

MANHATTAN ASSOCIATES INC  
Form 10-Q  
July 29, 2011

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

[Mark One]

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended **June 30, 2011**  
**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
**Commission File Number: 0-23999**  
**MANHATTAN ASSOCIATES, INC.**  
(Exact Name of Registrant as Specified in Its Charter)

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

**58-2373424**  
(I.R.S. Employer Identification No.)

**2300 Windy Ridge Parkway, Suite 1000**  
**Atlanta, Georgia**  
(Address of Principal Executive Offices)

**30339**  
(Zip Code)

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

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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

The number of shares of the Registrant's class of capital stock outstanding as of July 26, 2011, the latest practicable date, is as follows: 21,155,243 shares of common stock, \$0.01 par value per share.



MANHATTAN ASSOCIATES, INC.  
FORM 10-Q  
Quarter Ended June 30, 2011  
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**PART I  
FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

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

	<b>June 30, 2011 (unaudited)</b>	<b>December 31, 2010</b>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 103,400	\$ 120,744
Short term investments	5,956	4,414
Accounts receivable, net of allowance of \$5,094 and \$5,711 in 2011 and 2010, respectively	52,995	47,419
Deferred income taxes	7,486	7,214
Income taxes receivable	1,609	2,446
Prepaid expenses and other current assets	6,979	6,743
<b>Total current assets</b>	<b>178,425</b>	<b>188,980</b>
Property and equipment, net	13,516	14,833
Long-term investments	909	1,711
Goodwill, net	62,281	62,265
Acquisition-related intangible assets, net	309	1,186
Deferred income taxes	9,204	8,816
Other assets	3,118	2,673
<b>Total assets</b>	<b>\$ 267,762</b>	<b>\$ 280,464</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 8,927	\$ 7,745
Accrued compensation and benefits	13,959	19,807
Accrued and other liabilities	13,950	13,856
Deferred revenue	50,335	44,974
<b>Total current liabilities</b>	<b>87,171</b>	<b>86,382</b>
Other non-current liabilities	9,888	10,282
Shareholders equity:		
Preferred stock, no par value; 20,000,000 shares authorized, no shares issued or outstanding in 2011 or 2010		
Common stock, \$.01 par value; 100,000,000 shares authorized; 21,106,727 and 21,729,789 shares issued and outstanding at June 30, 2011 and	211	217

December 31, 2010, respectively		
Additional paid-in capital		487
Retained earnings	<b>171,371</b>	184,152
Accumulated other comprehensive loss	<b>(879)</b>	(1,056)
Total shareholders' equity	<b>170,703</b>	183,800
Total liabilities and shareholders' equity	<b>\$ 267,762</b>	<b>\$ 280,464</b>

*See accompanying Notes to Condensed Consolidated Financial Statements.*

**Table of Contents****Item 1. Financial Statements** (continued)**MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except per share amounts)

	Three Months Ended June		Six Months Ended June 30,	
	2011	30, 2010	2011	2010
	(unaudited)			
Revenue:				
Software license	\$ 16,347	\$ 15,485	\$ 24,109	\$ 29,692
Services	63,774	54,780	119,852	108,241
Hardware and other	8,281	7,376	16,151	13,657
Total revenue	88,402	77,641	160,112	151,590
Costs and expenses:				
Cost of license	1,824	1,611	3,063	3,160
Cost of services	27,462	24,906	52,420	48,970
Cost of hardware and other	6,457	6,205	12,757	11,274
Research and development	10,676	10,334	21,059	20,774
Sales and marketing	12,309	12,073	22,909	22,541
General and administrative	9,238	8,177	17,914	16,638
Depreciation and amortization	2,223	2,318	4,224	4,733
Total costs and expenses	70,189	65,624	134,346	128,090
Operating income	18,213	12,017	25,766	23,500
Other income (loss), net	334	304	352	(194)
Income before income taxes	18,547	12,321	26,118	23,306
Income tax provision	6,208	4,132	6,613	7,922
Net income	\$ 12,339	\$ 8,189	\$ 19,505	\$ 15,384
Basic earnings per share	\$ 0.60	\$ 0.38	\$ 0.93	\$ 0.70
Diluted earnings per share	\$ 0.57	\$ 0.36	\$ 0.89	\$ 0.68
Weighted average number of shares:				
Basic	20,696	21,718	20,861	21,837
Diluted	21,775	22,776	21,926	22,655

*See accompanying Notes to Condensed Consolidated Financial Statements.*



**Table of Contents****Item 1. Financial Statements** (continued)

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

	<b>Six Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(unaudited)</b>	
<b>Operating activities:</b>		
Net income	\$ 19,505	\$ 15,384
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,224	4,733
Stock compensation	4,814	5,087
Loss (gain) on disposal of equipment	12	(6)
Tax benefit of stock awards exercised/vested	2,885	1,237
Excess tax benefits from stock based compensation	(1,198)	(342)
Deferred income taxes	(633)	(25)
Unrealized foreign currency (gain) loss	(57)	24
Changes in operating assets and liabilities:		
Accounts receivable, net	(5,198)	(9,299)
Other assets	(623)	(1,122)
Accounts payable, accrued and other liabilities	(5,347)	8,285
Income taxes	855	(1,837)
Deferred revenue	4,886	1,743
Net cash provided by operating activities	<b>24,125</b>	23,862
<b>Investing activities:</b>		
Purchase of property and equipment	(1,996)	(2,706)
Net (purchases) maturities of investments	(723)	98
Net cash used in investing activities	<b>(2,719)</b>	(2,608)
<b>Financing activities:</b>		
Purchase of common stock	(65,996)	(41,022)
Proceeds from stock options exercised	25,517	17,445
Excess tax benefits from stock based compensation	1,198	342
Net cash used in financing activities	<b>(39,281)</b>	(23,235)
Foreign currency impact on cash	531	(573)
Net change in cash and cash equivalents	<b>(17,344)</b>	(2,554)
Cash and cash equivalents at beginning of period	<b>120,744</b>	120,217

Cash and cash equivalents at end of period	<b>\$ 103,400</b>	\$ 117,663
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*See accompanying Notes to Condensed Consolidated Financial Statements.*

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**MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2011**  
**(unaudited)**

**1. Basis of Presentation and Principles of Consolidation**

**Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements of Manhattan Associates, Inc. and its subsidiaries (the Company) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required for complete financial statements. In the opinion of management, these condensed consolidated financial statements contain all normal recurring adjustments considered necessary for a fair presentation of the Company's financial position at June 30, 2011, the results of operations for the three and six months ended June 30, 2011 and 2010 and cash flows for the six months ended June 30, 2011 and 2010. The results for the three and six months ended June 30, 2011 are not necessarily indicative of the results to be expected for the full year. These statements should be read in conjunction with the Company's audited consolidated financial statements and management's discussion and analysis included in the Company's annual report on Form 10-K for the year ended December 31, 2010.

**Principles of Consolidation**

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

**2. Revenue Recognition**

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

The Company recognizes license revenue when the following criteria are met: (1) a signed contract is obtained; (2) delivery of the product has occurred; (3) the license fee is fixed or determinable; and (4) collection is probable.

Revenue recognition for software with multiple-element arrangements requires recognition of revenue using the residual method when (a) there is vendor-specific objective evidence of the fair values of all undelivered elements in a multiple-element arrangement that is not accounted for using long-term contract accounting; (b) vendor-specific objective evidence of fair value does not exist for one or more of the delivered elements in the arrangement; and (c) all other applicable revenue-recognition criteria for software revenue recognition, 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 allocates revenue to customer support and software enhancements and any other undelivered elements of the arrangement based on vendor specific objective evidence, or VSOE, of fair value of each element and such amounts are deferred until the applicable delivery criteria and other revenue recognition criteria have been met. The balance of the revenue, net of any discounts inherent in the arrangement, is recognized at the outset of the arrangement using the residual method as the product licenses are delivered. If the Company cannot objectively determine the fair value of each undelivered element based on the VSOE of fair value, the Company defers revenue recognition until all elements are delivered, all services have been performed, or until fair value can be objectively determined. The Company must apply judgment in determining all elements of the arrangement and in determining the VSOE of fair value for each element, considering the price charged for each product on a stand-alone basis or applicable renewal rates.

The accounting related to license revenue recognition in the software industry is complex and affected by interpretations of the rules which are subject to change. Judgment is required in assessing the probability of collection, which is generally based on evaluation of customer-specific information, historical collection experience and

economic market conditions. If market conditions decline, or if the financial conditions of customers deteriorate, the Company may be unable to determine that collectibility is probable, and the Company could be required to defer the recognition of revenue until the Company receives customer payments.

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**MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements (continued)**  
**June 30, 2011**  
**(Unaudited)**

The Company's services revenue consists of fees generated from professional services and customer support and software enhancements related to the Company's software products. Fees from professional services performed by the Company are generally billed on an hourly basis, and revenue is recognized as the services are performed.

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

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

In accordance with the other presentation matters within the Revenue Recognition Topic of the Financial Accounting Standards Board's (FASB) Accounting Standards Codification, the Company recognizes amounts associated with reimbursements from customers for out-of-pocket expenses as revenue. Such amounts have been classified as hardware and other revenue. The total amount of expense reimbursement recorded to revenue was \$2.7 million and \$2.3 million for the three months ended June 30, 2011 and 2010, respectively, and \$5.1 million and \$4.1 million for the six months ended June 30, 2011 and 2010, respectively.

**3. Fair Value Measurement**

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

Level 1 Quoted prices in active markets for identical instruments.

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

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

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

At June 30, 2011, the Company's cash, cash equivalent and short-term investments balance was \$72.1 million, \$31.3 million and \$6.0 million, respectively. Cash equivalents and short-term investments primarily consist of highly

liquid money market funds and certificates of deposit.

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**MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements (continued)**  
**June 30, 2011**  
**(Unaudited)**

Prior to 2008, the Company invested in auction rate securities of which certain auctions failed during 2008 and the underlying securities were not redeemed by the issuer. The Company currently has two remaining auction rate security investments with a par value totaling \$4.5 million. During 2008, the Company recorded an other-than-temporary impairment charge of \$3.5 million for the larger of the two investments. The Company reduced the carrying value to zero due to credit downgrades of the underlying issuer and the bond insurer as well as increasing publicly reported exposure to bankruptcy risk by the issuer. The second auction rate security with a par value of \$1.0 million held by the Company at June 30, 2011 was issued by a state educational loan authority, is collateralized by federally insured student loans and matures in 2037. At June 30, 2011, the carrying value of this investment is \$0.9 million as the Company has recorded temporary impairment charges against this investment prior to 2011. This investment has a high credit rating, and the Company intends and has the ability to hold this security until maturity or until redeemed. In determining the fair value of the auction rate security, the Company considered the credit worthiness of the counterparty, estimates of interest rates, expected holding periods, and the timing and value of expected future cash flows. Changes in the assumptions underlying the Company's valuation could have a significant impact on the value of this security, which may cause losses and potentially require the Company to record other-than-temporary impairment charges on this investment in the future. The Company will continue to evaluate the fair value of its auction rate security investment each reporting period for a potential other-than-temporary impairment.

The Company's auction rate security is classified in the fair value hierarchy as Level 3 as its valuation technique includes significant unobservable inputs. The Company uses quoted prices from active markets which are classified at Level 1 as a highest level observable input in the disclosure hierarchy framework for all other available-for-sale securities. The Company has no investments classified at Level 2.

The following table set forth the assets carried at fair value measured on a recurring basis at June 30, 2011 (in thousands):

	<b>Fair Value Measurements at June 30, 2011 Using</b>			<b>Total</b>
	<b>Quoted Prices (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	
Money market funds	\$ 29,665	\$	\$	\$ 29,665
Auction rate security			909	909
Total available-for-sale securities	\$ 29,665	\$	\$ 909	\$ 30,574

During the first half of 2011, the Company's valuation methodologies were consistent with previous years, and there were no transfers into or out of Level 3 based on changes in observable inputs.

#### **4. Stock-Based Compensation**

In January 2010 the Compensation Committee of the Board of Directors approved certain changes to the Company's historical equity incentive grant practices, with the objective to optimize its performance and retention strength while managing program share usage to improve long-term equity overhang. The changes eliminate stock option awards in favor of 100% restricted stock grants, which for the 2010 and 2011 awards contain vesting provisions that are 50% service-based and 50% performance-based for employee awards and 100% service based for non-employee members of the Board of Directors ( Outside Directors ). The equity compensation program change for employees was effective January 2010 and for Outside Directors was effective May 2010. The employee awards have a four year vesting

period, with the performance portion tied to annual revenue and earnings per share targets. The awards to Outside Directors have a one year vesting period.

The Company recorded stock option expense of \$0.5 million and \$0.9 million during the three months ended June 30, 2011 and 2010, respectively, and \$1.0 million and \$2.1 million during the six months ended June 30, 2011 and 2010, respectively. During the six months ended June 30, 2010 the Company granted options to purchase 17,500 shares of common stock. No stock options were granted during 2011.



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**MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements (continued)**  
**June 30, 2011**  
**(Unaudited)**

A summary of changes in outstanding options for the six months ended June 30, 2011 is as follows:

	<b>Number of Options</b>
<b>Outstanding at December 31, 2010</b>	3,846,262
Exercised	(1,063,261)
Forfeited and expired	(78,304)
<b>Outstanding at June 30, 2011</b>	<b>2,704,697</b>

The Company granted 30,088 shares and 37,485 shares of restricted stock during the three months ended June 30, 2011 and 2010, respectively. The Company recorded restricted stock expense of \$1.9 million and \$1.6 million during the three months ended June 30, 2011 and 2010, respectively. During the six months ended June 30, 2011 and 2010, the Company granted 336,392 shares and 417,428 shares of restricted stock, respectively. The Company recorded restricted stock expense of \$3.8 million and \$3.0 million during the six months ended June 30, 2011 and 2010, respectively.

A summary of changes in unvested shares of restricted stock for the six months ended June 30, 2011 is as follows:

	<b>Number of Shares</b>
<b>Outstanding at December 31, 2010</b>	658,146
Granted	336,392
Vested	(237,645)
Forfeited	(49,457)
<b>Outstanding at June 30, 2011</b>	<b>707,436</b>

**5. Income Taxes**

The Company's effective tax rate was 33.5% for both quarters ended June 30, 2011 and 2010, and 25.3% and 34.0% for the first six months ended June 30, 2011 and 2010, respectively. The effective tax rate for the six months of 2011 includes a \$2.0 million tax benefit resulting from the reduction of a valuation allowance associated with tax credit carryforwards and deferred tax assets in India. The benefit is attributable to the elimination of the tax holiday for Indian companies under the STPI Software Technology Park of India tax plan, based on the February 2011 budget proposed by the India Finance Ministry, which eliminated uncertainty as to the Company's ability to utilize tax assets previously reserved.

For the six month period ended June 30, 2011 there were no material changes to unrecognized tax benefits or accrued interest and penalties related to uncertain tax positions. There has been no change to the Company's policy that recognizes potential interest and penalties related to uncertain tax positions within its global operations in income tax expense.

The Company conducts business globally and, as a result, files income tax returns in the United States Federal jurisdiction and in many state and foreign jurisdictions. The Company is no longer subject to US Federal or significant state, local or non-US jurisdiction income tax examinations for the years before 2007. The Internal Revenue Service has commenced an examination of the Company's U.S. Federal income tax return for 2008. It is anticipated that the examination will be completed within the next six months.

**6. Comprehensive Income**

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

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**MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements (continued)**  
**June 30, 2011**  
**(Unaudited)**

The following table sets forth the calculation of comprehensive income for the three and six months ended June 30, 2011 (in thousands):

	<b>Three Months Ended June</b>		<b>Six Months Ended June 30,</b>	
	<b>2011</b>	<b>30,</b> <b>2010</b>	<b>2011</b>	<b>2010</b>
Net income	\$ 12,339	\$ 8,189	\$ 19,505	\$ 15,384
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	62	(739)	177	(95)
Unrealized loss on investments		(107)		(107)
Other comprehensive income (loss)	62	(846)	177	(202)
Comprehensive income	\$ 12,401	\$ 7,343	\$ 19,682	\$ 15,182

**7. Net Earnings Per Share**

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

The following is a reconciliation of the net income and share amounts used in the computation of basic and diluted net earnings per common share for the three and six months ended June 30, 2011 and 2010 (in thousands, except per share data):

	<b>Three Months Ended June</b>		<b>Six Months Ended June 30,</b>	
	<b>2011</b>	<b>30,</b> <b>2010</b>	<b>2011</b>	<b>2010</b>
Net income	\$ 12,339	\$ 8,189	\$ 19,505	\$ 15,384
<b>Earnings per share:</b>				
Basic	\$ 0.60	\$ 0.38	\$ 0.93	\$ 0.70
Effect of CESs	(0.03)	(0.02)	(0.04)	(0.02)
Diluted	\$ 0.57	\$ 0.36	\$ 0.89	\$ 0.68
<b>Weighted average number of shares:</b>				
Basic	20,696	21,718	20,861	21,837
Effect of CESs	1,079	1,058	1,065	818
Diluted	21,775	22,776	21,926	22,655

Weighted average shares issuable upon the exercise of stock options that were not included in the calculation of diluted earnings per share were 2,750 shares and 949,508 shares for the three months ended June 30, 2011 and 2010, respectively, and 28,000 shares and 2,245,599 shares for the six months ended June 30, 2011 and 2010, respectively. Such shares were not included because they were anti-dilutive.

**8. Contingencies**

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

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**MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements (continued)**  
**June 30, 2011**  
**(Unaudited)**

**9. Operating Segments**

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

The Americas segment charges royalty fees to the EMEA and APAC segments based on software licenses sold by those operating segments. The royalties, which totaled approximately \$1.0 million and \$0.7 million for the three months ended June 30, 2011 and 2010, respectively, and \$1.2 million and \$1.4 million for the six months ended June 30, 2011 and 2010, respectively, are included in cost of revenue in EMEA and APAC with a corresponding reduction in the Americas cost of revenue. The revenues represented below are from external customers only. The geographical-based costs consist of costs of personnel, direct sales and marketing expenses, and general and administrative costs to support the business. There are certain corporate expenses included in the Americas region that are not charged to the other segments, including research and development, certain marketing and general and administrative costs that support the global organization, and the amortization of acquired developed technology. Included in the Americas costs are all research and development costs including the costs associated with the Company's India operations.

The following table presents the revenues, expenses and operating income by reporting segment for the three and six months ended June 30, 2011 and 2010 (in thousands):