

MANHATTAN ASSOCIATES INC

Form 10-K

March 14, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2006

OR

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

For the transition period from _____ to _____

Commission File Number: 000-23999

Manhattan Associates, Inc.

(Exact Name of Registrant As Specified in Its Charter)

Georgia

*(State or Other Jurisdiction of
Incorporation or Organization)*

58-2373424

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

2300 Windy Ridge Parkway, Suite 700

Atlanta, Georgia

(Address of Principal Executive Offices)

30339

(Zip Code)

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

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

Title of Each Class

Name of Each Exchange on Which Registered

None

None

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

Common Stock, \$.01 par value per share

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer Accelerated filer Non-accelerated filer

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant as of June 30, 2006 was \$541,525,106, which was calculated based upon a closing sales price of \$20.29 per share of the Common Stock as reported by the Nasdaq Stock Market on the same day. As of March 13, 2007, the Registrant had outstanding 26,858,914 shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

The Registrant's definitive Proxy Statement for the Annual Meeting of Shareholders to be held May 18, 2007 is incorporated by reference in Part III of this Form 10-K to the extent stated herein.

MANHATTAN ASSOCIATES, INC.
Annual Report on Form 10-K
For the Fiscal Year Ended December 31, 2006
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Forward-Looking Statements

In addition to historical information, this Annual Report may contain forward-looking statements relating to Manhattan Associates, Inc. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements. Among the important factors that could cause actual results to differ materially from those indicated by such forward-looking statements are delays in product development, undetected software errors, competitive pressures, technical difficulties, market acceptance, availability of technical personnel, changes in customer requirements and general economic conditions. Additional factors are set forth in the *Risk Factors* in Part I, Item 1A of this Annual Report. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes in future operating results. Our Annual Report on Form 10-K is available through our Website at www.manh.com.

PART I

Item 1. Business

Overview

We are a leading developer and provider of technology-based supply chain software solutions that help companies manage the effectiveness and efficiency of their supply chain. Our solutions consist of software, services and hardware and are used for both the planning and execution of supply chain activities. These solutions help coordinate the actions and communication of manufacturers, suppliers, distributors, retailers, transportation providers and consumers.

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

Optimizing inventory levels;

Improving inventory and order accuracy;

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

Facilitating multi-channel planning and fulfillment;

Improving visibility of inventory, order status and delivery status;

Enhancing communication with other participants in the supply chain, including suppliers, customers and transportation providers;

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

Lowering transportation costs.

We are a Georgia corporation formed in February 1998 to acquire all of the assets and liabilities of Manhattan Associates Software, LLC, our predecessor. References in this filing to the Company, Manhattan, Manhattan Associates, we, our, and us refer to Manhattan Associates, Inc., our predecessors, and our wholly-owned and consolidated subsidiaries. Our principal executive offices are located at 2300 Windy Ridge Parkway, Suite 700, Atlanta, Georgia 30339, and our telephone number is 770-955-7070.

Table of Contents**Industry Background**

Modern companies face increased globalization, outsourcing, channel convergence and regulatory and security requirements. In addition, technological innovations, such as RFID, rising logistics costs, increasing competition and smaller margins are causing companies to closely examine their supply chain operations. These companies have realized that, if planned and executed properly, the supply chain can be a major competitive differentiator.

The traditional push methodology, where companies would dictate customers' options, has given way to a more customer demand-driven, pull methodology. The result has been an increased need for better plans, increased communication with trading partners and a closer examination of business processes and systems. Unlike in the past, when companies were looking to simply establish supply chain management systems, they are now looking to maximize their investments across the supply chain. In doing so, they are seeking to solve specific operational inefficiencies with solutions that can scale as their business grows and integrate with other systems, such as their enterprise resource planning (ERP) system, material handling equipment or other solutions. In addition, companies are increasingly seeking to reduce the number of vendors they work with and increase overall integration without compromising quality or performance.

Manhattan Associates' Solutions and Services

Solutions. Our solutions are designed to enable our customers to manage their supply chain. They include planning components that allow companies to plan inventory, create forecasts and replenish inventory on an ongoing basis. They also include execution components that help companies manage the efficient flow of goods through distribution centers and transportation networks, while maintaining ongoing communication with trading partners. Our solutions operate across the Unix, System i (iSeries, AS/400) and Microsoft .NET computing platforms. Our solutions operate on multiple hardware platforms utilizing various hardware systems and inter-operate with many third-party software applications and legacy systems. This interfacing and open system capability enables customers to continue using their existing computer resources and to choose among a wide variety of existing and emerging computer hardware and peripheral technologies. We provide adapters for most ERP systems to enhance communication and reduce implementation costs between our core products and our clients' host systems. We currently offer interfacing adapters to systems developed by Oracle, SAP, Lawson, JDA Software, Essentus and Intentia.

We call the combination of our supply chain planning solutions *Integrated Planning Solutions* which consist of the following:

Advanced Planning allows companies to plan their inventory using several methodologies. Included in *Advanced Planning* are the following planning components:

- o *Financial and Item Planning*, which enables companies to develop top-down and bottom-up plans across multiple channels and multiple levels of the product hierarchy;
- o *Assortment Planning*, which supports defining, building and managing assortments to meet financial goals;
- o *Catalog Planning* and *Web Planning*, which support the unique planning requirements of the catalog and Web channels; and
- o *Promotion Planning*, which allows companies to plan and manage promotional events and assortments.

Demand Forecasting enables companies to generate and maintain forecasts at different levels of product data. It also includes a *Promotion Forecasting* solution which generates a promotion forecast and promotional lift based on historical sales.

Replenishment helps companies regulate, maintain and deploy inventory. It is also offered to companies for *Vendor Managed Inventory*, as a solution to allow them to manage their own replenishment.

We refer to the combination of our supply chain execution solutions as *Integrated Logistics Solutions* which consist of the following:

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Distributed Order Management manages the order fulfillment process, capturing and allocating orders across multiple supply chain channels to balance supply with demand.

Warehouse Management manages the processes that take place in a distribution center, beginning with the placement of an order by a customer and ending with the order fulfillment process. It includes a dynamic billing solution called *Billing Management*, which captures information from supply chain systems to enable logistics service providers to track and bill clients for inventory handling, storage, fulfillment and transportation activities.

Slotting Optimization helps determine the optimal layout and placement of products in a distribution facility.

Labor Management enables the tracking, monitoring and management of employee activities within the warehouse.

Transportation Management allows companies to plan, procure and execute transportation services. Within Transportation Management are the following solutions: *Transportation Procurement* which enables the development and management of a transportation strategy that considers business factors while soliciting bids from transportation providers and designing the execution plan around it; *Transportation Planning and Execution* which allows shippers to execute on transportation plans and adjust their transportation network in real time based on events; *Fleet Management* which allows companies to manage both private and dedicated fleets; *Audit Payment and Claims* which automates freight invoicing processing, payment and reconciliation to provide closed loop financial reconciliation of transportation processes; and *Carrier Management* which allows carriers to manage their overall transportation network and their use of resources and assets.

Yard Management plans, executes, tracks and audits all incoming and outgoing loads, providing visibility into yard activities and managing both the yard and dock doors.

Trading Partner Management synchronizes the business processes and communication of suppliers, manufacturers, distributors, logistics service providers and customers. It includes *Supplier Enablement* which extends execution capabilities to vendors and factories trading partners through purchase order management and fulfillment and shipping management; *Logistics Hub Management* which extends execution capabilities to hubs, enabling them to manage and create advance ship notices; *Carrier Enablement* which provides visibility to in-transit shipments and allows carriers to provide shipment status to create greater visibility; and *Customer/Store Enablement* which provides order and inventory visibility and Web-based order entry for both customers and shippers.

Reverse Logistics Management manages and automates the returns process tracking, storing, referencing and reporting on returned merchandise to increase net asset recovery.

RFID Solutions help capture and track EPC data and utilize this information to better manage and track inventory. They include: *EPC Manager* which captures and tracks unique EPC event data and integrates with other applications and existing systems to share this data; *Enterprise EPC Manager* which collects EPC data across the entire enterprise into a single repository; and *Integration Manager for RFID* which enables the integration of RFID capabilities with other solutions, includes other Manhattan Associates solutions.

Our business intelligence solution is called *Performance Management*. Performance Management captures transaction-related data from our planning and execution solutions and transforms that data into actionable information.

Our business process platform, which we call *Logistics Event Management Architecture* (LEMA), manages the flow of data between our solutions.

Professional Services. Our professional services provide our customers with expertise and assistance in planning and implementing our solutions. To ensure a successful product implementation, consultants assist customers with the initial installation of a system, the conversion and transfer of the customer's historical data onto our system, and ongoing training, education and system upgrades. We believe that our professional services enable the customer to implement our software rapidly, ensure the customer's success with our solution, strengthen the relationship with the customer, and adds to our industry-specific knowledge base for use in future implementations and product development efforts.

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Although our professional services are optional, substantially all of our customers use at least some portion of these services for the implementation and ongoing support of our software solutions. Professional services are typically rendered under time and materials-based contracts, with services typically billed on an hourly basis. Professional services are sometimes rendered under fixed-fee based contracts, with payments due on specific dates or milestones. We believe that increased sales of our software solutions will drive higher demand for our consulting services.

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

We have developed a proprietary, standardized implementation methodology called PRISM, which leverages our solutions architecture with the knowledge and expertise gained from completing more than 2,500 installations worldwide. The modular design of our solutions significantly reduces the complexities associated with integrating to existing systems, including ERP, Supply Chain Management (SCM), Customer Relationship Management (CRM), e-business systems and complex material handling systems. As a result, we have been able to deploy a fully automated inbound and outbound supply chain execution system in less than two months.

Customer Support Services and Software Enhancements. We offer a comprehensive program that provides our customers with software upgrades that offer additional or improved functionality and technological advances incorporating emerging supply chain and industry initiatives. Over the last three years, our annual renewal rate of customers subscribing to comprehensive support and enhancements has been greater than 90%. We have the ability to remotely access the customer's system in order to perform diagnostics, on-line assistance and assist in software upgrades. We offer 24x7 customer support plus software upgrades for an annual fee paid in advance, determined based on the level of service needed by the customer. Our upgrades are provided under this program on a when-and-if available basis.

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

Hardware. In conjunction with the licensing of our software, we resell a variety of hardware products developed and manufactured by third parties in order to provide our customers with an integrated supply chain execution solution. 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.

Strategy

Our objective is to extend our position as a leading supply chain solutions provider. These solutions help global manufacturers, wholesalers, retailers and logistics providers successfully manage growing demands as well as the increasing complexity and volatility of their local and global supply chains. Our solutions are advanced, highly functional, highly scalable and allow our customers to improve relationships with suppliers, customers and logistics providers, leverage their investments across the supply chain, effectively manage costs and meet dynamically changing customer requirements. Our strategies to accomplish our objective include the following:

Develop and Enhance Software Solutions. We intend to continue to focus our product development resources on the development and enhancement of our software solutions. We offer what we believe to be the broadest

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solution set in the supply chain solutions marketplace, to address all aspects of advanced planning, demand forecasting, replenishment, distributed order management, warehouse management, slotting optimization, labor management, yard management, transportation management, trading partner management, reverse logistics management, RFID and performance management. In order to provide additional functionality and value to our solutions, we plan to continue to provide enhancements to existing solutions and to introduce new solutions to address evolving industry standards and market needs. We identify further enhancements to our solutions and opportunities for new solutions through our customer support organization as well as ongoing customer consulting engagements and implementations, interactions with our user groups and participation in industry standards and research committees. Our solutions address the needs of customers in various vertical markets including retail, consumer goods, food and grocery, logistics service providers, industrial and wholesale, high technology and electronics, life sciences and government. We intend to continue to enhance the functionality of our solutions to meet the dynamic requirements of these vertical markets as well as new vertical markets.

Expand International Sales. We believe that our solutions offer significant benefits to customers in international markets. We have over 900 employees outside the United States focused on international sales, servicing our international clients and product development. We have offices in Australia, China, France, India, Japan, the Netherlands, Singapore and the United Kingdom, as well as representatives in Mexico and reseller partnerships in Latin America, Eastern Europe, Middle East, and Asia. Our international strategy includes leveraging the strength of our relationships with current customers that also have significant overseas operations and the pursuit of strategic marketing partnerships with international systems integrators and third-party software application providers.

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

Acquire or Invest in Complementary Businesses. We intend to pursue strategic acquisitions of technologies, solutions and businesses that enable us to enhance and expand our supply chain planning and execution solutions and service offerings. More specifically, we intend to pursue acquisitions that will provide us with complementary solutions and technologies, expand our geographic presence and distribution channels, extend our presence into other vertical markets with similar challenges and requirements of those we currently meet and/or further solidify our leadership position within the primary components of supply chain planning and execution.

Sales and Marketing

We employ multiple discipline sales teams that consist of professionals with industry experience in sales and technical sales support. To date, we have generated the majority of our revenue from sales of software through our direct sales force. We plan to continue to invest significantly to expand our sales, services and marketing organizations within the United States, Europe, the Middle East and Africa (EMEA) and Asia Pacific and to pursue strategic marketing partnerships. We conduct comprehensive marketing programs that include lead generation, public relations, trade shows, joint programs with vendors and consultants and ongoing customer communication programs. The sales cycle typically begins with the generation of a sales lead, through in-house telemarketing efforts, trade shows or other means of referral, or the receipt of a request for proposal from a prospective customer. The sales lead or request for proposal is followed by the qualification of the lead or prospect, an assessment of the customer's requirements, a formal response to the request for proposal, presentations and product demonstrations, site visits to an existing customer using our supply chain solutions and contract negotiation. The sales cycle can vary substantially from customer to customer, but typically requires three to nine months.

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

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

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Customers

To date, our customers have been suppliers, manufacturers, distributors, retailers and logistics providers in a variety of industries. The following table sets forth a representative list of customers that contracted to purchase solutions and services from us in 2006.

Industries

Aldes

Alidi

Alliance Boots

Alshaya Trading

Alternativa

Anderson Media

Argos Limited

ASICS AMERICA

Associated Food Stores

Associated Wholesale Grocers

AtomicBox

Barnes Distribution

Bidvest Group

Blair Corporation

Botanic

Build-A-Bear Workshop

Bulova Corporation

C&J Clark America

C.S. Brooks World Carpets

Cabela's Incorporated

CargoCare

Carole Hochman Designs

Catering Engros

Central Grocers

Cingular Wireless

Con-Way Truckload Services

Cornerstone Brands

Croscill

Custom Building Products, Inc.

David's Bridal

DeCA

Del Monte Fresh Produce

Deluxe Film Services

DHL Logistics Singapore Pte Ltd

Donaldson Company, Inc.

Electronics for Imaging

Ergon SCM de Mexico SA de CV

Exel

Family Dollar

Fiskars Brands

Fitness Quest

Fowler Welch Coolchain

Fujitsu Asia Pte. Ltd.
 GAZAL Apparel Pty Limited
 Genuine Parts
 Godiva Chocolatier
 Goodman Global Holding
 Gopher Sport
 H&O Distribution
 H.D. Smith Wholesale Drug Co.
 Halfords
 Hanesbrands
 Henkel Consumer Adhesives
 Holiday
 Hot Springs
 Hudd Distribution Services
 IFC Warehousing & Distribution
 Innotrac Corporation
 Inter-Fab, Inc
 Interstate Distributor Co.
 IP Budin
 Jack Link's Beef Jerky
 Kangxin Logistics Co., Ltd.,
 Kohl's Departments Stores
 Kontena
 Lenta
 Lianozovo Dairy
 Meyer Group Ltd
 MGA Entertainment, Inc.
 MOL Logistics
 Mothercare UK
 Nature's Best
 Newark Electronics
 Nissin Corporation
 Northern Safety Co.
 Office Depot
 Okaidi
 Pacific Sunwear of California, Inc.
 Paris S.A.
 Payless ShoeSource
 Perfect 10 Satellite Distribution

Performance Team Freight Systems
 Phillips Van Heusen Corporation
 PJ Food Service
 PT Matahari Putra Prima
 Tbk
 PUMA North America
 Recreational Equipment, Inc.
 Rocky Brands
 Ronco
 Sara Lee Corporation
 School
 Apparel
 Sentry Logistics
 Servicios Empresariales Zimag S.A. de C.V.
 Shanghai Paradise Electrical Appliances Co.,
 Ltd
 Shenzhen Jin Tian Logistics Technology
 Speed Transportation
 Springs Global US, Inc.
 Sturm Foods,
 Inc.
 StyleMark
 Sumifru Corporation
 Sunrise Technologies
 Sysco Corporation
 Systems Material Handling
 Teva
 Pharmaceuticals
 The Hillman Group
 The Jay Group
 The Orvis Company
 The Tranzonic Company
 Thermwell Products
 Co., Inc.
 TNT Logistics
 Toshiba TEC America
 Transtar Industries, Inc.
 Tyco Healthcare Group
 Under Armour, Inc.
 US
 Foodservice
 UWT Logistics LLC
 Ventura Foods
 Vera Bradley Designs
 VFWalls Industries
 Warnaco, Inc.

Our top five customers in aggregate accounted for 16%, 14% and 14% of total revenue for each of the years ended

December 31, 2006, 2005 and 2004, respectively. No single customer accounted for more than 10% of revenue in 2006, 2005 or 2004.

Product Development

Our development efforts are focused on adding new functionality to existing solutions, integrating the various solution offerings, enhancing the operability of our solutions across distributed and alternative hardware platforms,

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operating systems and database systems and developing new solutions. We believe that our future success depends in part upon our ability to continue to enhance existing solutions, to respond to dynamically changing customer requirements and to develop new or enhanced solutions that incorporate new technological developments and emerging supply chain and industry standards. To that end, our development efforts frequently focus on base system enhancements and the incorporation into our solutions of new user requirements and features identified and created through customer and industry interactions and systems implementations. As a result, we are able to continue to offer our customers a packaged, highly configurable solution with increasing functionality rather than a custom-developed software program. We have also developed interface toolkits for most major ERP systems to enhance communication and improve data flows between our core solutions and our clients' host systems.

We plan to principally conduct our development efforts internally in order to retain development knowledge and promote the continuity of programming standards; however, some projects that can be performed separately and/or require special skills may be outsourced. Periodically, we use third-party research and development companies to localize our products into Chinese, Danish, French, German, Japanese, Korean, Spanish and Swedish. We also established a development center in Bangalore, India during 2002, which now has approximately 480 research and development professionals.

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

Our research and development expenses for the years ended December 31, 2006, 2005 and 2004 were \$41.5 million, \$34.1 million and \$28.8 million, respectively. We intend to continue to invest significantly in product development.

Competition

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

Vendor and product reputation;

Compliance with industry standards;

Solution architecture;

Solution functionality and features;

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

Industry expertise;

Ease and speed of implementation;

Return on investment;

Solution quality and performance;

Total cost of ownership;

Solution price; and

Level of support.

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

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

supply chain execution vendors, including Catalyst International, Inc., RedPrairie Corporation, and Highjump (3M), among others;

supply chain planning vendors including Compass, DemandTec, Lawson and SAS/Marketmax, among others;

enterprise resource planning (ERP) or supply chain management (SCM) application vendors with products or modules of their product suite offering varying degrees of supply chain execution (SCE) functionality, such as Infor, JDA Software Group, Inc., i2 Technologies, Oracle Corp. and SAP AG; and

smaller independent companies that have developed or are attempting to develop distribution center management software that competes with our SCE solutions.

We will continue to face competition in the future from 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. To the extent such ERP and supply chain management vendors develop or acquire systems with functionality comparable or superior to our solutions, their significant installed customer bases, long-standing customer relationships and ability to offer a broad solution could provide a significant competitive advantage over our solutions. In addition, it is possible that new competitors or alliances among current and new competitors may emerge and rapidly gain significant market share. Increased competition could result in price reductions, fewer customer orders, reduced gross margins and loss of market share. Both Oracle and SAP have entered the market for supply chain management applications. We believe that the domain expertise required to compete provides us with a competitive advantage and is a significant barrier to market entry. However, some of our competitors have significant resources at their disposal, and the degree to which we will compete with these new products in the marketplace is still undetermined.

Some of our competitors and potential competitors have longer operating histories, significantly greater financial, technical, marketing and other resources, greater name recognition and a larger installed base of customers than we do. In order to be successful in the future, we must continue to respond promptly and effectively to technological change and competitors' innovations. We cannot assure you that our current or potential competitors will not develop solutions comparable or superior in terms of price and performance features to those developed by us. In addition, we cannot assure you that we will not be required to make substantial additional investments in connection with our research, development, marketing, sales and customer service efforts in order to meet any competitive threat, or that we will be able to compete successfully in the future. Increased competition may result in reductions in market share, pressure for price reductions and related reductions in gross margins, any of which could materially and adversely affect our ability to achieve our financial and business goals. We cannot give assurance that in the future we will be able to successfully compete against current and future competitors.

International Operations

Our international revenue was approximately \$59.0 million, \$54.7 million and \$48.7 million for the years ended December 31, 2006, 2005 and 2004, respectively, which represents approximately 20%, 22% and 23% of our total revenue for the years ended December 31, 2006, 2005 and 2004, respectively. International revenue includes all revenue derived from sales to customers outside the

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United States. We now have over 900 employees outside the United States. We have offices in Australia, China, France, Germany, India, Japan, the Netherlands, Singapore and the United Kingdom, as well as representatives in Mexico and reseller partnerships in Latin America.

Proprietary Rights

We rely on a combination of copyright, trade secret, trademark, service mark and trade dress laws, confidentiality procedures and contractual provisions to protect our proprietary rights in our products and technology. We have registered trademarks for PkMS, PickTicket Management System, PTRS, Have/Needs Analysis, LogisticsPRO, InfoLink, InfoLink Order, Infolink Source, PkCost, PkView, PkAllocate, WorkInfo, SmartInfo, SlotInfo, SystemLink, DCMS, Logistics.com, RFID in a Box, Integrated Logistics Solutions, Integrated Planning Solutions, Manhattan Associates and the Manhattan Associates logo. We generally enter into confidentiality agreements with our employees, consultants, clients and potential clients and limit access to, and distribution of, our proprietary information. We license our solutions to our customers and restrict the customer's use for internal purposes without the right to sublicense the solutions. However, we believe that this provides us only limited protection. Despite our efforts to safeguard and maintain our proprietary rights both in the United States and abroad, we cannot assure you that we will successfully deter misappropriation or independent third-party development of our technology or prevent an unauthorized third party from copying or obtaining and using our products or technology. In addition, policing unauthorized use of our solutions is difficult, and while we are unable to determine the extent to which piracy of our software solutions exist, software piracy could become a problem.

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

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

Employees

As of December 31, 2006, we employed 1,965 full time employees, including 203 in sales and marketing, 902 in services, 713 in R&D and 147 in general and administration. By geography, we have 1,040 employees based in the Americas, 674 employees in India, 134 employees in EMEA, and 117 employees in APAC.

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Available Information

We file annual, quarterly and current reports and other information with the Securities and Exchange Commission (the SEC or the Commission). These materials can be inspected and copied at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of these materials may also be obtained by mail at prescribed rates from the SEC's Public Reference Room at the above address. Information about the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of the SEC's Internet site is www.sec.gov.

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

Item 1A. Risk Factors

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

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

- the varying sales cycle for our products and services from customer to customer;
- demand for our products;
- customers' budgeting and purchasing cycles;
- delays in our implementations at customer sites;
- timing of hiring new services employees and the rate at which these employees become productive;
- development and performance of our distribution channels; and
- timing of any acquisitions and related costs.

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

Most of our expenses, including employee compensation and rent, are relatively fixed. In addition, our expense levels are based, in part, on our expectations regarding future revenue increases. As a result, any shortfall in revenue in relation to our expectations could cause significant changes in our operating results from quarter to quarter and could result in quarterly losses. As a result of these factors, we believe that period-to-period comparisons of our revenue levels and operating results are not necessarily meaningful. Although we have grown significantly during the past six years, we do not believe that our prior growth rates are sustainable or a good indicator of future operating results. You should not rely on our historical quarterly revenue and operating results to predict our future performance.

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Delays in implementations of our products could adversely impact us. Due to the size of most of our software implementations, our implementation cycle can be lengthy and may result in delays. These delays could cause customer dissatisfaction, which could harm our reputation. Additional delays could result if we fail to attract, train and retain services personnel, or if our alliance companies fail to commit sufficient resources towards implementing our software. These delays and resulting customer dissatisfaction could harm our reputation and cause our revenue to decline.

Our ability to successfully compete with other companies may fail. We compete in markets that are intensely competitive and are expected to become more competitive as current competitors expand their product offerings and new competitors enter the market. Our current competitors come from many segments of the software industry and offer a variety of solutions directed at various aspects of the extended supply chain, as well as the enterprise as a whole. We face competition for product sales from:

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

supply chain execution vendors, including Catalyst International, Inc., RedPrairie Corporation, Optum, Inc., Provia Software, Inc., Highjump (3M) and SSA Global Technologies, Inc. among others;

supply chain planning vendors including Compass, DemandTec, Lawson and SAS/Marketmax, among others;

enterprise resource planning (ERP) or supply chain management (SCM) application vendors with products or modules of their product suite offering varying degrees of supply chain execution (SCE) functionality, such as Retek, Inc., Manugistics Group, Inc., i2 Technologies, Oracle Corp. and SAP AG; and

smaller independent companies that have developed or are attempting to develop distribution center management software that competes with our SCE solutions.

We may face competition in the future from ERP and SCM applications vendors and business application software vendors that may broaden their product offerings by internally developing or by acquiring or partnering with independent developers of supply chain execution software. To the extent such ERP and SCM vendors develop or acquire systems with functionality comparable or superior to our products, their significant installed customer bases, long-standing customer relationships and ability to offer a broad solution could provide a significant competitive advantage over our products. In addition, it is possible that new competitors or alliances among current and new competitors may emerge and rapidly gain significant market share. Increased competition could result in price reductions, fewer customer orders, reduced gross margins and loss of market share. Both Oracle and SAP have entered the market for SCM applications. We believe that the domain expertise required to compete provides us with a competitive advantage and is a significant barrier to market entry. However, some of our competitors have significant resources at their disposal, and the degree to which we will compete with these new products in the marketplace is still undetermined.

Many of our competitors and potential competitors have longer operating histories, significantly greater financial, technical, marketing and other resources, greater name recognition and a larger installed base of customers than we do. In order to be successful in the future, we must continue to respond promptly and effectively to technological change and competitors' innovations. We cannot assure you that our current or potential competitors will not develop products comparable or superior in terms of price and performance features to those developed by us. In addition, we cannot assure you that we will not be required to make substantial additional investments in connection with our research, development, marketing, sales and customer service efforts in order to meet any competitive threat, or that we will be able to compete successfully in the future. Increased competition may result in reductions in market share, pressure for price reductions and related reductions in gross margins, any of which could materially and adversely affect our ability to achieve our financial and business goals. We cannot give assurance that in the future we will be able to successfully compete against current and future competitors.

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Our performance may be negatively impacted by macro-economic or other external influences. We are a technology company selling technology-based solutions with total pricing, including software and services, in many cases, exceeding \$1.0 million. Reductions in the capital budgets of our customers and prospective customers could have an adverse impact on our ability to sell our solutions. During 2006, we continued to experience effects from a weak spending environment for information technology in Europe, in the form of delayed and cancelled buying decisions by customers for our software, services and hardware, deferrals by customers of service engagements previously scheduled. We believe that a deterioration in the current business climate within the United States and/or other geographic regions in which we operate, continued delays in capital spending, or the timing of deals closed could have a material adverse impact on our business and our ability to compete, and is likely to further intensify in our already intensely competitive markets.

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

In the last several years, we opened new international offices in China, Germany, France, Australia, India, Singapore and Japan. These openings constituted a substantial expansion of our international presence, which, prior to 2002, consisted principally of offices in the United Kingdom and the Netherlands. We have committed resources to the opening and integration of international sales offices and the expansion of international sales and support channels. Our efforts to develop and expand international sales and support channels may not be successful. International sales are subject to many risks, including the following:

- building and maintaining a competitive presence in new markets;
- difficulties in staffing and managing foreign operations;
- difficulties in managing international systems integrators;
- difficulties and expenses associated with complying with a variety of foreign laws;
- difficulties in producing localized versions of our products;
- import and export restrictions and tariffs;
- difficulties in collecting accounts receivable;
- unexpected changes in regulatory requirements;
- currency fluctuations; and
- political and economic instability abroad.

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

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

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

maintain continuity in our executive officers;

improve our operational, financial and management controls;

improve our reporting systems and procedures;

enhance management and information control systems;

develop the management skills of our managers and supervisors; and

train and motivate our employees.

Our inability to attract, integrate and retain management and other personnel may adversely affect us. Our success greatly depends on the continued service of our executives, as well as our other key senior management, technical and sales personnel. Our success will depend on the ability of our executive officers to work together as a team. The loss of any of our senior management or other key professional services, research and development, sales and marketing personnel, particularly if lost to competitors, could impair our ability to grow our business. We do not maintain key man life insurance on any of our executive officers. Our future success will depend in large part upon our ability to attract, retain and motivate highly skilled employees. We face significant competition for individuals with the skills required to perform the services we offer. We cannot assure you that we will be able to attract and retain sufficient numbers of these highly skilled employees or to motivate them. Because of the complexity of the SCM market, we may experience a significant time lag between the date on which technical and sales personnel are hired and the time at which these persons become fully productive.

Fluctuations in our hardware sales may adversely affect us. A portion of our revenue in any period is comprised of the resale of a variety of third-party hardware products to purchasers of our software. Our customers may choose to purchase this hardware directly from manufacturers or distributors of these products. We view sales of hardware as non-strategic. We perform this service to our customers seeking a single source for their supply chain execution needs. Hardware sales are difficult to forecast and fluctuate from quarter to quarter, leading to unusual comparisons of total revenue and fluctuations in profits. Revenue from hardware sales as a percentage of total revenue increased in 2006, but decreased in 2005 and 2004. If we are not able to increase our revenue from software licenses and services or maintain our hardware revenue, our profitability may be adversely affected.

Our employee retention and hiring may be hindered by immigration restrictions. A number of our employees are Indian nationals employed pursuant to non-immigrant work-permitted visas issued by the United States Immigration and Naturalization Service, or INS. There have been many changes within the INS as a result of the events of September 11, 2001. We anticipate that there will be additional restrictions placed on non-immigrant

work-permitted visas, and we do not know how such changes may affect us. In 2003, the INS reduced the number of new non-immigrant work-permitted visas that will be issued each year. In years in which this limit is reached, we

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may be unable to retain or hire additional foreign employees. If we are unable to retain or hire additional foreign employees, we may incur additional labor costs and expenses or not have sufficient qualified personnel to carry on our business, which could harm our ability to successfully continue and grow our business.

Our business and our profitability may be adversely affected if we cannot integrate acquired companies. We may from time to time acquire companies with complementary products and services. These acquisitions will expose us to increased risks and costs, including the following:

- difficulties in assimilating new operations and personnel;

- diverting financial and management resources from existing operations; and

- difficulties in integrating acquired technologies.

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

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

- risks associated with the diversion of resources;

- the inability to generate sufficient revenue;

- the management of relationships with third parties; and

- potential additional expenses.

Many acquisition candidates have significant intangible assets, and an acquisition of these businesses would likely result in significant amounts of goodwill and other intangible assets. Under new accounting rules, goodwill and certain other intangible assets will no longer be amortized to income, but will be subject to at least annual impairment reviews. If the acquisitions do not perform as planned, future charges to income arising from such impairment reviews could be significant. Likewise, future quarterly and annual earnings could be significantly adversely affected. In addition, these acquisitions could involve acquisition-related charges, such as one-time acquired research and development charges. During 2005, we recorded expenses of approximately \$0.5 million relating to fees incurred in connection with a potential acquisition that we decided not to consummate.

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

Our strategy of marketing our products directly to customers and indirectly through systems integrators and other technology companies may result in distribution channel conflicts. Our direct sales efforts may compete with those of

our indirect channels and, to the extent different systems integrators target the same customers, systems integrators may also come into conflict with each other. Any channel conflicts that develop may have a material adverse effect on our relationships with systems integrators or harm our ability to attract new systems integrators.

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Our technology must be advanced if we are to remain competitive. The market for our products is characterized by rapid technological change, frequent new product introductions and enhancements, changes in customer demands and evolving industry standards. Our existing products could be rendered obsolete if we fail to continue to advance our technology. We have also found that the technological life cycles of our products are difficult to estimate, partially because of changing demands of other participants in the supply chain. We believe that our future success will depend upon our ability to continue to enhance our current product line while we concurrently develop and introduce new products that keep pace with competitive and technological developments. These developments require us to continue to make substantial product development investments. Although we are presently developing a number of product enhancements to our product sets, we cannot assure you that these enhancements will be completed on a timely basis or gain customer acceptance.

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

Our software may contain undetected errors or bugs, resulting in harm to our reputation and operating results. Software products as complex as those offered by us might contain undetected errors or failures when first introduced or when new versions are released. We cannot assure you, despite testing by us and by current and prospective customers, that errors will not be found in new products or product enhancements after commercial release. Any errors found may cause substantial harm to our reputation and result in additional unplanned expenses to remedy any defects as well as a loss in revenue.

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

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

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

demand for our products;

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

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

the level and timing of revenue;

the expenses of sales and marketing and new product development;

the success and related expense of increasing our brand awareness;

the cost of facilities to accommodate a growing workforce;

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

the costs involved in maintaining and enforcing intellectual property rights.

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

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

quarterly variations in operating results;

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

developments with respect to patents or proprietary rights; and

changes in financial estimates by securities analysts.

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

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

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Item 1B. *Unresolved Staff Comments*

As of December 31, 2006, we do not have any unresolved written comments which we received from the SEC not less than 180 days before December 31, 2006.

Item 2. *Properties*

Our principal administrative, sales, marketing, support and research and development facility is located in approximately 137,868 square feet of modern office space in Atlanta, Georgia. Substantially all of this space is leased to us through September 30, 2018. We have additional offices throughout the United States under multi-year agreements in California, Massachusetts, Indiana and Delaware. We also occupy facilities outside of the United States under multi-year agreements in the United Kingdom, the Netherlands, Japan, China, Singapore, India and Australia. We also occupy offices under short-term agreements in other geographical regions. Our office space is adequate to meet our immediate needs; however, we may expand into additional facilities in the future.

Item 3. *Legal Proceedings*

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

During the second quarter of 2005, we recorded a significant write-off of \$2.8 million in accounts receivable from a customer located in Germany resulting from a legal dispute over the implementation of our software. During the fourth quarter of 2006, we recorded settlement costs of \$2.9 million related to this matter in addition to another legal matter with a domestic customer regarding implementation of our warehouse management systems. The write-off and subsequent settlements are not common occurrences due to the unusual nature of the litigation. We do not believe that these items are indicative of ongoing operating results.

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

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year ended December 31, 2006.

Table of Contents**PART II****Item 5. *Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities***

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

Fiscal Period	High Price	Low Price
2006		
First Quarter	\$22.46	\$20.74
Second Quarter	21.90	18.52
Third Quarter	25.49	18.05
Fourth Quarter	30.81	23.60
2005		
First Quarter	\$24.02	\$19.29
Second Quarter	22.38	17.44
Third Quarter	23.53	19.30
Fourth Quarter	23.79	20.48

On March 13, 2007, the last reported sales price of our common stock on the Nasdaq National Market was \$26.18 per share. The number of shareholders of record of our common stock as of March 13, 2007 was approximately 39.

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

The following table provides information regarding our current equity compensation plans as of December 31, 2006:

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	6,308,359	\$ 24.80	1,961,651
Equity compensation plans not approved by security holders			
Total	6,308,359	\$ 24.80	1,961,651

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

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The following table provides information regarding our purchases under our publicly-announced repurchase program for the quarter ended December 31, 2006:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (1)
October 1 – October 31, 2006				\$ 42,935,950
November 1 – November 30, 2006				42,935,950
December 1 – December 31, 2006				42,935,950
Total		\$ 0.00		\$ 42,935,950

(1) In February 2005, our Board of Directors authorized us to purchase up to \$20 million of our common stock, including the amount that had previously been approved but not yet repurchased, over a period ending no later than February 3, 2006. In July 2005, our Board of Directors authorized us to purchase an additional \$50 million of our common stock, over a period ending

no later than
July 21, 2006.
In July 2006,
our Board of
Directors
authorized us to
purchase an
additional
\$50 million of
our common
stock, over a
period ending
no later than
July 20, 2007.

Item 6. Selected Consolidated Financial Data

You should read the following selected consolidated financial data in conjunction with our Consolidated Financial Statements and related Notes thereto and with Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Form 10-K. The statement of income data for the years ended December 31, 2006, 2005 and 2004, and the balance sheet data as of December 31, 2006 and 2005, are derived from, and are qualified by reference to, the audited financial statements included elsewhere in this Form 10-K. The statement of income data for the years ended December 31, 2003 and 2002 and the balance sheet data as of December 31, 2004, 2003, and 2002 are derived from the audited financial statements not included herein. Historical results are not necessarily indicative of results to be expected in the future.

	Year Ended December 31,				
	2006	2005	2004	2003	2002
	(in thousands, except per share data)				
Statement of Income Data:					
License revenue	\$ 66,543	\$ 57,119	\$ 49,886	\$ 43,229	\$ 40,233
Total revenue	\$288,868	\$246,404	\$214,919	\$196,814	\$175,721
Operating income (1)	\$ 30,755	\$ 30,277	\$ 31,609	\$ 30,494	\$ 35,585
Net income	\$ 19,331	\$ 18,635	\$ 21,634	\$ 20,581	\$ 23,605
Earnings per diluted share	\$ 0.69	\$ 0.64	\$ 0.70	\$ 0.67	\$ 0.78

(1) The results for 2006 reflect the adoption of SFAS No. 123(R). During 2006, we recorded stock option expense of \$6.6 million. Prior to 2006, we did not record expense for employee stock options. The results for 2006 also include \$2.9 million in legal settlements resulting from

disputes over the implementation of our software, \$1.5 million of employee retention bonuses associated with the acquisition of Evant, and a \$0.3 million impairment charge against our \$2 million investment in a technology company.

The results for 2005 include a bad debt provision of \$2.8 million for amounts due from a large customer with whom we settled in 2006; \$1.9 million of severance-related costs and employee retention bonuses associated with the acquisition of Evant; \$1.1 million in severance-related costs associated with the consolidation of our European operations into the Netherlands, United Kingdom and France; and \$0.5 million in acquisition-related costs associated with an attempted acquisition that did not close.

The results for 2003 include \$0.9 million of fees incurred in connection with two potential acquisitions that we decided not to consummate and a restructuring charge of \$0.9 million related to an internal reorganization.

The results for 2002 include \$1.5 million of in-process research and development expense from the acquisition of Logistics.com.

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	2006	2005	December 31, 2004 (In thousands)	2003	2002
Balance Sheet Data:					
Cash, cash equivalents and investments	\$ 131,057	\$ 93,675	\$ 172,656	\$ 155,403	\$ 121,857
Total assets	\$ 314,893	\$ 273,398	\$ 290,239	\$ 266,608	\$ 221,864
Debt	\$	\$	\$ 148	\$ 288	\$ 240
Shareholders equity	\$ 237,140	\$ 205,398	\$ 239,017	\$ 224,158	\$ 179,618

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

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

Business Overview

We are a leading developer and provider of technology-based supply chain software solutions that help companies manage the effectiveness and efficiency of their supply chain. Our business is organized into three geographical reporting segments: Americas (North America and Latin America), EMEA (Europe, Middle East and Africa), and APAC (Asia Pacific). Each of these reporting segments have unique characteristics and faces different challenges and opportunities. In each of these segments, we provide solutions that consist of a combination of software, services, and hardware used for planning and execution of supply chain activities. These solutions help coordinate the actions and communication of manufacturers, suppliers, distributors, retailers, transportation providers and consumers. Our solutions consist of two main areas supply chain planning and supply chain execution, which on a combined basis represent our supply chain management solution.

We call the combination of our supply chain planning solutions Integrated Planning Solutions. Integrated Planning Solutions consist of Advanced Planning, Demand Forecasting and Replenishment. With our Advanced Planning solutions, Financial and Item Planning, Catalog Planning, Web Planning and Promotion Planning, companies can plan their inventory using several methodologies. Financial and Item planning enables companies to develop top-down and bottom-up plans across multiple channels and multiple levels of the product hierarchy. Catalog Planning and Web Planning support the unique planning requirements of the catalog and Web channels. With Promotion Planning, companies are able to plan and manage promotional events and assortments. Demand Forecasting enables companies to generate and maintain forecasts at different levels of product data. It also includes a Promotion Forecasting solution which generates a promotion forecast and promotional lift based on historical sales. Finally, Replenishment helps companies regulate, maintain and deploy inventory, as well as supports Vendor Managed Inventory, which allows suppliers to manage their own replenishment.

We refer to the combination of our supply chain execution solutions as Integrated Logistics Solution. Integrated Logistics Solutions consist of Distributed Order Management, Warehouse Management, Slotting Optimization, Labor Management, Yard Management, Transportation Management Systems (TMS), Trading Partner Management (TPM), Reverse Logistics Management and RFID Solutions. Distributed Order Management manages the order fulfillment process, capturing and allocating orders across the supply chain to balance supply with demand. Warehouse Management manages the processes that take place in a distribution center, beginning with the placement of an order by a customer and ending with order fulfillment. Slotting Optimization determines the optimal layout of a facility. Labor Management enables the tracking, monitoring and management of employee activities within the warehouse. Transportation Management allows companies to optimally plan and execute transportation services. Yard Management plans, executes, tracks and audits all incoming and outgoing loads, managing both the yard and dock door. Trading Partner Management synchronizes the business processes and

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communication of suppliers, manufacturers, distributors, logistics service providers and customers. Reverse Logistics Management manages and automates the returns process tracking, storing, referencing and reporting on returned merchandise to increase net asset recovery. Our RFID Solutions help capture and track EPC data and utilize this information to better manage and track inventory.

For all of our solutions, we offer services such as design, configuration, implementation, product assessment and training plus customer support and software enhancement subscriptions.

Application of Critical Accounting Policies and Estimates

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

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements and related footnotes. We believe that estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions 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 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 services and software enhancement subscriptions, and sales of hardware and other (other consists of reimbursements of out of pocket expenses incurred by professional services).

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

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 deteriorate, 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 enhancement subscriptions 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

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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 discreet 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 subscriptions are 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 and reimbursement of out of pocket expenses incurred by professional services. 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 classified to hardware and other revenue. The total amount of expense reimbursement recorded to revenue was \$9.7 million, \$8.1 million and \$7.0 million and for 2006, 2005, and 2004, respectively.

Allowance for Doubtful Accounts

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

Valuation of Goodwill

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

Annual tests or other future events could cause us to conclude that impairment indicators exist and that our goodwill is impaired. For example, if we had reason to believe that our recorded goodwill had become impaired due to decreases in the fair market value of the underlying business, we would have to take a charge to income for that portion of goodwill that we believed was impaired. Any resulting impairment loss could have a material adverse impact on our financial position and results of operations. At December 31, 2006, our goodwill balance was \$70.4 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

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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. 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

Prior to January 1, 2006, we accounted for our employee stock option plan under the recognition and measurement provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, as permitted by SFAS No. 123, Accounting for Stock-Based Compensation. No stock-based employee compensation cost related to stock options was recognized in the Statements of Income for periods prior to January 1, 2006, as all stock options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123(R) for stock based compensation. As a result of adopting SFAS No. 123(R), our income before income taxes and net income for 2006 was \$6.6 million and \$5.3 million lower, respectively, than if we had continued to account for share-based compensation under APB Opinion No. 25. Basic and diluted earnings per share were each \$0.19 lower than if we had continued to account for share-based compensation under APB Opinion No. 25.

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, we place a greater emphasis on historical volatility. We also use historical data to estimate the term that options are expected to be outstanding and the forfeiture rate of options granted. We base the risk-free interest rate on the rate for U.S. Treasury zero-coupon issues with a term approximating the expected term.

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

Business Combinations

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

Management makes estimates of fair value based upon assumptions believed to be reasonable. These estimates are based on historical experience and information obtained from the management of the acquired companies and are inherently uncertain. Critical estimates in valuing certain of the intangible assets include but are not limited to future expected cash flows from customer contracts and acquired developed technologies; the acquired company's brand awareness and market position, as well as assumptions about the period of time the acquired brand will

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continue to be used in the combined company's product portfolio; and discount rates. Unanticipated events and circumstances may occur which may affect the accuracy or validity of such assumptions, estimates or actual results.

In connection with purchase price allocations, we estimate the fair value of the support obligations assumed in connection with acquisitions. The estimated fair value of the support obligations is determined utilizing a cost build-up approach. The cost build-up approach determines fair value by estimating the costs related to fulfilling the obligations plus a normal profit margin. The estimated costs to fulfill the support obligations are based on the historical direct costs related to providing the support services and to correct any errors in the software products acquired. We do not include any costs associated with selling efforts, when and if available upgrades, or research and development or the related fulfillment margins on these costs. Profit associated with selling effort is excluded because the acquired entities would have concluded the selling effort on the support contracts prior to the acquisition date. The estimated research and development costs are not included in the fair value determination, as these costs are not deemed to represent a legal obligation at the time of acquisition. The sum of the costs and operating profit approximates, in theory, the amount that we would be required to pay a third party to assume the support obligation.

Recent Developments

Adoption of SFAS No. 123(R). Prior to January 1, 2006, we accounted for our employee stock option plan under the recognition and measurement provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, as permitted by SFAS No. 123, Accounting for Stock-Based Compensation. No stock-based employee compensation cost related to stock options was recognized in the Statements of Income for periods prior to January 1, 2006, as all stock options granted had an exercise price equal to the market value of the underlying common stock on the date of grant.

Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123(R) using the modified prospective transition method. Under that transition method, compensation cost recognized on or after January 1, 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R). Results for all prior periods have not been restated. Prior to the adoption of SFAS No. 123(R), we presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Statement of Cash Flows. SFAS No. 123(R) requires that cash flows resulting from the tax benefits generated by tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows.

As a result of adopting SFAS No. 123(R) on January 1, 2006, our income before income taxes and net income for 2006 was \$6.6 million and \$5.3 million lower, respectively, than if we had continued to account for share-based compensation under APB Opinion No. 25. Basic and diluted earnings per share were each \$0.19 lower than if we had continued to account for share-based compensation under APB Opinion No. 25.

The fair value of options granted is estimated on the date of grant using the Black-Scholes option pricing model based 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. Effective January 1, 2006, expected volatilities are based on a combination of historical volatility of our stock and implied volatility of our publicly traded stock options. Due to the limited trading volume of our publicly traded options, we place a greater emphasis on historical volatility. Previously, we had relied exclusively on historical volatility, disregarding periods of time in which our share price was extraordinarily volatile because of company-specific circumstances that were not expected to recur. We also use historical data to estimate the term that options are expected to be outstanding and the forfeiture rate of options granted. The risk-free interest rate is based on the U.S. Treasury zero-coupon issues with a term approximating the expected term. The weighted-average grant-date fair values of options granted during 2006, 2005, and 2004 were \$11.26, \$11.72, and \$16.95, respectively. We recognize compensation cost for awards with graded vesting using the straight-line attribution method, with the amount of compensation cost recognized at any date at least equal to the portion of the grant-date value of the award that is vested at that date. At December 31, 2006, the unamortized compensation cost related to stock option awards totaled \$7.2 million, which is expected to be

recognized over a weighted-average period of 1.7 years.

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During the fourth quarter of 2005, the Board of Directors approved an Option Acceleration Agreement that accelerated the vesting of unvested stock options held by our employees with an exercise price of \$22.09 or higher. The accelerated vesting affected options for approximately 765 option holders, representing 1.9 million shares of our common stock. In order to prevent unintended personal benefits to individuals resulting from the accelerated vesting of options, we imposed sales restrictions on shares acquired upon exercise of these options that parallel the vesting requirements of the original options. These sales restrictions on the shares acquired continue following termination of employment until the original vesting dates are reached.

The accelerated vesting of these stock options with exercise prices greater than the then-current market value (underwater) was made primarily to avoid recognizing compensation expense in our future income statements upon the adoption of SFAS No. 123(R) for underwater options that we believed would not offer a sufficient incentive to our employees when compared to the future compensation expense that we would have incurred under SFAS No. 123(R).

Compensation cost recognized in any period is impacted by the number of stock options granted and the vesting period (which generally is four years), as well as the underlying assumptions used in estimating the fair value on the date of grant. This estimate is dependent upon a number of variables such as the number of options awarded, cancelled or exercised and fluctuations in our share price during the year.

Acquisition. On August 31, 2005, we acquired all of the issued and outstanding stock of Evant, and Evant became a wholly-owned subsidiary. Evant is a provider of demand planning and forecasting and replenishment solutions to customers in the retail, manufacturing and distribution industries. The acquisition further diversifies our product suite and expands our customer base. We paid an aggregate of \$47.2 million in cash, and incurred \$0.3 million in acquisition costs and \$0.8 million of severance to eliminate duplicative functions. The \$47.2 million includes \$2.3 million of bonuses paid to employees not retained by us pursuant to an employee bonus plan approved by Evant's management (the Evant Bonus Plan). In addition to the \$47.2 million cash paid, we paid \$2.8 million into escrow at closing for employee retention purposes pursuant to the Evant Bonus Plan to be distributed to employees upon completion of up to 12 months of service with us. The \$2.8 million was recorded as a prepaid asset, and compensation expense was recognized ratably over the required employee retention period. During the third quarter of 2006, we completed the Evant retention bonus program and paid out the final bonuses.

The acquisition of Evant was accounted for using the purchase method of accounting in accordance with SFAS No. 141, Business Combinations. The operating results of Evant are included in our financial statements beginning September 1, 2005.

During the third quarter of 2006, we finalized our purchase price allocation for Evant resulting in a reduction of deferred tax assets of \$15.2 million and a corresponding increase in goodwill. We were not able to substantiate the post-acquisition limitations on the deductibility of these assets.

Impairment Charge. In July 2003, we invested \$2.0 million in a technology company. Based on our assessment of uncertainties associated with the fair value of our investment following an unsuccessful public offering during the third quarter of 2006, we have written down our investment by \$0.3 million. Future impairment charges associated with this investment may be required in the event the company is unable to meet its strategic growth objectives.

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

Highlights of Full Year 2006 Consolidated Financial Results

Summarized highlights for the full year 2006 results, as compared to 2005, are:

Total revenue increased 17% to a full year \$288.9 million;

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- o License revenue increased 16% to a full year \$66.5 million;
 - o Services revenue increased 17% to a full year \$194.5 million;
- Operating income was \$30.8 million, up 2% on higher license revenue; includes \$6.6 million of stock option expense for the adoption of SFAS No. 123(R) and \$2.9 million of legal settlement cost;

Diluted earnings per share were \$0.69, increasing 8%;

Cash flow from operations increased 32% to \$44.1 million;

Cash and investments on hand at December 31, 2006 was \$131.1 million; and

The Company repurchased 773,301 shares of common stock during the year totaling \$16.0 million at an average price of \$20.73. The Company has \$42.9 million remaining in share repurchase authority.

Results of Operations

The following table summarizes selected financial data for the years ended December 31, 2006, 2005 and 2004:

	Year Ended December 31,			% Change	
	2006	2005	2004	2006	2005
	(in thousands)				
Revenue:					
License	\$ 66,543	\$ 57,119	\$ 49,886	16%	14%
Services	194,521	166,091	141,492	17%	17%
Hardware and other	27,804	23,194	23,541	20%	-1%
Total revenue	288,868	246,404	214,919	17%	15%
Costs and expenses (1):					
Cost of license	5,796	4,700	4,085	23%	15%
Cost of services	93,427	76,641	65,853	22%	16%
Cost of hardware and other	24,515	19,914	20,071	23%	-1%
Research and development	41,468	34,139	28,822	21%	18%
Sales and marketing	45,888	40,302	34,049	14%	18%
General and administrative	29,143	22,047	19,648	32%	12%
Depreciation and amortization	13,247	12,074	10,782	10%	12%
Settlements and accounts receivable charges (2)	2,856	2,815		1%	
Severance, restructuring, and acquisition charges (3)	1,503	3,495		-57%	
Impairment charge (4)	270				
Total costs and expenses	258,113	216,127	183,310	19%	18%
Income from operations	\$ 30,755	\$ 30,277	\$ 31,609	2%	-4%
Operating margin	10.6%	12.3%	14.7%		

(1) The results for 2006 reflect the adoption of SFAS

No. 123(R).

During 2006, we recorded stock option expense of \$6.6 million which is included in the following line items above: cost of services \$1.5 million; research and development \$1.1 million; sales and marketing \$1.5 million; and general and administrative \$2.5 million. Prior to 2006, we did not record expense for employee stock options. (See Note 2 to Consolidated Financial Statements).

- (2) Settlement and accounts receivable charges for 2006 represent legal settlements resulting from disputes over the implementation of our software. In 2005, these charges consisted of a bad debt provision for the entire amount of the accounts receivable due from a large customer with whom we settled in 2006.
- (3) Severance, restructuring, and acquisition charges for 2006 includes

employee retention bonuses associated with the acquisition of Evant. In 2005, these charges consisted of: (i) \$1.9 million of severance-related costs and employee retention bonuses associated with the acquisition of Evant; (ii) approximately \$1.1 million in severance-related costs associated with the consolidation of our European operations into the Netherlands, United Kingdom and France; and (iii) \$0.5 million in acquisition-related costs associated with an attempted acquisition that did not close.

- (4) The impairment charge for 2006 represents a charge against our \$2 million investment in a technology company. Future impairment charges associated with this investment may be required in the event the Company is unable to meet its strategic growth objectives.

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We manage our business based on three geographic regions: the Americas, EMEA, and Asia Pacific. Geographic revenue information is based on the location of sale. During 2006, 2005 and 2004, 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:

	Year Ended December 31,			% Change	
	2006	2005	2004	2006	2005
	(in thousands)				
Revenue:					
License					
Americas	\$ 57,579	\$ 48,050	\$ 40,380	20%	19%
EMEA	5,285	5,579	6,275	-5%	-11%
Asia/Pacific	3,679	3,490	3,231	5%	8%
Total License	\$ 66,543	\$ 57,119	\$ 49,886	16%	14%
Services					
Americas	\$ 158,603	\$ 132,182	\$ 111,600	20%	18%
EMEA	20,793	23,064	26,709	-10%	-14%
Asia/Pacific	15,125	10,845	3,183	39%	241%
Total Services	\$ 194,521	\$ 166,091	\$ 141,492	17%	17%
Hardware and other					
Americas	\$ 26,138	\$ 20,690	\$ 20,967	26%	-1%
EMEA	1,273	2,029	2,548	-37%	-20%
Asia/Pacific	393	475	26	-17%	
Total Hardware and other	\$ 27,804	\$ 23,194	\$ 23,541	20%	-1%
Total Revenue					
Americas	\$ 242,320	\$ 200,922	\$ 172,947	21%	16%
EMEA	27,351	30,672	35,532	-11%	-14%
Asia/Pacific	19,197	14,810	6,440	30%	130%
Total Revenue	\$ 288,868	\$ 246,404	\$ 214,919	17%	15%
Operating income:					
Americas	\$ 32,747	\$ 34,720	\$ 32,623	-6%	6%
EMEA	(2,817)	(4,353)	(1,855)	35%	-135%
Asia/Pacific	825	(90)	841		-111%
Total Operating income (loss)	\$ 30,755	\$ 30,277	\$ 31,609	2%	-4%

The results of our operations for 2006, 2005, and 2004 are discussed below.

Revenue

Our revenue consists of fees generated from the licensing and hosting of software; fees from professional services, customer support services and software enhancement subscriptions; and sales of complementary radio frequency and

computer equipment. We believe our revenue growth in the last two years is attributable to several factors, including, among others, our market leadership position as to breadth of product offerings, financial stability and a compelling return on investment proposition for our customers, increased services associated with implementations of our expanded product suite, geographic expansion, and the acquisition of Evant which provided us with a supply chain planning solution.

License revenue. License revenue increased 16% in 2006 over 2005 driven by strong growth in our Americas segment. The Americas license and hosting revenues increased \$9.5 million, or 20%, in 2006 over 2005. This increase was partially offset by declines in EMEA license sales of \$0.3 million, or 5%. Asia Pacific license revenue increased \$0.2 million, or 5%. A number of factors impacted revenue growth in our international segments

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including continued weakness in the general European economy and particularly in the capital spending environment for large information technology projects. License sales mix across our product suite remained strong with approximately 60% of sales in our warehouse management solutions and 40% in non-warehouse management solutions in 2006. With our expanded suite of supply chain solutions we continued to see solid growth in both our core warehouse management solutions with 20% growth in 2006 and non-warehouse management solutions with 12% growth in 2006 over 2005. From period to period, we continue to see an increase in the diversity of products purchased from us by new and existing customers as our newer products gain greater market acceptance. This diversification is contributing to the fluctuations in the sales mix of our solutions groups.

License revenue increased \$7.2 million, or 14%, in 2005 over 2004 driven primarily by growth in our Americas segment. License revenue for 2005 also includes approximately \$2.2 million of our demand forecasting and replenishment solutions obtained as part of the Evant acquisition which was closed in the third quarter of 2005. The Americas license and hosting revenues increased \$7.7 million, or 19%, in 2005 over 2004. Asia Pacific license revenue increased \$0.3 million, or 8%, in 2005 over 2004 due to additional investments made in Australia, China, and Japan. These increases were partially offset by declines in EMEA of \$0.7 million, or 11% due to delayed commitments for capital investments in supply chain solutions and overall weakness of the European economy. Our core warehouse management solutions grew 20% in 2005 and our non-warehouse management solutions grew 9% in 2005 over 2004.

Services revenue. Services revenue increased 17% in 2006 over 2005 principally due to a 16% increase of professional services revenue required to implement larger projects, increased license sales and existing customer upgrades to more current versions of our offerings and a 20% increase in revenue from software enhancement subscription agreements. The Americas segment led the growth with an increase in services revenue of \$26.4 million, or 20%, from 2005 to 2006. Services revenue in Asia Pacific also increased by \$4.3 million, or 39%, from 2005 to 2006. These increases were offset by a decrease in EMEA services revenue of \$2.3 million, or 10%, from 2005 to 2006 due to the lack of large license deals closed in the first three quarters of 2006 as the spending environment continues to be weak in EMEA.

Services revenue increased 17% in 2005 over 2004 principally due to a 10% increase of professional services revenue and a 21% increase in software enhancement subscription agreements. A portion of the 2005 increase is attributable to the acquisition of Evant which generated an incremental \$4.4 million of additional services revenue over 2004. The Americas segment experienced services revenue growth of \$20.6 million, or 18%, from 2004 to 2005. Revenues for the Asia Pacific segment also increased by \$7.7 million, or 241%, due to increased revenues in Australia from a large retail customer and additional investments in Australia, China, and Japan. These increases were offset by a decrease of \$3.6 million, or 14%, in the EMEA segment due to the termination of our business relationship with a large customer in Germany and the weak spending environment which has put downward pressure on our license and services revenues in the region.

Over the past several years, we have experienced some pricing pressures with regard to our services. We believe that the pricing pressures are attributable to global macro-economic conditions and competitive pressures. Our services revenue growth has been and will likely continue to be affected by the mix of products sold. The individual engagements involving our non-warehouse management solutions typically require less implementation services; however, the number of engagements continues to grow.

Hardware and other. Sales of hardware increased \$2.9 million, or 20% in 2006 over 2005. Sales of hardware decreased \$0.4 million, or 2% in 2005 compared to 2004. Over 90% of this revenue is generated from the Americas segment. Sales of hardware are largely dependent upon customer-specific desires, which fluctuate. Reimbursements for out-of-pocket expenses are required to be classified as revenue and are included in hardware and other revenue. For 2006, 2005 and 2004, reimbursements by customers for out-of-pocket expenses were approximately \$9.7 million, \$8.1 million and \$7.0 million, respectively.

Cost of Revenue

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. The increase in cost of license in 2006 and 2005 is

attributable

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to a 16% and 14% increase in license revenue, respectively, which drove increases in royalties expense and hosting service costs.

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 increase in cost of services in 2006 and 2005 was principally due to increases in salary-related costs resulting from: (i) \$1.5 million of stock option expense due to the adoption of SFAS No. 123(R) on January 1, 2006; (ii) a 15% and 19% increase, respectively, in the average number of personnel dedicated to the delivery of professional services; (iii) a 57% and 95% increase, respectively, in the average number of services personnel in India; (iv) an increase of \$0.7 million and \$2.0 million, respectively, in bonus expense based on our cumulative performance relative to internal plans; and (v) annual compensation increases for 2006 and 2005, effective January 1, 2006 and May 1, 2005, respectively.

The decrease in the services gross margin to 52.0% in 2006 from 53.9% in 2005 was attributable to the \$1.5 million of incremental stock option expense as well as further investments in new product implementations. The implementation of our newer products is more costly due to the lower maturity level of the product and limited experience of the services personnel and integration requirements with multiple third party hardware and software products.

Cost of Hardware and other. Cost of hardware increased to approximately \$14.8 million in 2006 as a direct result of higher sales of hardware. Cost of hardware decreased to approximately \$11.9 million in 2005 from approximately \$13.1 million in 2004 due to lower sales of hardware. Cost of hardware and other includes out-of-pocket expenses to be reimbursed by customers of approximately \$9.7 million, \$8.1 million and \$7.0 million for 2006, 2005 and 2004, respectively. The increase in reimbursed out-of-pocket expenses is due to increased travel related to the increase in services projects.

Operating Expenses

	Year Ended December 31,			% of Revenue		
	2006	2005	2004	2006	2005	2004
		(in thousands)				
Research and development	\$41,468	\$34,139	\$28,822	14%	14%	13%
Sales and marketing	45,888	40,302	34,049	16%	16%	16%
General and administrative	29,143	22,047	19,648	10%	9%	9%
Depreciation and amortization	13,247	12,074	10,782	5%	5%	5%
Settlement and accounts receivable charges	2,856	2,815		1%	1%	0%
Severance, restructuring, and acquisition charges	1,503	3,495		1%	1%	0%
Impairment charge	270			0%	0%	0%

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. The increases in research and development expenses in 2006 and 2005 are principally attributable to: (i) \$1.1 million of stock compensation expense in 2006 resulting from the adoption of SFAS No. 123(R) on January 1, 2006 (ii) increases in the average number of personnel dedicated to ongoing research and development activities in our India operations; (iii) annual compensation increases for 2006 and 2005, effective January 1, 2006 and May 1, 2005, respectively; and (iv) increases in contract labor expense relating to development in the planning and replenishment area. The number of research and development personnel related to our India operations increased 35% to 479 at December 31, 2006 as compared to 355 at December 31, 2005 and 279 at December 31, 2004. Our principal research and development activities during 2006, 2005 and 2004 focused on the expansion and integration of new products acquired and new product releases and expanding the product footprint of both our comprehensive Integrated Logistics Solutions and

Integrated Planning Solutions product suites. In addition, we invested in our Logistics Event Management Architecture (LEMA), the Manhattan Associates Business Process Platform which provides not only a sophisticated service oriented architecture based application framework but an integration platform that facilitates the integration with Enterprise Resource Planning (ERP) and other supply chain solutions.

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For the years ended December 31, 2006, 2005, and 2004, we capitalized no research and development costs because the costs incurred following the attainment of technological feasibility for the related software product through the date of general release were insignificant.

Sales and Marketing. Sales and marketing expenses include salaries, commissions, travel and other personnel-related costs of sales and marketing personnel and the costs of our marketing and alliance programs and related activities. The increases in sales and marketing expenses in 2006 and 2005 are principally attributable to: (i) \$1.5 million of stock compensation expense in 2006 resulting from the adoption of SFAS No. 123(R) on January 1, 2006; (ii) a 15% and 7% increase in 2006 and 2005, respectively in sales and marketing headcount; (iii) annual compensation increases for 2006 and 2005, effective January 1, 2006 and May 1, 2005, respectively; and (iv) an increase in bonus and incentive compensation expense relating to higher license fees in 2006 and 2005 over the prior year.

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, depreciation, legal, insurance, accounting and other administrative expenses. The change in general and administrative expenses in from 2005 to 2006 was attributable to: (i) \$2.5 million of stock compensation expense in 2006 resulting from the adoption of SFAS No. 123(R) on January 1, 2006; (ii) an increase in salary-related costs resulting from additional personnel combined with annual compensation increases, effective January 1, 2006; and (iii) an increase of approximately \$0.7 million in legal fees mainly related to the legal settlements. These increases were partially offset by approximately \$1.6 million of recoveries of previously expensed sales tax resulting from the expiration of the sales tax audit statutes in certain states.

The increase in general and administrative expenses from 2004 to 2005 was attributable to: (i) an increase in salary-related costs from the 15% increase in the average number of general and administrative personnel; (ii) an increase in annual bonuses of approximately \$1.2 million as we achieved better financial results relative to internal plans; and (iii) additional fees of approximately \$1.0 million related to audit, tax, and Sarbanes Oxley work performed by third parties. These increases were offset by approximately \$1.0 million in recoveries of previously expensed sales tax resulting from the expiration of the sales tax audit statutes in certain states and lower legal fees of \$0.6 million.

Depreciation and Amortization. Depreciation expense amounted to \$8.4 million, \$7.6 million and \$7.2 million, during 2006, 2005, and 2004, respectively. Amortization of intangibles amounted to \$4.9 million, \$4.5 million and \$3.6 million during 2006, 2005, and 2004, respectively. We have recorded goodwill and other acquisition-related intangible assets as part of the purchase accounting associated with various acquisitions, including the acquisitions of Evant in August 2005, eebiznet in July 2004, Avere, Inc. in January 2004, ReturnCentral, Inc. in June 2003, and Logistics.com, Inc. in December 2002. The increase in 2006 was attributable to the intangible asset amortization expense from the Evant acquisition, which totaled approximately \$2.7 million during the year.

Settlement and accounts receivable charges. The \$2.9 million pretax (\$2.5 million after-tax or \$0.09 per fully diluted share) in legal settlement costs in 2006 relate to two litigation matters, one with a large German customer and one with a domestic customer regarding implementation of warehouse management systems. In both litigation matters, a settlement was reached in January 2007. The recorded charges represent our portion of the settlement agreed to with our insurance carrier, subsequent to December 31, 2006. During 2005, we recorded a significant write-off of \$2.8 million in accounts receivable from the German customer with whom we settled in 2006 resulting from a dispute over the implementation of our software.

Severance, restructuring and acquisition charges. The \$1.5 million of charges for 2006 represent employee retention bonuses incurred in connection with the Evant acquisition. At the closing of the Evant acquisition, \$2.8 million was deposited into escrow for employee retention purposes and was distributed to employees upon completion of up to 12 months of service with us. The \$2.8 million was recorded as a prepaid asset, and was recognized as compensation expense ratably over the required employee retention period. During 2006, we completed the Evant retention bonus program and paid out the final bonuses. The charges of \$3.5 million recorded in 2005 included the following: (i) \$1.9 million of severance-related costs and retention bonuses discussed above associated with the acquisition of Evant; (ii) approximately \$1.1 million in severance-related costs associated

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with the consolidation of our European operations into the Netherlands, United Kingdom and France; and (iii) \$0.5 million in acquisition-related costs associated with an attempted acquisition that did not close. As part of the restructuring in Europe, we eliminated 17 sales and professional services positions throughout Europe. The severance-related costs associated with Evant consisted primarily of one-time payments to employees not retained due to duplicative functions. The acquisition-related costs incurred consisted of outside legal and accounting due diligence expenses.

Impairment charge. In July 2003, we invested \$2.0 million in a technology company. Based on our assessment of uncertainties associated with the fair value of our investment following an unsuccessful public offering during the third quarter of 2006, we wrote down our investment by \$0.3 million. Future impairment charges associated with this investment may be required in the event the company is unable to meet its strategic growth objectives.

Operating Income

Income from Operations. Operating income in 2006 increased by \$0.5 million on consolidated revenue growth of 17%. Operating margins declined from 12.3% in 2005 to 10.6% in 2006. The incremental profit contribution and margin decline given our strong revenue performance in 2006 was largely driven by four factors: (1) stock option expense of \$6.6 million in 2006 incurred due to the adoption of SFAS No. 123(R) on January 1, 2006 which reduced our operating margin by 230 basis points; (2) strong services revenue growth and investment in new product sales drove higher professional services headcount, lowering service margins; (3) continued investment in research and development expanding our India operations; and (4) higher incremental expenses associated with the Evant acquisition. Operating income in the Americas segment decreased by \$2.0 million, or 6%, due to incremental stock option expense of \$6.2 million as well as legal settlements of \$0.8 million. Operating losses in EMEA improved by \$1.5 million, or 35% due to the completion of the restructuring plan in 2005 and the decrease in settlements and receivables charges of \$0.8 million, offset by incremental stock option expense of \$0.4 million. Operating income for Asia Pacific improved by \$0.9 million mainly due to increased revenue growth.

Operating income in 2005 decreased by \$1.3 million. The corresponding operating margin decreased from 14.7% to 12.3%. The decrease in operating income in 2005 compared to 2004 was attributable to \$2.8 million of accounts receivable write-offs and \$3.5 million in severance, restructuring, and acquisition charges discussed above. Intangibles amortization also increased in 2005 due to the Evant acquisition. These decreases were partially offset by the contribution growth in software and services. Operating income in the Americas segment increased by \$2.1 million, or 6%, from 2004 to 2005. This increase was offset by a decrease in Asia Pacific of \$0.9 million and a decrease in EMEA of \$2.5 million. The operating results for 2005 for EMEA were negatively impacted by \$2.8 million of accounts receivable write-offs and \$1.1 million of restructuring costs.

Other Income and Income Taxes

	Year Ended December 31,			% Change	
	2006	2005	2004	2006	2005
Other income, net	\$ 3,638	\$ 2,677	\$ 3,257	36%	-18%
Income tax provision	15,062	14,319	13,232	5%	8%

Other Income, net. Other income, net includes interest income, interest expense and foreign currency gains and losses. Interest income was \$3.3 million in 2006 compared to \$3.8 million in 2005, decreasing on overall lower average cash balances. Interest income increased in 2005 over 2004 by \$1.4 million from due to an overall increase in market interest rates. The weighted-average interest rate earned on investment securities was 3.5% at December 31, 2006 compared to 2.9% at December 31, 2005 and 2.2% at December 31, 2004. We recorded a net foreign currency gain of \$0.3 million in 2006 as compared to a net foreign currency loss of \$1.1 million in 2005 and a net foreign currency gain of \$0.9 million in 2004. The foreign currency gains and losses resulted from gains or losses on intercompany transactions denominated in foreign currencies with subsidiaries due to the fluctuation of the U.S. dollar relative to other foreign currencies, primarily the British Pound and the Euro.

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Income Tax Provision. Our effective income tax rates were 43.8%, 43.5% and 38.0% in 2006, 2005 and 2004, respectively. Our effective income tax rate takes into account the source of taxable income, domestically by state and internationally by country, and available income tax credits. The higher effective tax rate for 2006 was driven by non-deductible stock option expense (\$6.6 million pre-tax, \$5.3 million after-tax) resulting from our adoption of SFAS No. 123(R) on January 1, 2006. Additionally, we were unable to take a tax benefit on \$2.0 million of the \$2.9 million of legal settlements as this charge related to a foreign subsidiary with tax losses. The increase in the tax rate in 2005 was attributable to the inability to recognize significant tax benefit from the \$4.4 million of accounts receivable, severance, and restructuring charges due to the recent losses in the foreign locations where most of these charges occurred. The increase is also attributable to tax contingency reserves recorded of \$1.9 million. The provisions for income taxes for 2005 and 2004 do not include \$1.9 million and \$9.7 million of tax benefits realized from stock options exercised during the years, respectively. These tax benefits reduce our income tax liabilities and are included in additional paid-in capital.

Liquidity and Capital Resources

During 2006, 2005, and 2004, we funded our operations through cash generated from operations. As of December 31, 2006, we had \$131.1 million in cash, cash equivalents and investments as compared to \$93.7 million at December 31, 2005.

Our operating activities provided cash of \$44.1 million, \$33.4 million and \$44.5 million in 2006, 2005, and 2004, respectively. Cash from operating activities for 2006 increased on collections and revenue growth. Days sales outstanding decreased to 73 days at December 31, 2006 as compared to 81 days at December 31, 2005 as a result of stronger cash collections. Cash from operating activities for 2005 decreased from 2004 primarily due to decreases in income tax deductions for stock option exercises and corresponding increases in cash paid for income taxes. Days sales outstanding also increased to 81 days at December 31, 2005 from 76 days at December 31, 2004, partially attributable to slightly weaker cash collections at year end on December revenue recorded.

Our investing activities used cash of approximately \$47.9 million during the year ended December 31, 2006, primarily for the purchase of approximately \$9.6 million in capital equipment to support our business and infrastructure and \$38.1 million in net investments. During 2005, our investing activities provided cash of approximately \$3.8 million from net maturities and sales of investments of \$61.1 million, partially offset by payments in connection with the Evant acquisition of approximately \$48.3 million and purchases of capital equipment of \$8.5 million. During 2004, our investing activities used cash of approximately \$20.9 million for the purchase of \$7.6 million of capital equipment, \$1.7 million for acquisitions and net purchases of \$11.6 million in investments.

Our financing activities provided cash of approximately \$2.5 million in 2006 and used cash of \$54.4 million and \$17.9 million in 2005 and 2004, respectively. The principal use of cash for financing activities was to repurchase shares of our common stock for approximately \$16.0 million, \$61.0 million and \$21.8 million in 2006, 2005, and 2004, respectively. These repurchases were partially offset by the proceeds from the issuance of our common stock pursuant to the exercise of stock options. As of December 31, 2006, we had \$42.9 million of Board approved share repurchase authority remaining.

Periodically, opportunities may arise to grow our business through the acquisition of complementary and synergistic companies, products and technologies. Any material acquisition could result in a decrease to our working capital depending on the amount, timing and nature of the consideration to be paid. We believe that existing balances of cash, cash equivalents and short-term investments will be sufficient to meet our working capital and capital expenditure needs at least for the next twelve months, although there can be no assurance that this will be the case.

Table of Contents**New Accounting Pronouncements**

In December 2004, the FASB issued SFAS No. 123(R), which requires us to expense share-based payments, including employee stock options, based on their fair value. We adopted SFAS No. 123(R) on January 1, 2006. We discuss our adoption of SFAS No. 123(R) and the adoption's effects in Note 2 to our Consolidated Financial Statements in this annual report.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*—A replacement of APB Opinion No. 20 and FASB Statement No. 3 (SFAS No. 154). The FASB issued SFAS No. 154 to provide guidance on the accounting for and reporting of error corrections. Unless otherwise impracticable, it establishes retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. SFAS No. 154 also provides guidance for determining whether retrospective application is impracticable and for reporting an accounting change when retrospective application is impracticable. Furthermore, this statement addresses the reporting of a correction of an error in previously issued financial statements by restating previously issued financial statements. This Statement is effective for financial statements for fiscal years beginning after December 15, 2005. The adoption of this statement did not have an impact on our consolidated financial statements.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We are currently assessing FIN 48 and have not determined the impact that the adoption of FIN 48 will have on our consolidated financial statements.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Our principal commitments as of December 31, 2006, consist of obligations under operating leases. We expect to fulfill all of the following commitments from our working capital.

Lease Commitments

We lease certain of our facilities and some of our equipment under noncancelable operating lease arrangements that expire at various dates through 2008. Rent expense for these leases aggregated \$7.0 million, \$6.3 million and \$5.9 million during 2006, 2005, and 2004, respectively.

The following table summarizes our contractual commitments as of December 31, 2006 (in thousands):

	Total	2007	2008	2009	2010	Thereafter
Non-cancelable operating leases	\$ 12,537	\$ 6,725	\$ 3,312	\$ 1,868	\$ 531	\$ 101
Capital leases	\$	\$	\$	\$	\$	\$

Indemnifications

Our sales agreements with customers generally contain infringement indemnity provisions. Under these agreements, we agree to indemnify, defend and hold harmless the customer in connection with patent, copyright or trade secret infringement claims made by third parties with respect to the customer's authorized use of our products and services. The indemnity provisions generally provide for our control of defense and settlement and cover costs and damages finally awarded against the customer, as well as our modification of the product so it is no longer infringing or, if it cannot be corrected, return of the product for a refund. Our sales agreements with customers sometimes also contain indemnity provisions for death, personal injury or property damage caused by our personnel or contractors in the course of performing services to customers. Under these agreements, we agree to indemnify, defend and hold harmless the customer in connection with death, personal injury and property damage claims made by third parties with respect to actions of our personnel or contractors. The indemnity provisions generally provide

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for our control of defense and settlement and cover costs and damages finally awarded against the customer. The indemnity obligations contained in sales agreements generally have no specified expiration date and no specified monetary limitation on the amount of award covered. We have not previously incurred costs to settle claims or pay awards under these indemnification obligations. We account for these indemnity obligations in accordance with SFAS No. 5, *Accounting for Contingencies*, and record a liability for these obligations when a loss is probable and reasonably estimable. We have not recorded any liabilities for these agreements as of December 31, 2006.

We warrant to our customers that our software products will perform in all material respects in accordance with our standard published specifications in effect at the time of delivery of the licensed products to the customer for 90 days after first use of the licensed products, but no more than 24 months after execution of the license agreement. Additionally, we warrant to our customers that our services will be performed consistent with generally accepted industry standards or specific service levels through completion of the agreed upon services. If necessary, we would provide for the estimated cost of product and service warranties based on specific warranty claims and claim history. However, we have not incurred significant recurring expense under our product or service warranties. As a result, we believe the estimated fair value of these agreements is nominal. Accordingly, we have no liabilities recorded for these agreements as of December 31, 2006.

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

Our international business is subject to risks typical of an international business, including, but not limited to: differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions, and foreign exchange rate volatility. Our international operations currently include business activity out of offices in the United Kingdom, the Netherlands, Germany, France, Australia, Japan, China, Singapore and India. When the U.S. dollar strengthens against a foreign currency, the value of our sales and expenses in that currency converted to U.S. dollars decreases. When the U.S. dollar weakens, the value of our sales and expenses in that currency converted to U.S. dollars increases.

We recognized a foreign exchange rate gain of \$0.3 million in 2006, a foreign exchange rate loss of \$1.1 million in 2005, and a foreign exchange rate gain of approximately \$0.9 million in 2004. Foreign exchange rate transaction gains and losses are classified in Other income (loss), net in our Consolidated Statements of Income. A fluctuation of 10% in the period end exchange rates at December 31, 2006 and 2005 relative to the US dollar would result in changes of approximately \$1.4 million and \$1.3 million in the reported foreign currency gain or loss, respectively.

Interest Rates

We invest our cash in a variety of financial instruments, including taxable and tax-advantaged floating rate and fixed rate obligations of corporations, municipalities, and local, state and national governmental entities and agencies. These investments are denominated in U.S. dollars. Cash balances in foreign currencies overseas are derived from operations.

We account for our investment instruments in accordance with Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS No. 115). All of the cash equivalents and investments are treated as available-for-sale under SFAS No. 115.

Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates, or we may suffer losses in principal if forced to sell securities that have seen a decline in market value due to changes in interest rates. The weighted-average interest rate on investment securities was 3.5% at December 31, 2006 as compared to 2.9% at December 31, 2005. The fair value of cash equivalents and investments held at December 31, 2006 and 2005 was \$121.9 million and \$81.7 million, respectively. Based on the average investments outstanding during 2006 and

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2005, increases or decreases of 25 basis points would result in increases or decreases to interest income of approximately \$0.1 million and \$0.3 million in 2006 and 2005, respectively, from the reported interest income.

Item 8. *Financial Statements and Supplementary Data*

Financial Statements

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MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

As of the end of the Company's 2006 fiscal year, management conducted an assessment of the Company's internal control over financial reporting based on the framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2006 was effective.

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

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006 has been audited by Ernst & Young, an independent registered public accounting firm, as stated in their report appearing on page 39, which expresses unqualified opinions on management's assessment of the effectiveness of internal control over financial reporting and on the effectiveness of the Company's internal control over financial reporting as of December 31, 2006.

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

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

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

The Board of Directors and Shareholders

Manhattan Associates, Inc. and Subsidiaries

We have audited management's assessment, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting, that Manhattan Associates, Inc. and subsidiaries maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Manhattan Associates, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that Manhattan Associates, Inc. and subsidiaries maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Manhattan Associates, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Manhattan Associates, Inc. and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, comprehensive income and cash flows for each of the three years in the period ended December 31, 2006 of Manhattan Associates, Inc. and subsidiaries and our report dated March 12, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Atlanta, Georgia

March 12, 2007

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

The Board of Directors and Shareholders

Manhattan Associates, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Manhattan Associates, Inc. and subsidiaries (the Company) as of December 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, comprehensive income and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 12, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Atlanta, Georgia
March 12, 2007

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

	Year Ended December 31,		
	2006	2005	2004
Revenue:			
License	\$ 66,543	\$ 57,119	\$ 49,886
Services	194,521	166,091	141,492
Hardware and other	27,804	23,194	23,541
 Total revenue	 288,868	 246,404	 214,919
 Costs and expenses:			
Cost of license	5,796	4,700	4,085
Cost of services	93,427	76,641	65,853
Cost of hardware and other	24,515	19,914	20,071
Research and development	41,468	34,139	28,822
Sales and marketing	45,888	40,302	34,049
General and administrative	29,143	22,047	19,648
Depreciation and amortization	13,247	12,074	10,782
Settlement and accounts receivable charges	2,856	2,815	
Severance, restructuring, and acquisition charges	1,503	3,495	
Impairment charge	270		
 Total costs and expenses	 258,113	 216,127	 183,310
 Operating income	 30,755	 30,277	 31,609
Interest income	3,454	3,830	2,383
Interest expense	(11)	(34)	(26)
Other income (loss), net	195	(1,119)	900
 Income before income taxes	 34,393	 32,954	 34,866
Income tax provision	15,062	14,319	13,232
 Net income	 \$ 19,331	 \$ 18,635	 \$ 21,634
 Basic net income per share	 \$ 0.71	 \$ 0.65	 \$ 0.72
 Diluted net income per share	 \$ 0.69	 \$ 0.64	 \$ 0.70
 Weighted average shares:			
Basic	27,183	28,690	30,056

Diluted	27,971	29,297	31,067
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The accompanying notes are an integral part of these Consolidated Statements of Income.

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

	December 31,	
	2006	2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 18,449	\$ 19,419
Short-term investments	90,570	36,091
Accounts receivable, net of a \$4,901 and \$4,892 allowance for doubtful accounts in 2006 and 2005, respectively	60,937	58,623
Deferred income taxes	5,208	6,377
Prepaid expenses	8,667	7,497
Other current assets	3,272	4,220
 Total current assets	 187,103	 132,227
 Property and equipment, net	 15,850	 14,240
Long-term investments	22,038	38,165
Acquisition-related intangible assets, net	14,344	19,213
Goodwill, net	70,361	54,607
Deferred income taxes	481	11,995
Other assets	4,716	2,951
 Total assets	 \$ 314,893	 \$ 273,398

LIABILITIES AND SHAREHOLDERS EQUITY

Current liabilities:		
Accounts payable	\$ 11,716	\$ 7,904
Accrued compensation and benefits	16,560	15,224
Accrued and other liabilities	13,872	13,971
Deferred revenue	29,918	27,204
Income taxes payable	4,006	2,535
Current portion of capital lease obligations		147
 Total current liabilities	 76,072	 66,985
 Deferred income taxes	 913	
Other non-current liabilities	768	1,015

Commitments and contingencies (see footnotes 1, 5 and 6)

Shareholders equity:

Preferred stock, no par value; 20,000,000 shares authorized, no shares issued or outstanding in 2006 or 2005

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Common stock, \$.01 par value; 100,000,000 shares authorized, 27,610,105 shares issued and outstanding in 2006 and 27,207,260 shares issued and outstanding in 2005	276	272
Additional paid-in-capital	98,704	87,476
Retained earnings	136,321	116,990
Accumulated other comprehensive income	1,839	863
Deferred compensation		(203)
Total shareholders' equity	237,140	205,398
Total liabilities and shareholders' equity	\$ 314,893	\$ 273,398

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

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

	Year Ended December 31,		
	2006	2005	2004
Cash flows from operating activities:			
Net income	\$ 19,331	\$ 18,635	\$ 21,634
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	13,247	12,074	10,782
Stock compensation	6,762	184	1,101
Asset impairment charge	270		
Loss on disposal of equipment	22	76	42
Unrealized foreign currency (gain)loss	(317)	1,346	(643)
Tax benefit of options exercised	4,546	1,920	9,686
Excess tax benefits from stock-based compensation	(2,519)		
Deferred income taxes	(574)	1,368	286
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable, net	(1,617)	(8,692)	(4,018)
Other assets	(3,483)	(4,383)	(1,878)
Prepaid retention bonus	1,599	(1,599)	
Accounts payable , accrued and other liabilities	3,814	7,403	3,108
Income taxes	367	1,359	(175)
Deferred revenue	2,672	3,694	4,556
Net cash provided by operating activities	44,120	33,385	44,481
Cash flows from investing activities:			
Purchases of property and equipment	(9,641)	(8,488)	(7,572)
Purchases of available-for-sale investments	(831,932)	(870,123)	(1,095,608)
Maturities and sales of available-for-sale investments	793,799	931,247	1,083,982
Payments in connection with various acquisitions	(126)	(48,789)	(1,698)
Net cash (used in) provided by investing activities	(47,900)	3,847	(20,896)
Cash flows from financing activities:			
Payment of capital lease obligations	(147)	(104)	(133)
Purchase of Manhattan common stock	(16,029)	(61,011)	(21,763)
Excess tax benefits from stock-based compensation	2,519		
Proceeds from issuance of common stock from options exercised	16,156	6,672	4,039
Net cash provided by (used in) financing activities	2,499	(54,443)	(17,857)
Foreign currency impact on cash	311	(799)	294
(Decrease) increase in cash and cash equivalents	(970)	(18,010)	6,022

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Cash and cash equivalents, beginning of year	19,419	37,429	31,407
Cash and cash equivalents, end of year	\$ 18,449	\$ 19,419	\$ 37,429
Supplemental cash flow disclosures:			
Cash paid for interest	\$ 5	\$ 19	\$ 26
Cash paid for income taxes	\$ 10,371	\$ 9,098	\$ 2,816
Non-cash transaction:			
Issuance of restricted stock	\$	\$	\$ 1,290

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

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

	Common Stock		Additional	Retained	Accumulated Other Comprehensive Income (Loss)	Deferred	Total
	Shares	Amount	Paid-In Capital	Earnings		Compensation	Shareholders Equity
Balance, December 31, 2003	30,086,164	\$ 301	\$ 146,614	\$ 76,721	\$ 720	\$ (198)	\$ 224,158
Stock option exercises	334,157	3	4,036				4,039
Issuance of restricted stock	45,803	1	1,289			(1,290)	
Repurchase of common stock	(885,400)	(9)	(21,754)				(21,763)
Tax benefit from stock options exercised			9,686				9,686
Amortization of deferred compensation						1,101	1,101
Foreign currency translation adjustment					421		421
Unrealized loss on investments					(259)		(259)
Net income				21,634			21,634
Balance, December 31, 2004	29,580,724	296	139,871	98,355	882	(387)	239,017
Stock option exercises	453,736	4	6,668				6,672
Repurchase of common stock	(2,827,200)	(28)	(60,983)				(61,011)
Tax benefit from stock options exercised			1,920				1,920
Amortization of deferred compensation						184	184
Foreign currency translation adjustment					(37)		(37)
Unrealized gain on investments					18		18
Net income				18,635			18,635

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Balance, December 31, 2005	27,207,260	272	87,476	116,990	863	(203)	205,398
Reclassification of deferred compensation			(203)			203	
Stock option exercises	1,176,146	12	16,144				16,156
Repurchase of common stock	(773,301)	(8)	(16,021)				(16,029)
Tax effects of stock based compensation			4,546				4,546
Restricted stock expense			119				119
Stock option expense			6,643				6,643
Foreign currency translation adjustment					757		757
Unrealized gain on investments					219		219
Net income				19,331			19,331
Balance, December 31, 2006	27,610,105	\$ 276	\$ 98,704	\$ 136,321	\$ 1,839	\$	\$ 237,140

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

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

	Year Ended December 31,		
	2006	2005	2004
Net income	\$ 19,331	\$ 18,635	\$ 21,634
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustment	757	(37)	421
Unrealized gain (loss) on investments, net of taxes of \$135, (\$11), and (\$136) in 2006, 2005 and 2004, respectively	219	18	(259)
Other comprehensive income (loss)	976	(19)	162
Comprehensive income	\$ 20,307	\$ 18,616	\$ 21,796

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

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MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006, 2005 and 2004

1. Organization and Summary of Significant Accounting Policies

Organization and Business

Manhattan Associates, Inc. (Manhattan or the Company) is a developer and provider of technology-based supply chain software solutions that help companies manage the effectiveness and efficiency of their supply chain. The solutions consist of software, services and hardware and are used for both the planning and execution of supply chain activities. These solutions help coordinate the actions and communication of manufacturers, suppliers, distributors, retailers, transportation providers and consumers.

The Company's operations are in North America, Europe and Asia/Pacific. Its European operations are conducted through its wholly-owned subsidiaries, Manhattan Associates Limited, Manhattan Associates Europe B.V., Manhattan France SARL, and Manhattan Associates GmbH, in the United Kingdom, the Netherlands, France, and Germany, respectively. The Company's Asia/Pacific operations are conducted through its wholly-owned subsidiaries, Manhattan Associates Pty Ltd., Manhattan Associates KK, Manhattan Associates Software (Shanghai), Co. Ltd., Manhattan Associates Software Pte Ltd., and Manhattan Associates (India) Development Centre Private Limited in Australia, Japan, China, Singapore, and India, respectively. The Company occasionally sells its products and services in other countries, such as countries in Latin America, Eastern Europe, Middle East, and Asia, through its direct sales channel as well as various reseller channels.

Principles of Consolidation and Foreign Currency Translation

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

The financial statements of foreign subsidiaries have been translated into United States dollars in accordance with Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 52, *Foreign Currency Translation*. Revenues and expenses from international operations were denominated in the respective local currencies and translated using the average monthly exchange rates for the year. All balance sheet accounts have been translated using the exchange rates in effect at the balance sheet date and the effect of changes in exchange rates from year to year are disclosed as a separate component of shareholders' equity and comprehensive income.

Summary of Significant Accounting Policies

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash or cash equivalents.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents, short- and long-term investments and accounts receivable. The Company maintains cash and cash equivalents and short- and long-term investments with various financial institutions. The Company's sales are primarily to companies located in the United States, Europe and Asia. The Company performs periodic credit evaluations of its customers' financial condition and does not require collateral. Accounts receivable are due principally from large U.S., European and Asia Pacific companies under stated contract terms. Accounts receivable, net as of December 31, 2006 for the United States, Europe and Asia Pacific companies were \$47.2 million, \$7.0 million and \$6.7 million, respectively. Accounts receivable, net as of December 31, 2005 for the United States, Europe and Asia Pacific companies were \$45.5 million, \$9.1 million and \$4.0 million, respectively.

The Company's top five customers in aggregate accounted for 16%, 14% and 14% of total revenue in the period the related sales were recorded for each of the years ended December 31, 2006, 2005, and 2004, respectively. No single customer

Table of Contents**1. Organization and Summary of Significant Accounting Policies (continued)**

accounted for more than 10% of revenue in the years ended December 31, 2006, 2005, and 2004 or for more than 10% of accounts receivable as of December 31, 2006 and 2005.

Investments

The Company's investments in marketable securities consist principally of debt instruments of the U.S. Treasury, U.S. government agencies, state and local government agencies and corporate commercial paper. These investments are categorized as available-for-sale securities and recorded at fair market value, as defined by SFAS No. 115,

Accounting for Certain Investments in Debt and Equity Securities. Investment gains and losses are determined on a specific identification basis. Investments with original maturities of 90 days or less are classified as cash equivalents; investments with original maturities of greater than 90 days but less than one year are generally classified as short-term investments; and those with original maturities of greater than one year are generally classified as long-term investments. The long-term investments consist of corporate or U.S. government debt instruments and mature after one year through five years. The Company holds investments in Auction Rate Securities, which have original maturities greater than one year, but which have auctions to reset the yield every 7 to 35 days. The Company has classified these assets as short-term investments as the assets are viewed as available to support current operations, based on the provisions of Accounting Research Bulletin No. 43, Chapter 3A, Working Capital-Current Assets and Liabilities. 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 identified on a specific identification basis.

In July 2003, the Company invested \$2.0 million in a technology company. The investment has been accounted for under the cost method, and is included in Other Assets on the consolidated balance sheets. Based on the Company's assessment of uncertainties associated with the fair value of the investment following an unsuccessful public offering, the Company has written down its investment by \$0.3 million during 2006. The \$0.3 million charge is included in impairment charge in the consolidated statements of income.

The following is a summary of the available-for-sale securities (in thousands):

	Cost	Unrealized gains	Unrealized losses	Market Value	Cash and Equivalents	Short-term Investments	Long-term Investments
December 31, 2006							
Investments:							
U.S. government obligations	\$	\$	\$	\$	\$	\$	\$
State and local obligations	102,631	3		102,634	324	90,570	11,740
U.S. corporate commercial paper	19,339		54	19,285	8,987		10,298
Total	\$121,970	\$ 3	\$ 54	\$121,919	\$9,311	\$90,570	\$22,038

	Cost	Unrealized gains	Unrealized losses	Market Value	Cash and Equivalents	Short-term Investments	Long-term Investments
December 31, 2005							
Investments:							
U.S. government obligations	\$	\$	\$	\$	\$	\$	\$
	43,542		10	43,532	2,718	36,091	4,723

State and local obligations							
U.S. corporate commercial paper	38,503	1	375	38,129	4,687		33,442
Total	\$82,045	\$ 1	\$385	\$81,661	\$7,405	\$36,091	\$38,165

Table of Contents**1. Organization and Summary of Significant Accounting Policies (continued)**

Following is a summary of the Company's future available-for-sale investment maturities as of December 31, 2006:

Less than 1 year	\$ 9,311
1 to 5 years	23,552
5 years to 10 years	
Over 10 years	89,056
 Total	 \$ 121,919

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates include the allowance for doubtful accounts, which is based upon an evaluation of historical amounts written-off, the customers' ability to pay and general economic conditions; the useful lives of intangible assets; self insurance accruals; legal accruals; the recoverability or impairment of intangible asset values; stock based compensation, which is based on the expected term of the award and corresponding expected volatility, risk-free interest rate, and dividends; and the Company's effective income tax rate and deferred tax assets, which are based upon the Company's expectations of future taxable income, allowable deductions, and projected tax credits. Actual results will differ from these estimates.

Fair Value of Financial Instruments

The carrying values of cash, accounts receivable, accounts payable, and other financial instruments included in the accompanying Consolidated Balance Sheets approximate their fair values principally due to the short-term maturities of these instruments. Unrealized gains and losses on investments are included as a separate component of Accumulated other comprehensive income, net of any related tax effect, in the Consolidated Balance Sheets.

Risks Associated with Single Business Line, Technological Advances, and Foreign Operations

The Company currently derives a substantial portion of its revenues from sales of its software and related services and hardware. The markets for supply chain execution and supply chain planning solutions are subject to rapid technological change, changing customer needs, frequent new product introductions, and evolving industry standards that may render existing products and services obsolete. As a result, the Company's position in these markets could be eroded rapidly by unforeseen changes in customer requirements for application features, functions, and technologies. The Company's growth and future operating results will depend, in part, upon its ability to enhance existing applications and develop and introduce new applications that meet changing customer requirements that respond to competitive products and that achieve market acceptance. Any factor adversely affecting the markets for supply chain execution and supply chain planning solutions could have an adverse effect on the Company's business, financial condition, and results of operations.

The Company's international business is subject to risks typical of an international business, including, but not limited to differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions, and foreign exchange rate volatility. Accordingly, the future results could be materially adversely impacted by changes in these or other factors. The Company recognized a foreign exchange rate gain on intercompany balances of \$0.3 million in 2006, a foreign exchange rate loss on intercompany balances of \$1.1 million in 2005 and a foreign exchange rate gain on intercompany balances of approximately \$0.9 million in 2004. Foreign exchange rate transaction gains and losses are classified in Other income (loss), net on the Consolidated Statements of Income.

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 services and software enhancement subscriptions; and sales of hardware.

Table of Contents**1. Organization and Summary of Significant Accounting Policies (continued)**

The Company recognizes software license revenue under Statement of Position No. 97-2, Software Revenue Recognition (SOP 97-2), as amended, 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. The Company recognizes revenue using the residual method when (1) there is vendor-specific objective evidence of the fair values of all undelivered elements in a multiple-element arrangement that is not accounted for using long-term contract accounting; (2) vendor-specific objective evidence of fair value does not exist for one or more of the delivered elements in the arrangement; and (3) all revenue-recognition criteria in SOP 97-2, other than the requirement for vendor-specific objective evidence of the fair value of each delivered element of the arrangement are satisfied. For those contracts that contain significant customization or modifications, license revenue is recognized using contract accounting.

The Company's services revenue consists of fees generated from professional services, customer support services and software enhancement subscriptions 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 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 discreet 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 subscriptions are generally paid in advance and recognized ratably over the term of the agreement, typically 12 months.

Hardware 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 frequently purchase hardware from the Company in conjunction with the licensing of software. These products include computer hardware, radio frequency terminals networks, 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 its vendors only after receiving an order from a customer. As a result, the Company does not maintain significant hardware inventory.

In accordance with the FASB's Emerging Issues Task Force Issue No. 01-14 (EITF No. 01-14), Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred, 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 \$9.7 million, \$8.1 million and \$7.0 million for 2006, 2005 and 2004, respectively.

Deferred Revenue

Deferred revenue represents amounts collected prior to having completed performance of professional services, customer support services and software enhancement subscriptions and significant remaining obligations under license agreements. The Company expects to complete such services or obligations within the next twelve months.

Returns and Allowances

The Company has not experienced significant returns or warranty claims to date and, as a result, has not recorded a provision for the cost of returns and product warranty claims at December 31, 2006 or 2005.

The Company records an allowance for doubtful accounts based on the historical experience of write-offs and a detailed assessment of accounts receivable. 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. The total amounts charged to operations were \$5.4 million, \$3.8 million and \$4.0 million for 2006, 2005 and 2004, respectively. In estimating the allowance for doubtful accounts, management considers the age of the accounts receivable, the Company's historical write-offs, and the credit worthiness of the customer, among others. Should any of these factors change, the estimates made by management will also change accordingly, which could affect the level of the Company's future provision for doubtful accounts. Uncollectible accounts are written off when it is determined that the specific balance is not collectible.

Table of Contents**1. Organization and Summary of Significant Accounting Policies (continued)**

During 2005, the Company recorded a \$2.8 million bad debt provision for the entire amount of the accounts receivable due from a large German customer with whom the Company terminated its business relationship. During 2006, the Company resolved the dispute and entered into a legal settlement with the customer (see Note 5).

Property and Equipment

Property and equipment is recorded at cost and consists of furniture, computers, other office equipment, internal use software, and leasehold improvements recorded at cost. The Company depreciates the cost of furniture, computers, other office equipment and internal use software on a straight-line basis over their estimated useful lives (three to five years for computer equipment and software, five years for office equipment, seven years for furniture). Leasehold improvements are depreciated over the lesser of their useful lives or the term of the lease. Included in computer equipment and software are assets under a capital lease of approximately \$0.2 million and \$0.2 million as of December 31, 2006 and 2005. Accumulated depreciation relating to the assets under a capital lease was \$0.2 million and \$0.2 million as of December 31, 2006 and 2005, respectively. There were no capital lease obligations remaining as of December 31, 2006. Depreciation and amortization expense for property and equipment, including assets under a capital lease, for the years ended December 31, 2006, 2005 and 2004 was approximately \$8.4 million, \$7.6 million and \$7.2 million, respectively, and was included in depreciation and amortization expenses in the Consolidated Statements of Income.

Property and equipment, at cost, consist of the following (in thousands):

	December 31,	
	2006	2005
Computer equipment and software	\$ 40,113	\$ 31,979
Furniture and office equipment	10,739	9,148
Leasehold improvements	7,301	6,496
	58,153	47,623
Less accumulated depreciation and amortization	(42,303)	(33,383)
	\$ 15,850	\$ 14,240

Acquisition-Related Intangible Assets

Acquisition-related intangible assets are stated at historical cost and include acquired software and certain other intangible assets with definite lives. The acquired software is being amortized over the greater of the amount computed using (a) the ratio that current gross revenues bear to the total of current and anticipated future gross revenues for each product or (b) the straight-line method over the remaining estimated economic life of the product including the period being reported on. The weighted average amortization period for acquired software is 4.9 years. The other intangible assets are being amortized on a straight-line basis over a period of two to ten years with a weighted average amortization period of 6.2 years. The weighted average amortization period for all intangible assets is 5.6 years. Total amortization expense related to acquisition-related intangible assets was approximately \$4.9 million, \$4.5 million and \$3.6 million for the years ended December 31, 2006, 2005 and 2004, respectively, and is included in depreciation and amortization expense in the accompanying Consolidated Statements of Income.

Acquisition-Related Intangible Assets consist of the following (in thousands):

	December 31,	
	2006	2005
Cost:		
Acquired software	\$ 15,791	\$ 15,791
Other intangible assets with definite lives	19,087	19,087

	34,878	34,878
Accumulated amortization:		
Acquired software	(11,658)	(9,855)
Other intangible assets with definite lives	(8,876)	(5,810)
	(20,534)	(15,665)
Net book value:		
Acquired software	\$ 4,133	\$ 5,936
Other intangible assets with definite lives	10,211	13,277
	\$ 14,344	\$ 19,213

Table of Contents**1. Organization and Summary of Significant Accounting Policies (continued)**

The Company expects amortization expense for the next five years to be as follows based on intangible assets as of December 31, 2006 (in thousands):

2007	\$ 4,515
2008	3,383
2009	2,975
2010	2,287
2011	1,172
Thereafter	12
 Total	 \$ 14,344

Goodwill

Goodwill represents the excess of purchase price over fair value of net identified tangible and intangible assets and liabilities acquired. The Company does not amortize goodwill, but instead tests goodwill for impairment on at least an annual basis. Goodwill as of December 31, 2006 and 2005 was \$70.4 million and \$54.6 million, respectively. Approximately \$36.0 million of the gross Goodwill is deductible for income tax purposes.

During 2006, the Company finalized its purchase price allocation for Evant resulting in a reduction of deferred tax assets of \$15.2 million and a corresponding increase in goodwill. The Company was not able to substantiate the post-acquisition limitations on the deductibility of these assets.

Software Development Costs

Research and development expenses are charged to expense as incurred. The Company determines the amount of development costs capitalizable under the provisions of SFAS No. 86, Accounting for Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed. Under SFAS No. 86, computer software development costs are charged to research and development expense until technological feasibility is established, after which remaining software production costs are capitalized. The Company has defined technological feasibility as the point in time at which the Company has a detailed program design or a working model of the related product, depending on the type of development efforts. For the years ended December 31, 2006, 2005 and 2004, the Company capitalized no internal research and development costs because the costs incurred between the attainment of technological feasibility for the related software product through the date when the product was available for general release to customers has been insignificant.

Impairment of Long-Lived and Intangible Assets

The Company reviews the values assigned to long-lived assets, including property and certain intangible assets, to determine whether events and circumstances have occurred which indicate that the remaining estimated useful lives may warrant revision or that the remaining balances may not be recoverable. In such reviews, undiscounted cash flows associated with these assets are compared with their carrying value to determine if a write-down to fair value is required. During 2006, 2005, and 2004, the Company did not recognize any impairment charges associated with its long-lived or intangible assets.

The evaluation of asset impairment requires management to make assumptions about future cash flows over the life of the asset being evaluated. These assumptions require significant judgment, and actual results may differ from assumed and estimated amounts.

Table of Contents**1. Organization and Summary of Significant Accounting Policies (continued)***Impairment of Goodwill*

The Company evaluates the carrying value of goodwill and other intangible assets annually as of December 31 and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Such circumstances could include, but are not limited to, (1) a significant adverse change in legal factors or in business climate, (2) unanticipated competition, or (3) an adverse action or assessment by a regulator. When evaluating whether the goodwill or other intangible asset is impaired, the Company compares the fair value of the reporting unit to which the goodwill or other intangible asset is assigned to its carrying amount, including goodwill and the other intangible assets. If the carrying amount of a reporting unit exceeds its fair value, then the amount of the impairment loss must be measured. The impairment loss would be calculated by comparing the implied fair value of reporting unit goodwill to its carrying amount. In calculating the implied fair value of goodwill or other intangible assets, the fair value of the reporting unit is allocated to all of the other assets and liabilities of that unit based on their fair values. The excess of the fair value of a reporting unit over the amount assigned to its other assets and liabilities is the implied fair value of goodwill. The Company performed its periodic review of its goodwill and other intangible assets for impairment as of December 31, 2006, 2005 and 2004 and did not identify any asset impairment as a result of the review.

Accrued and Other Liabilities

As of December 31, 2006 and 2005, accrued and other liabilities consisted of the following (in thousands):

	December 31,	
	2006	2005
Sales tax liability	\$ 3,365	\$ 5,421
Other accrued liabilities	10,507	8,550
Total	\$ 13,872	\$ 13,971

Guarantees and Indemnifications

The Company accounts for guarantees in accordance with Financial Interpretation No. 45 (FIN 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. The Company's sales agreements with customers generally contain infringement indemnity provisions. Under these agreements, the Company agrees to indemnify, defend and hold harmless the customer in connection with patent, copyright or trade secret infringement claims made by third parties with respect to the customer's authorized use of the Company's products and services. The indemnity provisions generally provide for the Company's control of defense and settlement and cover costs and damages finally awarded against the customer, as well as the Company's modification of the product so it is no longer infringing or, if it cannot be corrected, return of the product for a refund. The sales agreements with customers sometimes also contain indemnity provisions for death, personal injury or property damage caused by the Company's personnel or contractors in the course of performing services to customers. Under these agreements, the Company agrees to indemnify, defend and hold harmless the customer in connection with death, personal injury and property damage claims made by third parties with respect to actions of the Company's personnel or contractors. The indemnity provisions generally provide for the Company's control of defense and settlement and cover costs and damages finally awarded against the customer. The indemnity obligations contained in sales agreements generally have no specified expiration date and no specified monetary limitation on the amount of award covered. The Company has not previously incurred costs to settle claims or pay awards under these indemnification obligations. The Company accounts for these indemnity obligations in accordance with SFAS No. 5, *Accounting for Contingencies*, and records a liability for these obligations when a loss is probable and reasonably estimable. The Company has not recorded any liabilities for these agreements as of December 31, 2006 and 2005.

Table of Contents**1. Organization and Summary of Significant Accounting Policies (continued)**

The Company warrants to its customers that its software products will perform in all material respects in accordance with the standard published specifications in effect at the time of delivery of the licensed products to the customer for 90 days after first use of the licensed products, but no more than 24 months after execution of the license agreement. Additionally, the Company warrants to its customers that services will be performed consistent with generally accepted industry standards or specific service levels through completion of the agreed upon services. If necessary, the Company will provide for the estimated cost of product and service warranties based on specific warranty claims and claim history. However, the Company has not incurred significant recurring expense under product or service warranties. As a result, the Company believes the estimated fair value of these agreements is nominal. Accordingly, the Company has no liabilities recorded for these agreements as of December 31, 2006 and 2005.

Segment Information

The Company has three reporting segments: Americas, EMEA, and Asia Pacific as defined by SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. See Note 8 for discussion of the Company's reporting segments.

Advertising Costs

Advertising costs are expensed as incurred and totaled approximately \$0.2 million, \$0.4 million and \$0.5 million in 2006, 2005 and 2004, respectively. Advertising costs are included in sales and marketing in the Consolidated Statements of Income.

Basic and Diluted 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 Weighted Shares, and the treasury stock method effect of common equivalent shares (CESs) outstanding for each period presented. The following is a reconciliation of the shares used in the computation of net income per share for the years ended December 31, 2006, 2005 and 2004:

	2006		2005		2004	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Weighted shares	27,183,127	27,183,127	28,689,556	28,689,556	30,055,916	30,055,916
Effect of CESs		788,615		607,089		1,010,873
	27,183,127	27,971,742	28,689,556	29,296,645	30,055,916	31,066,789