cost of hardware decreased by \$0.6 million to approximately \$8.8 million in the nine months ended September 30, 2013 compared to \$9.4 million in the same period of 2012. Cost of hardware and other includes out-of-pocket expenses to be reimbursed by customers of approximately \$11.2 million and \$9.0 million for the nine months ended September 30, 2013 and 2012, respectively.

Operating Expenses

	Nine Months Ended September 30,		
	2013	2012	% Change vs. Prior Year
	(in thousands)		
Research and development	\$ 33,414	\$ 33,753	1%
Sales and marketing	33,185	34,817	5%
General and administrative	27,195	28,806	6%
Depreciation and amortization	4,357	4,141	5%
Operating expenses	\$ 98,151	\$ 101,517	3%

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 nine months ended September 30, 2013 were essentially flat over prior year due to slightly lower headcount and favorable currency impact driven by a weakening of the Indian rupee against the US dollar.

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 \$1.6 million, or 5%, in the first nine months of 2013 compared to the same period of the prior year. This decrease was mainly attributable to the decrease in performance-based compensation expense of \$1.8 million and a decrease in stock compensation expense of \$0.9 million, partially offset by an increase in travel expenses of \$0.6 million.

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. General and administrative expenses decreased \$1.6 million, or 6%, during the nine months ended September 30, 2013 compared to the same period in the prior year. The decrease was primarily attributable to a \$1.6 million reversal of a previously expensed transaction tax resulting from the expiration of the tax audit statutes.

Depreciation and amortization. Depreciation expense amounted to \$4.4 million and \$4.1 million for the nine months ended September 30, 2013 and 2012, respectively. Amortization of intangibles associated with various acquisitions in prior years was immaterial as they are nearly fully amortized.

Operating Income

Operating income for the nine months ended September 30, 2013 was \$76.6 million compared to \$61.0 million for the nine months ended September 30, 2012. Operating margins were 25.0% for the first nine months of 2013 versus 21.7% for the first nine months of 2012. Operating income and margin for the nine months ended September 30, 2013 included a \$1.6 million reversal of a previously expensed transaction tax

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resulting from the expiration of the tax audit statutes. Furthermore, operating income and margins increased due to strong revenue growth and expense management during the year in addition to favorable foreign currency translation effects of \$1.5 million for the nine months ended September 30, 2013, primarily due to the weakening of the Indian Rupee versus the U.S. dollar during the nine months ended September 30, 2013 compared to the same period in the prior year.

Table of Contents**Other Income, Net and Taxes**

	Nine Months Ended September 30,		
	2013	2012	% Change vs. Prior Year
Other income, net	\$ 1,940	\$ 431	350%
Income tax provision	28,110	22,007	28%

Other income, net. Other income, net principally includes interest income, foreign currency gains and losses and other non-operating expenses. Other income, net increased \$1.5 million in the nine months ended September 30, 2013 compared to the same period in 2012 primarily related to the fluctuation of the U.S. dollar relative to foreign currencies, principally the Indian Rupee. We recorded a net foreign currency gains of \$1.1 million during the nine months ended September 30, 2013 whereas we had a foreign currency loss of \$0.4 million for the nine months ended September 30, 2012.

Income tax provision. Our effective income tax rate was 35.8% for each of the nine months ended September 30, 2013 and 2012. The effective tax rate remained flat compared to the same period in prior years as increases in foreign taxes and reserves for uncertain tax positions offset the reinstatement of the federal research and development tax credit in January 2013 for the 2012 and 2013 tax years.

Liquidity and Capital Resources

Our consolidated cash and investments as of September 30, 2013 was \$125.9 million with \$42.9 million held by our foreign subsidiaries. Our main source of operating cash flow is cash collections from our customers, which we use to fund our operations. We believe that our cash balances and positive operating cash flow in the U.S. are sufficient to fund our current and projected liquidity needs in the U.S. for the foreseeable future. For our foreign subsidiaries, it is our intent to reinvest undistributed earnings, totaling \$39.3 million at September 30, 2013, and indefinitely postpone their remittance to the U.S. In the future, if we elect to repatriate the unremitted earnings of our foreign subsidiaries in the form of dividends or otherwise, we would be subject to additional U.S. income taxes which could result in a higher effective tax rate.

In the remainder of 2013, we expect that our priorities for the use of cash will be our share repurchase program, developing sales and services resources and continued investment in product development to drive and support profitable growth and to extend our market leadership. We expect to continue to weigh our share repurchase options against using cash for investing in the business and acquisition opportunities that are complementary to our product footprint and technology direction. We do not anticipate any borrowing requirements in the remainder of 2013 for general corporate purposes.

Our operating activities generated cash flow of approximately \$66.4 million and \$51.4 million for the nine months ended September 30, 2013 and 2012, respectively.

Our investing activities used cash of approximately \$5.5 million and \$4.6 million during the nine months ended September 30, 2013 and 2012, respectively. The primary use of cash for investing activities for the nine months ended September 30, 2013 was \$3.2 million in capital expenditures and net purchases of \$2.3 million in short-term investments. The primary use of cash for investing activities for the nine months ended September 30, 2012 was \$4.3 million in capital expenditures and net purchases of \$0.2 million in short-term investments.

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Our financing activities used cash of approximately \$37.3 million and \$40.2 million for the nine months ended September 30, 2013 and 2012, respectively. The principal use of cash for financing activities for the nine months ended September 30, 2013 was to purchase approximately \$48.7 million of our common stock, including \$4.8 million of shares withheld for taxes due upon vesting of restricted stock and restricted stock units, partially offset by proceeds generated from options exercised of \$5.4 million and a \$6.0 million excess tax benefit from equity-based compensation. The principal use of cash for financing activities for the nine months ended September 30, 2012 was to purchase approximately \$71.7 million of our common stock, including \$3.2 million for shares withheld for taxes due upon vesting of restricted stock, partially offset by proceeds generated from options exercised of \$25.7 million and a \$5.7 million excess tax benefit from equity-based compensation.

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

In the first nine months of 2013, there were no significant changes to our critical accounting policies and estimates from those disclosed in the section Management's Discussion and Analysis of Financial Condition and Results of Operations in our annual report on Form 10-K for the year ended December 31, 2012.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

There were no material changes to the Quantitative and Qualitative Disclosures about Market Risk previously disclosed in our annual report on Form 10-K for the year ended December 31, 2012.

Item 4. Controls and Procedures. Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

No system of controls, no matter how well designed and operated, can provide absolute assurance that the objectives of the system of controls are met, and no evaluation of controls can provide absolute assurance that the system of controls has operated effectively in all cases. Our disclosure controls and procedures however are designed to provide reasonable assurance that the objectives of disclosure controls and procedures are met.

As of the end of the period covered by this report, our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures. Based on the evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective to provide reasonable assurance that the objectives of disclosure controls and procedures are met.

Changes in Internal Control over Financial Reporting

During the nine months ended September 30, 2013, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, including any corrective actions with regard to material weaknesses.

Table of Contents**PART II****OTHER INFORMATION****Item 1. Legal Proceedings.**

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

Many of our product installations involve software products that are critical to the operations of our customers' businesses. Any failure in our products could result in a claim for substantial damages against us, regardless of our responsibility for such failure. Although we attempt to contractually limit our 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 our contracts will be enforceable in all instances.

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the risk factors disclosed in Item 1A, Risk Factors, of the Company's annual report on Form 10-K for the year ended December 31, 2012.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table provides information regarding our common stock repurchases under our publicly-announced repurchase program and shares withheld for taxes due upon vesting of restricted stock for the quarter ended September 30, 2013. All repurchases related to the repurchase program were made on the open market.

Period	Total Number of Shares Purchased ^(a)	Average Price Paid per Share ^(b)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
July 1 - July 31, 2013	5,458	\$ 84.14	5,341	\$ 49,550,065
August 1- August 31, 2013	109,524	89.59	109,459	39,743,578
September 30- September 30, 2013	39,160	88.37	37,056	36,467,013
Total	154,142	89.09	151,856	

(a) Includes 2,286 shares withheld for taxes due upon vesting of restricted stock during the quarter ended September 30, 2013.

(b) The average price paid per share for shares withheld for taxes due upon vesting of restricted stock was \$87.09 in the three months ended September 30, 2013.

In October 2013, our Board of Directors approved raising our repurchase authority for the Company's common stock to a total of \$50.0 million.

Item 3. Defaults Upon Senior Securities.

No events occurred during the quarter covered by the report that would require a response to this item.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

No events occurred during the quarter covered by the report that would require a response to this item.

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Item 6. Exhibits.

Exhibit 31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 101.INS	XBRL Instance Document
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* In accordance with Item 601(b)(32)(ii) of the SEC's Regulation S-K, this Exhibit is hereby furnished to the SEC as an accompanying document and is not deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that Section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MANHATTAN ASSOCIATES, INC.

Date: October 31, 2013

/s/ Eddie Capel
Eddie Capel
President and Chief Executive Officer
(Principal Executive Officer)

Date: October 31, 2013

/s/ Dennis B. Story
Dennis B. Story
Executive Vice President, Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

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