

MANHATTAN ASSOCIATES INC

Form 10-K

February 22, 2013

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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, 2012

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)

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Georgia  
(State or other jurisdiction of

58-2373424  
(I.R.S. Employer

incorporation or organization )

Identification No.)

2300 Windy Ridge Parkway, Tenth Floor

Atlanta, Georgia  
( Address of principal executive offices )

30339  
( Zip Code )

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

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

Title of each class	Name of each exchange on which registered
Common Stock, \$.01 par value per share	The Nasdaq Stock Market LLC

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

None

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 whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation 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 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, 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. (Check one):

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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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, 2012 was \$915,229,892, which was calculated based upon a closing sales price of \$45.71 per share of the Common Stock as reported by the Nasdaq Global Select Market on the same day. As of February 15, 2013, the Registrant had outstanding 19,631,514 shares of Common Stock.

### **DOCUMENTS INCORPORATED BY REFERENCE**

The Registrant's definitive Proxy Statement for the Annual Meeting of Shareholders to be held May 16, 2013 is incorporated by reference in Part III of this Form 10-K to the extent stated herein.

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**MANHATTAN ASSOCIATES, INC.**

**Annual Report on Form 10-K**

**For the Fiscal Year Ended December 31, 2012**

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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. Investor and 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, technical difficulties, availability of technical personnel, changes in customer requirements, competitive pressures, market acceptance, the impact of acquisitions, 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](http://www.manh.com).

## **PART I**

### **Item 1. Business**

#### **Overview**

We were founded in 1990 in Manhattan Beach, California and incorporated in Georgia in 1998. 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, Tenth Floor, Atlanta, Georgia 30339, and our telephone number is 770-955-7070.

We develop, sell, deploy, service, and maintain supply chain commerce software solutions for retailers, wholesalers, manufacturers, governments, and other organizations. Our customers include many of the world's largest and most profitable retailers. Manhattan Associates supply chain commerce solutions are at the leading edge of the omni-channel commerce revolution, as they are positioned to deliver critical business capabilities that seamlessly connect every order and delivery channel across the customer's entire enterprise. Key benefits of implementing our solutions include:

Solving the complexity of operating profitably in an omni-channel world (stores, websites, mobile devices, catalogs, call centers) by forecasting demand, controlling inventory, enabling buy everywhere, deliver anywhere shipping, and managing bottom line costs through inventory, labor, and asset optimization;

Opening new revenue opportunities by saving the sale on the store floor through network-wide inventory visibility and capturing greater gross margins by optimizing demand fulfillment and total cost of ownership;

Coordinating workflows and communications with the participants in the supply chain ecosystem, including suppliers, manufacturers, distributors, customers, and transportation providers;

Balancing transportation and inventory costs with desired service levels across all channels;

Increasing productivity and asset utilization in distribution centers, transportation networks, and delivery channels, including retail stores, to capture more customer revenue and improve return on supply chain investments, including storage, labor, inventory, and transportation investments;

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

Accelerating eco-friendliness through green initiatives such as reducing carbon footprints and greenhouse gas emissions and improving reuse and recycling.

We believe that a platform-based approach is the best way to optimize an organization's supply chain, as well as its entire supply chain ecosystem (every enterprise that interacts with the supply chain). Supply chain ecosystems encompass disparate functions within an organization that affect its supply chain (such as distribution, transportation, order lifecycle management, inventory optimization, and planning and forecasting) as well as interactions with entities outside the organization that are integral to its supply chain, including manufacturers, suppliers, distributors, trading partners, transportation providers, channels (such as catalogers, store retailers, call centers, mobile devices and web outlets) and consumers.

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We deliver these benefits in a distinctive way through a set of supply-chain-centered capabilities we call Manhattan MORE®: Manhattan's Optimized Roadmap to Excellence (See Figure 1). These elements work together to coordinate insights, people, workflows, assets, events, and tasks across supply chain functions from planning through execution. They also help to coordinate actions, data exchange, and communication among participants in supply chain ecosystems.

### **The Omni Channel Revolution For Retail and Beyond**

For decades, the supply chain had been dominated by a focus on operating efficiency and cost management. Over the past 20 years, Manhattan Associates has built a foundation and world-class reputation for building technology solutions to solve the most complex and business critical supply chain problems. The consumerization of technology and emergence of on-line commerce have prompted a revolution that demands new supply chain capabilities and new supply chain commerce solutions. Today, effective supply chain management is as much about revenue generation as it is about cost reduction. While the earliest signals of the omni-channel revolution were seen in retail, we believe that virtually every industry around the world will be impacted in one way or another. Manufacturers, wholesalers, and third party logistics providers all feel the impact of converging channels.

For almost every retailer, the omni-channel revolution has sparked an outright land grab for market share. Switching costs for the average consumer have dropped radically, as virtually every major retailer operates on-line storefronts as well as physical, brick and mortar locations, placing customer loyalty in jeopardy. Retailers know that in order to keep customers they must be able to deliver a consistent shopping experience across every channel and at a cost that is competitive. As the multi-channel business model has evolved, competitors have realized that winning requires more than a great website. Winning requires an integrated business model that functions seamlessly across every channel and delivers a consistent experience at a cost structure that can deliver a profit.

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Manhattan Associates is leading the industry through this radical change with its platform-based solutions that connect supply chain solutions with commerce chain solutions.

### **Manhattan Associates Software Solution Portfolios**

Our supply chain commerce software solution portfolios Manhattan SCOPE<sup>®</sup> and Manhattan SCALE<sup>™</sup> are designed to leverage our platform investments to deliver both the profitability benefits typically associated with supply chain improvements and top line revenue gains created by commerce initiatives. Manhattan SCOPE (Supply Chain Optimization, Planning through Execution, depicted in Figure 2) leverages our Supply Chain Process Platform<sup>™</sup> (SCPP, depicted in Figure 3) to bring together the supply and commerce chains; Manhattan SCALE (Supply Chain Architected for Logistics Execution, depicted in Figure 4) leverages Microsoft's .NET platform to unify logistics functions.

Our solutions operate across Unix, IBM System i, Linux and Microsoft.NET computing platforms, as well as on multiple hardware platforms and systems. Because supply chain solutions necessarily interact with other business operation systems, our solutions are designed to interoperate with software from other providers as well as with a company's existing legacy systems. This interfacing and open system capability enables customers to continue using existing computer resources and to choose among a wide variety of existing and emerging computer hardware and peripheral technologies. We provide an integration framework to facilitate rapid and reliable integration to any Enterprise Resource Planning (ERP) or host business systems (including certified integration to both SAP and Microsoft Dynamics AX). We also offer certain of our solutions in both on-premise software and cloud computing models so that customers can select the option that best meets their requirements for control, flexibility, cost of ownership, and time-to-deployment.

#### **Manhattan SCOPE<sup>®</sup>**

SCOPE is positioned for companies that consider supply chain software, processes, and technology strategic to their market leadership. It is the leading portfolio of supply chain commerce solutions built on a common technology platform. SCOPE is distinctive for several reasons. First, it clearly defines the role and capabilities for supply chain and commerce chain solutions. Second, it articulates the convergence of supply chain and commerce chain, particularly in the areas of Distribution Management and Order Lifecycle Management. Finally, it highlights the central value of a supply chain platform by elevating visibility and insight above all of the functional capabilities.



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### **Visibility and Insight**

SCOPE offers a series of solutions designed to provide both network wide visibility as well as analytical insight into all functions across the supply chain. These solutions include Supply Chain Visibility™ and Event Management™, which are designed to provide global inventory and order visibility along with predictive alerting to critical events in the supply chain. Also included is Total Cost to Serve™, a financial analytics tool created to provide supply chain executives insight into granular level of cost detail from purchase to final delivery. This level of information, along with simulation and predictive tools, enables executives and analysts to better monetize their supply chain, driving revenue and profitability while enhancing customer service levels. Finally, Visibility and Insights™ also includes Supply Chain Intelligence™, Manhattan's operational reporting and analytics solution.

### **Supply Chain Solution Suites**

**Inventory Optimization**™ enables enterprises to reduce overall network inventory to release working capital while improving sales and customer order fill rates. Inventory Optimization also provides analytical tools to better balance the financial trade-off between improving customer service levels and overall inventory investments. Our multi-echelon, all-channel solution helps organizations manage distribution networks with more than one type or level of distribution center between suppliers and various endpoints. Vendor Managed Inventory™ helps formulate tighter, lasting relationships with key trading partners, such as replenishing products into customers' locations or sharing key supply chain performance indicators.

**Transportation Lifecycle Management**™ optimizes all aspects of transporting product through supply chains, from procurement through delivery. The system helps companies manage assets, timing, accuracy, and costs for both inbound and outbound shipments, and across private and contracted fleets. The solution also interconnects transportation partners and suppliers to improve visibility to initial and changing requirements as well as to improve delivery and billing accuracy.

**Distribution Management**™ is designed to effectively manage the key assets required to run complex distribution operations, and to move goods and information through a warehouse with precision and velocity. The suite enables (among other processes) knowing what inventory will be arriving at a distribution center; receiving, putting away and shipping inventory, and managing distribution-related labor.

### **Commerce Chain Solution Suites**

**Order Lifecycle Management**™ is the heart of the omni-channel enterprise. This solution set leverages network wide inventory and uses a single view of customer demand in order to drive new revenue and maximize profitability. Highlights include the ability to use store inventory to fulfill on-line orders and to use inventory across the entire network to save in-store sales. Advanced algorithms can identify either the most distressed inventory or the lowest fulfillment costs to maximize profit margins. For retailers, in-store, mobile, and call center capabilities enable their associates to locate and sell items from across their supply chain network to meet real-time customer demand.

**Store Inventory and Fulfillment**™ brings execution tools to the store floor to enable omni-channel initiatives. Store Inventory Management provides inventory receiving and auditing tools to help store associates build inventory integrity. Store Order Fulfillment includes a series of tools to support pick-up in and fulfill from the store. These components provide critical capabilities to enable omni-channel initiatives.

**Planning**™ supports all levels of enterprise merchandise planning, from strategic level planning down to assortment and key item planning. Customer Preference Planning™ capabilities use multivariable shopper preference data to create merchandise, pricing and promotion plans tuned to how customers think when shopping and buying across multiple channels (including stores, catalogs, the web, mobile devices and call centers) so retailers understand relationships among product type, style, brand, color, fabrication, and price when their customers make decisions to buy.

### **Supply Chain Process Platform**

At the foundation of Manhattan SCOPE is our Supply Chain Process Platform (SCPP), which utilizes a service-oriented architecture (SOA), common data model, collaborative gateways, and an optimization engine (among other constructs) to facilitate supply chain transformations that help our customers create and sustain competitive advantages. Specific elements of Manhattan's SCPP, along with related core benefits, are detailed in Figure 3.

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Among its overall benefits, our SCPP enables customers using multiple Manhattan SCOPE applications to achieve Cross-Application Optimization™. Cross-Application Optimization is our term for the compound benefits derived not only from optimizing multiple functional supply chain elements *individually*, but also *collectively* by considering factors across multiple functions in a supply chain (*e.g.*, warehouse management, transportation, inventory, and labor) simultaneously, so that their individual and related impacts inform each decision to determine the optimal course of action for the organization as a whole. Our SCPP's common architecture also enables customers to speed implementations, simplify upgrades, and achieve lower total cost of ownership over time.

### **Manhattan SCALE™**

SCALE is our portfolio of logistics execution solutions built on the Microsoft®.NET platform. It is targeted toward companies with execution-focused supply chain needs that require speed-to-value, resource-light system configuration and maintenance, and the ability to quickly scale their logistics operations up or down in response to market fluctuations or business requirement changes. SCALE combines the features of Trading Partner Management, Yard Management, Optimization, Warehouse Management, and Transportation Execution, as shown in Figure 4.

Because SCALE leverages a common platform, solutions share common data elements, and each user can access all applications through a single sign-on. Users also can set up dashboards that enable easy access to real-time information most relevant to their jobs. SCALE's ease of deployment, operation, and support make it a popular choice for organizations operating in countries with emerging and developing economies, and where technical support resources are limited.

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### **Professional Services**

We advise and assist our customers in planning and implementing our solutions through our global Professional Services Organization. To ensure long-term successful customer relationships, consultants assist customers with the initial deployment of our systems, the conversion and transfer of the customer's historical data onto our systems, and ongoing training, education, and system upgrades. We believe our Professional Services teams enable customers to implement our solutions knowledgeably and in the appropriate amount of time, help customers achieve expected results from system investments, continuously identify new opportunities for supply chain advancements, and meaningfully add to our industry-specific knowledge base to improve future implementations and product innovations.

Substantially all of our customers use at least some portion of our Professional Services to implement and support our software solutions. Professional Services typically are rendered under time and materials contracts, with services billed by the hour. Professional Services sometimes are rendered under fixed-fee contracts, with payments due on specific dates or milestones. We believe that increased sales of our software solutions will drive higher demand for our Professional Services.

We believe our Professional Services team delivers deep supply chain domain expertise to our customers through industry-specific best-practices protocols and processes developed through the collective knowledge we have gained in more than 3,900 installations worldwide. We also extensively train our consulting personnel on supply chain operations and on our solutions.

Business consultants, systems analysts, and technical personnel assist customers in all phases of implementing our systems, including planning and design, customer-specific module configuration, on-site implementation, or conversion from existing systems, and integration with customer systems such as Enterprise Resource Planning (ERP), web- and mobile-based commerce platforms, and Material Handling Equipment (MHE) systems. At times, third-party consultants, such as those from major systems integrators, assist our customers with certain implementations.

### **Customer Support Services and Software Enhancements**

We offer a comprehensive program that provides our customers with software upgrades for additional or improved functionality and technological advances incorporating emerging supply chain and industry initiatives. Over the past three years, our annual renewal rate of customers subscribing to comprehensive support and enhancements has been greater than 90%. We are able to remotely access customer systems to perform diagnostics, provide on-line assistance, and facilitate software upgrades. We offer 24 hour customer support every day of the year, plus software upgrades for an annual fee that is paid in advance and is based on the solutions the customer has and the service level required. Software 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 at fixed fees per-person, per-class, and cover topics such as (but not limited to) solution use, configuration, implementation, and system administration. Several computer-based training programs can be purchased for a fixed fee for use at client sites.

### **Hardware Sales**

Along with software licenses, and as a convenience for our customers, we sell a variety of hardware developed and manufactured by others, including (but are not limited to) computer hardware, radio frequency terminal networks, RFID chip readers, bar code printers and scanners, and other peripherals. We resell all third-party hardware products and related maintenance pursuant to agreements with manufacturers or through distributor-authorized reseller agreements pursuant to which we are entitled to purchase hardware products and services at discount prices and to receive technical support in connection with product installations and any subsequent product malfunctions. We do not maintain hardware inventory as we generally purchase hardware from vendors only after receiving related customer orders.

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### **Strategy**

Our objective is to extend our position as the leading global supply chain solutions provider for supply chain leaders, meaning organizations intent on creating and sustaining market advantages by leveraging supply chain solutions. Our solutions help global distributors, wholesalers, retailers, logistics providers and manufacturers successfully manage accelerating and fluctuating market demands, as well as master the increasing complexity and volatility of their local and global supply chains. We believe our solutions are advanced, highly functional, and highly scalable. They are designed to enable organizations to: create customer experiences consistent with their brand values; improve relationships with suppliers, customers and logistics providers; leverage investments across supply chain functions; effectively generate revenue and manage costs; and meet dynamically changing customer requirements. We believe our solutions are uniquely positioned to holistically optimize supply chains from planning through execution, and that customers can leverage this holistic approach to create operational and market advantages. Strategies to accomplish our objectives include (but are not limited to) the following:

*Develop and Enhance Software Solutions.* We intend to continue to focus our research and development resources on enhancing our supply chain solutions. We offer what we believe to be the broadest and most richly-featured software portfolio in the supply chain solutions marketplace. To continuously expand functionality and value, 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 these opportunities through our Product Management, Professional Services, Customer Support, and Account Management organizations, through interactions such as ongoing customer consulting engagements and implementations, sessions with our solution user groups, association with leading industry analyst and market research firms, and participation on industry standards and research committees. Our solutions address needs 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 our solutions to meet the dynamic requirements of these and new vertical markets as business opportunities dictate.

*Expand International Presence.* We believe that our solutions offer significant benefits to customers in markets outside the United States, and for organizations with global operations. Approximately 1,270 out of a total of approximately 2,400 Manhattan employees work outside the United States to build international sales, service our international clients, and further develop our solutions. We have offices in Australia, China, France, India, Japan, the Netherlands, Singapore, and the United Kingdom, as well as representatives in Mexico and reseller partnerships in Latin America, Eastern Europe, the Middle East, South Africa, and Asia. Our Europe, Middle East, and Africa (EMEA) operations support sales, implementation services, and customer support functions for customers in Europe as well as a number of customers across the Middle East, concentrated in countries we consider politically and economically stable, such as Jordan, Kuwait, Oman, Turkey, Saudi Arabia, and the United Arab Emirates. Our Asia Pacific (APAC) operations service emerging opportunities in China, Southeast Asia, and India, as well as more established markets in Australia and New Zealand. Our international strategy includes leveraging the strength of our relationships with current U.S. and Europe-based customers that also have significant international operations, and pursuing strategic marketing partnerships with international systems integrators and third-party solution providers.

*Expand Our Strategic Alliances and Indirect Sales Channels.* We currently sell our products primarily through our direct sales personnel, and through partnership agreements with a select number of organizations in emerging markets where we do not currently have a direct sales presence. 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, and agreements with third-party logistics providers. These alliances extend our market coverage and provide us with new business leads and access to trained implementation personnel.

*Acquire or Invest in Complementary Businesses.* We continuously evaluate strategic acquisition opportunities of technologies, solutions, and businesses that are consistent with our platform-based strategy and enable us to enhance and expand our supply chain planning and execution solutions and service offerings. Preferred acquisition targets are those that would be complementary to our existing solutions and technologies, expand our geographic presence and distribution channels, extend our presence into additional vertical markets with challenges and requirements similar to those we currently serve, and further solidify our leadership position within the primary components of supply chain planning and execution.

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### **Sales and Marketing**

We employ multi-disciplinary sales teams that consist of professionals with industry experience in sales and technical sales support. To date, we have generated the majority of our software sales (licensing) revenue through our direct sales force. We plan to continue to invest in our sales, services, and marketing organizations within the United States, EMEA, and APAC, and to pursue strategic marketing partnerships. We conduct comprehensive global marketing programs that include prospect profiling and targeting, lead generation, public relations, analyst relations, trade show attendance and sponsorships, supply chain conference hosting, online marketing, joint promotion programs with vendors and consultants, and ongoing customer communication programs.

Our sales cycle typically begins with the generation of a sales lead through in-house telemarketing efforts, targeted promotions, web inquiries, trade show presence, speaking engagements, hosted seminars, or other means of referral or the receipt of a request for proposal from a prospective customer. Leads are qualified and opportunities are closed through a process that includes telephone-based assessments of requirements; responses to requests for proposals, presentations and product demonstrations, site visits and/or reference calls with organizations already using our supply chain solutions, and contract negotiations. Sales cycles vary substantially from opportunity to opportunity, but typically require six to twelve months.

In addition to new customer sales, we plan to continue to leverage our existing customer base to drive revenue from system upgrades, sales of additional licenses of purchased solutions, and sales of new or add-on solutions. To efficiently penetrate emerging global markets, we leverage indirect sales channels, including sales through reseller agreements, marketing agreements, and agreements with third-party logistics providers. To extend our market coverage, generate new business leads, and provide access to trained implementation personnel, we leverage strategic alliances with systems integrators skilled at implementing our solutions. Business referrals and leads are positively influenced by systems integrators, which include most of the large consulting firms and other systems consulting firms specializing in our targeted industries.

Our Manhattan Value Partner (Manhattan MVP) and Manhattan GeoPartner programs foster joint sales and marketing with other organizations. Manhattan Value Partners are proven software and hardware providers, trusted third-party integrators and consultants who bring added value to customer engagements through vertical industry knowledge or technical specialization. Manhattan MVPs support and complement our supply chain solutions so we can provide customers with a comprehensive approach that is suited to their business requirements. This collaborative program is designed to benefit both Manhattan and our partners through tailored joint marketing, sales and, in some cases, co-development efforts. Among others, Manhattan MVPs include IBM, Deloitte, Kurt Salmon, Microsoft, and Motorola. Manhattan GeoPartners represent a select group of companies that sell and implement our solutions in specific geographies around the world, each providing valuable localized expertise to meet customer needs in areas such as Western Europe, Eastern Europe, Russia, the Middle East, Latin America, Africa, and the Asia Pacific region.

### **Customers**

To date, our customers have been suppliers, manufacturers, distributors, retailers, and logistics providers in a variety of industries. Our top five customers (new or pre-existing) in the aggregate accounted for 12%, 15%, and 10% of total revenue for the years ended December 31, 2012, 2011, and 2010, respectively. No single customer accounted for more than 10% of our total revenue in 2012, 2011, or 2010.

### **Product Development**

We focus our development efforts on adding new functionality to existing solutions, integrating our various solution offerings, enhancing the operability of our solutions across our Supply Chain Process Platform and across distributed and alternative hardware platforms, operating systems, and database systems, and developing new solutions. We believe that our future success depends, in part, on 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, development frequently focuses on base system enhancements and incorporating new user requirements and features into our solutions. As a result, we deliver packaged, highly configurable solutions with increasingly rich functionality rather than custom-developed software. We also deliver interface toolkits for many major ERP systems to enhance communication and improve data flows between our core solutions and our clients' host systems.

We leverage internal and external scientific advisors to inform our solution strategies and research and development approaches with the most advanced thinking on supply chain opportunities, challenges, and technologies. Our internal research team is comprised of Ph.D.-credentialed math and science experts who work on creating and solving algorithms and other constructs that advance the optimization capabilities and other aspects of our solutions. Our external Science Advisory Board unites the thinking of experts from leading educational institutions known for their supply chain disciplines, and practitioners from organizations deploying supply chain technology in innovative and market-advancing ways. Together, our Research Team and Science Advisory Board inform both the practical business approaches and the mathematical and

scientific inventiveness of our solutions.

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We conduct most development internally in the U.S. and India to retain development knowledge and promote programming standards continuity. However, we may periodically outsource some projects that can be performed separately and/or that require special skills. We also use third-party research and development companies for translation to localize our products into Chinese, French, Japanese, and Spanish.

Our research and development expenses for the years ended December 31, 2012, 2011, and 2010 were \$44.7 million, \$42.4 million, and \$40.5 million, respectively. We intend to continue to invest significantly in product development.

## **Competition**

Our solutions are solely focused on the supply chain planning and execution markets, which have been consolidating rapidly, are intensely competitive, and are characterized by rapid technological change. The principal competitive factors affecting the markets for our solutions include: industry expertise; company and solution reputation; company viability; compliance with industry standards; solution architecture; solution functionality and features; integration experience, particularly with ERP providers and material handling equipment providers; ease and speed of implementation; proven return on investment; historical and current solution quality and performance; total cost of ownership; solution price; and ongoing solution support structure. We believe 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 at the enterprise as a whole. Our existing competitors include:

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

ERP vendors, including Oracle, SAP, and Infor, among others;

Supply chain execution vendors, including JDA Software Group, Inc. (JDA), HighJump Software Inc., and the Sterling Commerce division of IBM, among others;

Supply chain planning vendors, including JDA and SAS Institute Inc., among others; and

Smaller independent companies that have developed or are attempting to develop supply chain execution solutions and/or planning solutions that apply in specific countries and/or globally.

We anticipate facing increased competition from ERP and supply chain management (SCM) applications vendors and business application software vendors that may broaden their solution offerings by internally developing or by acquiring or partnering with independent developers of supply chain planning and execution software. Some of these ERP and SCM companies and other potential competitors have longer operating histories; significantly more financial, technical, marketing and other resources; greater name recognition; broader solutions; and larger installed bases of customers than us. To the extent that ERP and SCM vendors or other large competitors develop or acquire systems with functionality comparable or superior to ours, their larger customer bases, long-standing customer relationships, and ability to offer broader solutions outside the scope of supply chain could create significant competitive advantage for them. It also is possible that new competitors or alliances among current and/or new competitors could emerge to win significant market share. Increased competition could result in price reductions, fewer customer orders, reduced earnings and margins and loss of market share. In turn, this could have a material adverse effect on our business, results of operations, cash flow, and financial condition.

We believe we have established meaningful competitive advantages and have built barriers to market entry through our supply chain expertise; our platform-based solution approach; our track record of continuous supply chain innovation and investment; our strong and endorsing customer relationships; our significant success in deploying and supporting supply chains for market-leading companies; and our ability to out-execute others in identifying sales opportunities and demonstrating expertise throughout the sales cycle. However, to further our market success, we must continue to respond promptly and effectively to technological change and competitors' innovations. Consequently, we cannot assure that we will not be required to make substantial additional investments in 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.





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### **International Operations; Segments**

We have three reporting segments, based on geographic location: the Americas; Europe, Middle East and Africa ( EMEA ); and Asia Pacific ( APAC ). For further information on our segments, see Note 7 to our consolidated financial statements. Our international revenue was approximately \$104.4 million, \$90.7 million, and \$80.7 million for the years ended December 31, 2012, 2011, and 2010, respectively, which represents approximately 28%, 28%, and 27% of our total revenue for the years ended December 31, 2012, 2011, and 2010, respectively. International revenue includes all revenue derived from sales to customers outside the United States. We now have approximately 1,270 employees outside the United States.

### **Proprietary Rights**

We rely on a combination of copyright, trade secret, trademark, and trade dress laws, confidentiality procedures, and contractual provisions to protect our proprietary rights in our products, processes and technology. We have registered trademarks for Manhattan Associates and the Manhattan Associates logo, as well as a number of our products and features. Generally we enter into confidentiality and assignment-of-rights agreements with our employees, consultants, customers and potential customers and limit access to, and distribution of, our proprietary information. We license our proprietary products to our customers under license agreements that we believe contain appropriate use and other restrictions in order to try to best protect our ownership of our products and our proprietary rights in them, and to protect our revenue potential from our products. However, despite our efforts to safeguard and maintain our proprietary rights, we cannot ensure that we will successfully deter misappropriation, unintended disclosure or independent third-party development of our technology or our proprietary rights or information. Policing unauthorized use of our products is difficult, and, while we are unable to determine the extent to which piracy of our software solutions exists, as is the case with any software company, piracy could become a problem. Further, to the extent that we enter into transactions in countries where intellectual property laws are not well developed or are poorly enforced, our efforts to protect our proprietary rights may be ineffective. Whether we seek to enforce our proprietary rights in the U.S. or abroad, our efforts, including litigation to enforce our rights, can result in substantial costs and diversion of resources, and such efforts, or our failure to succeed in such efforts, could have a material adverse effect on our business, financial condition, results of operations or cash flows, regardless of the final outcome.

As the number of supply chain management solutions available in the marketplace increases and solution functionality continues to overlap, supply chain software may increasingly become subject to claims of infringement or other misappropriation of intellectual property. Third parties may assert infringement or misappropriation claims against us relating to our products, processes or technology. Such claims, whether or not they have merit, generally are time-consuming and may result in costly litigation, divert management's attention or cause product shipment delays or require us to enter into royalty or licensing arrangements. Defense of infringement or other misappropriation claims, entering into royalty or licensing agreements, the unavailability of such agreements, or adverse determinations in proprietary rights litigation could have a material adverse effect on our business, financial condition, results of operations or cash flows.

### **Employees**

At December 31, 2012, we employed approximately 2,400 employees worldwide, of which 1,130 are based in the Americas, 170 in EMEA, and 1,100 in APAC (including India). Our distribution by function is approximately: 145 in sales and marketing; 1,425 in services; 650 in research and development ( R&D ); and 180 in general and administration.

### **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 100 F Street, N.E., 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 a website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

On our website, [www.manh.com](http://www.manh.com), we provide free of charge our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments thereto, 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.

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Additionally, our code of business conduct and ethics and the charters of the Audit, Compensation, and Nomination and Governance Committees of the Board of Directors are available on our website.

### **Item 1A. Risk Factors**

You should consider the following and other risk factors in evaluating our business or an investment in our common stock. The occurrence of adverse events described in the following risk factors or other adverse events not described in the following risk factors could have a material adverse effect on our business, results of operations, cash flow and financial condition, and could cause the trading price of our common stock to decline.

**Our performance can be negatively impacted by global macroeconomic or other external influences which could have a material adverse effect on our business, results of operations, cash flow and financial condition.** We are a technology company selling technology-based solutions with total pricing, including software and services, often, exceeding \$1.0 million. Reductions in the capital budgets of our customers and prospective customers could have an adverse impact on our ability to sell our solutions. We believe that potential customer concerns over the slow economic recovery within the United States and/or other geographic regions in which we operate could cause delays in capital spending by our customers or delay the closing of our sales, which could have a material adverse impact on our business and our ability to compete and further intensify in our already intensely competitive markets.

**The recovering financial and credit markets and the slow economic recovery in general may adversely affect our business, results of operations, cash flow and financial condition.** Demand for our products and services depends in large part upon the level of capital and maintenance expenditures by many of our customers. Decreased capital and maintenance spending could have a material adverse effect on the demand for our products and services, and on our business, results of operations and financial condition. Disruptions in the financial markets, such as the events that began in the second half of 2008 from which the financial markets are now slowly recovering, may adversely impact the availability of credit already arranged and the availability and cost of credit in the future, which could result in the delay or cancellation of projects or capital programs on which our business depends.

In addition, continuing weakness or further deterioration in regional economies or the world economy could negatively impact the capital and maintenance expenditures of our customers and end users. There can be no assurance that government responses to the disruptions in the financial markets or to weakening economies will restore confidence, stabilize markets, or increase liquidity and the availability of credit. These conditions may reduce the willingness or ability of our customers and prospective customers to commit funds to purchase our products and services, or their ability to pay for our products and services after purchase.

**We may not be able to continue to successfully compete with other companies.** We compete in markets that are intensely competitive and are expected to become more competitive as current competitors expand their product offerings. 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:

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

ERP vendors, including Oracle, SAP, and Infor, among others;

supply chain execution vendors, including JDA Software Group, Inc. (JDA), HighJump Software Inc., and the Sterling Commerce division of IBM, among others;

supply chain planning vendors, including JDA and SAS Institute Inc., among others; and

smaller independent companies that have developed or are attempting to develop supply chain execution solutions and/or supply chain planning solutions that apply in specific countries and/or globally.

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We anticipate facing increased competition from ERP and supply chain management (SCM) applications vendors and business application software vendors that may broaden their solution offerings by internally developing or by acquiring or partnering with independent developers of supply chain planning and execution software. Some of these ERP and SCM companies and other potential competitors have longer operating histories, significantly more financial, technical, marketing, and other resources, greater name recognition, broader solutions, and larger installed bases of customers than do we. To the extent that ERP and SCM vendors or other large competitors develop or acquire systems with functionality comparable or superior to ours, their larger customer bases, long-standing customer relationships, and ability to offer broader solutions outside the scope of supply chain could create significant competitive advantage for them. It also is possible that new competitors or alliances among current and/or new competitors could emerge to win significant market share. Increased competition could result in price reductions, fewer customer orders, reduced earnings and margins, and loss of market share. In turn, this could have a material adverse effect on our business, results of operations, cash flow, and financial condition.

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We believe the domain expertise required to continuously innovate supply chain technology in our target markets, effectively and efficiently implement solutions, identify and attract sales opportunities, and compete successfully in the sales cycle provides us with a competitive advantage and is a significant barrier to market entry. However, in order to be successful in the future, we must continue to respond promptly and effectively to technological change and competitors' innovations, and consequently 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. Some of our competitors have significant resources at their disposal, and the degree to which we will compete with their new innovative products in the marketplace is undetermined.

**Our operating results are substantially dependent on one line of business.** We continue to derive our revenues from sales of our supply chain solutions software and related services and hardware. Any factor adversely affecting the markets for supply chain solutions could have an adverse effect on our business, results of operations, cash flow, and financial condition. Accordingly, our future operating results will depend on the demand for our supply chain products and related services and hardware by our customers, including new and enhanced releases that we subsequently introduce. We cannot guarantee that the market will continue to demand our current products or 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 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 can 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: global macro-economic disruptions; credit and equity market disruptions, which can significantly impact capital availability and spend timing of customers or potential customers; the varying sales cycle for our products and services from customer to customer, including multiple levels of authorization required by some customers; the varying demand for our products; customers budgeting and purchasing cycles; potential deferral of license revenue well after entering into a license agreement due to extended payment terms, including, although infrequent, payment terms in a contract extending beyond twelve months, significant software modifications, future software functionality deliverables not on a stand-alone basis, or other negotiated terms that preclude software revenue recognition under U.S. general accepted accounting principles; delays in our implementations at customer sites; timing of hiring new services employees and the rate at which these employees become productive; timing of introduction of new products; 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. Historical growth rates and historical quarterly revenue and operating results may not be a good indicator of future operating results and reliance on historical results should not be used to predict our future performance.

**Our future revenue is dependent on continuing license sales, which in turn drive sales of post-contract support and professional services.** We are dependent on our new customers as well as our large installed customer base to purchase additional software licenses, post-contract support, and professional services from us. Our post-contract support agreements are generally for a one-year term and our professional services agreements generally only cover a particular engagement. In future periods customers may not license additional products, and in turn may not renew post-contract support agreements or purchase additional professional services from us. If our customers decide not to license or purchase these products and services from us, or if they reduce the scope of their post-contract support or hosting or professional services agreements, our revenue could decrease significantly, and that could have a material adverse effect on our business, results of operations, cash flow and financial condition.

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In addition, many of our customers are using older versions of our products for which we are no longer developing any further upgrades or enhancements. While we intend to migrate our customers who are using these versions to newer versions or products, there can be no assurance that these customers will do so. If customers using older versions of our products decide not to license our current software products, or decide to discontinue the use of our products and associated post-contract support services, our revenue could decrease and our operating results could be materially adversely affected.

**We may encounter long sales cycles, particularly with our larger customers, which could have an adverse effect on the amount, timing, and predictability of our revenue, adversely affecting our business, results of operations, cash flow, and financial condition.** Our products have lengthy sales cycles, which typically extend from six to twelve months and may take up to several years. Potential and existing customers, particularly larger enterprise customers, often commit significant resources to an evaluation of available solutions and services and require us to expend substantial time and resources in connection with our sales efforts. The length of our sales cycles also varies depending on the type of customer to which we are selling, the product being sold, and customer requirements. We may incur substantial sales and marketing expenses and expend significant management effort during this time, regardless of whether we make a sale. Many of the key risks relating to sales processes are beyond our control, including: our customers' budgetary and scheduling constraints; the timing of our customers' budget cycles and approval processes; our customers' willingness to replace their currently deployed software solutions; and general economic conditions.

As a result of these lengthy and uncertain sales cycles of our products and services, it is difficult for us to predict when customers may purchase products or services from us, thereby affecting when we can recognize the associated revenue, and our operating results may vary significantly and may be adversely affected. The length of our sales cycle makes us susceptible to having pending transactions delayed or terminated by our customers if they decide to delay or withdraw funding for IT projects. Our customers may decide to delay or withdraw funding for IT projects for various reasons, including, but not limited to, global economic cycles and capital market fluctuations.

**Delays in implementing our products could adversely impact us.** Due to the size and complexity of most of our software implementations, our implementation cycle can be lengthy and may result in delays. Our products may require modification or customization and must integrate with many existing computer systems and software programs of our customers. This can be time-consuming and expensive for customers and can result in implementation and deployment delays of our products. 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 limit our future sales opportunities, impact revenue, and harm our reputation.

**Our pricing models may need to be modified due to price competition.** The competitive markets in which we operate may oblige us to reduce our prices in order to contend with the pricing models of our competitors. If our competitors discount certain products or services, we may choose to lower prices on certain products or services in order to attract or retain customers. Any such price modifications would likely reduce margins and could adversely affect our business, results of operations, cash flow, and financial condition.

**Our ability to license our software is highly dependent on the quality of our services offerings, and our failure to offer high quality services could adversely affect our software licensing revenue and results of operations.** Most of our customers rely to some extent on our professional services to aid in the implementation of our software solutions. Once our software has been installed and deployed, our customers may depend on us to provide them with ongoing support and resolution of issues relating to our software. Therefore, a high level of service is critical for the continued marketing and sale of our solutions. If we or our partners do not efficiently and effectively install and deploy our software products, or succeed in helping our customers quickly resolve post-deployment issues, our ability to sell software products to these customers would be adversely affected and our reputation in the marketplace and with potential customers could suffer. In turn, our business, results of operations, cash flow, and financial condition could be materially adversely affected.

**Our failure to manage the growth of our operations may adversely affect our business, results of operations, cash flow, and financial condition.** 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. We may further expand domestically or internationally through internal growth or through acquisitions of related companies and technologies. If we fail to maintain continuity in our executive officers; develop the management skills of our managers and supervisors; attract, retain, train, and motivate our employees; improve our operational, financial, and management controls; and maintain adequate reporting systems and procedures and our management and information control systems, our business, results of operations, and cash flow could be negatively impacted.

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**Our international operations have many associated risks.** We continue to strategically manage our presence in international markets, 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 our business in these markets at the same rate as in North America. Because of these inherent complexities and challenges, lack of success in international markets could adversely affect our business, results of operations, cash flow, and financial condition.

We have international offices in Europe: the United Kingdom, the Netherlands, and France; and in Asia: China, Japan, Singapore, and India; and Australia. Until 2002, our international presence was limited to the United Kingdom and the Netherlands. Our expansion into other international markets largely began in 2002. We have committed resources to maintaining and further expanding, where appropriate, our sales offices and sales and support channels in key international markets. However, our efforts may not be successful. International sales are subject to many risks and difficulties, including those arising from the following: building and maintaining a competitive presence in new markets; staffing and managing foreign operations; managing international systems integrators; complying with a variety of foreign laws; producing localized versions of our products; import and export restrictions and tariffs; enforcing contracts and collecting accounts receivable; unexpected changes in regulatory requirements; reduced protection for intellectual property rights in some countries; potential adverse tax treatment; less stringent adherence to ethical and legal standards by prospective customers in some countries; language and cultural barriers; currency fluctuations; political and economic instability abroad; and seasonal fluctuations.

**Our operating results may include foreign currency gains and losses.** Due to our international operations, we conduct a portion of our business in currencies other than the United States dollar. Our revenues, expenses, operating profit and net income are affected when the dollar weakens or strengthens in relation to other currencies. In addition, we have a large development center in Bangalore, India, that does not have a natural in market revenue hedge to mitigate currency risk to our operating expense in India. Fluctuations in the value of other currencies, particularly the Indian rupee, could significantly affect our revenues, expenses, operating profit and net income.

**Fluctuations in our hardware sales may adversely affect us.** A portion of our revenue in any period is from the resale of a variety of third-party hardware products to purchasers of our software. However, our customers may purchase these hardware products directly from manufacturers or distributors rather than from the Company. We view sales of hardware as non-strategic. We perform this service to our customers seeking a single source for their supply chain needs. Hardware sales are difficult to forecast and fluctuate from quarter to quarter, leading to unusual comparisons of total revenue and fluctuations in profits. If we are unable to maintain or grow our hardware revenue, our business, results of operations, cash flow, and financial condition may be adversely affected.

**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 in large part 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 research and development activities may not generate significant returns.** Our product development activities are costly, and recovering our investment in product development may take a significant amount of time, if it occurs at all. We anticipate continuing to make significant investments in software research and development and related product opportunities because we believe that we must continue to allocate a significant amount of resources to our research and development activities in order to compete successfully. We cannot estimate with any certainty when we will, if ever, receive significant revenues from these investments.

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**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. Defending a lawsuit, regardless of its merit, could be costly and divert management's time and attention. Although we maintain general liability insurance and error and omissions coverage, these coverages 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 or large deductibles or co-insurance requirements on us, then our business, results of operations, cash flow, and financial condition could be adversely affected.

**We incorporate third-party software in our solutions, the failure or unavailability of which could adversely affect our ability to sell, support, and service our products.** We incorporate and include third-party software into and with certain of our products and solutions and expect to continue to do so. The operation of our products could be impaired if there are defects in that third-party software. It may be difficult for us to correct any defects in third-party software because the development and maintenance of the software is not within our control. Such defects could adversely affect our business.

In addition, there can be no assurance that these third parties will continue to make their software available to us on acceptable terms, or at all; not make their products available to our competitors on more favorable terms; invest the appropriate levels of resources in their products and services to maintain and enhance the capabilities of their software; or remain in business. Any impairment in our relationship with these third parties or our ability to license or otherwise use their software could have a material adverse effect on our business, results of operations, cash flow, and financial condition.

**The use of open source software in our products may expose us to additional risks and harm our intellectual property.** Some of our products use or incorporate software that is subject to one or more open source licenses. Open source software is typically freely accessible, usable and modifiable. Certain open source software licenses require a user who intends to distribute the open source software as a component of the user's software to disclose publicly part or all of the source code to the user's software. In addition, certain open source software licenses require the user of such software to make any derivative works of the open source code available to others on unfavorable terms or at no cost. This can subject previously proprietary software to open source license terms.

While we monitor the use of all open source software in our products, processes, and technology and try to ensure that no open source software is used in such a way as to require us to disclose the source code to the related product or solution, such use could inadvertently occur. Additionally, if a third-party software provider has incorporated open source software into software we license from them for use in our products and solutions, we could, under certain circumstances, be required to disclose the source code to our products and solutions. This could harm our intellectual property position and have a material adverse effect on our business, results of operations, cash flow, and financial condition.

**If we are unable to develop software applications that interoperate with computing platforms developed by others, our business, results of operations, cash flow, and financial condition may be adversely affected.** We develop software applications that interoperate with operating systems, database platforms, and hardware devices developed by others, which we refer to collectively as computing platforms. If the developers of these computing platforms do not cooperate with us or we are unable to devote the necessary resources so that our applications interoperate with those computing platforms, our software development efforts may be delayed and our business and results of operations may be adversely affected. When new or updated versions of these computing platforms are introduced, it is often necessary for us to develop updated versions of our software applications so that they interoperate properly with these computing platforms. We may not accomplish these development efforts quickly or cost-effectively, and it is difficult to predict what the relative growth rates of adoption of these computing platforms will be. These development efforts require substantial investment, the devotion of substantial employee resources, and the cooperation of the developers of the computing platforms. For some computing platforms, we must obtain some proprietary application program interfaces from the owner in order to develop software applications that interoperate with the computing platforms. Computing platform providers have no obligation to assist in these development efforts. If they do not provide us with assistance or the necessary proprietary application program interfaces on a timely basis, we may experience delays or be unable to expand our software applications into other areas.

The computing platforms we use may not continue to be available to us on commercially reasonable terms. Any loss of the right to use any of these systems could result in delays in the provision of our products and services, and our results of operations may be adversely affected. Defects in computing platforms could result in errors or failure of our products, which could harm our business.



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**Our software may contain undetected errors or bugs, or may be breached by hackers, 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, or may be vulnerable to hackers. Despite testing, we cannot ensure that errors will not be found in new products or product enhancements after commercial release, or that malefactors will not breach these systems. Any errors or security breaches could cause substantial harm to our reputation, result in additional unplanned expenses to remedy any defects, delay the introduction of new products, result in the loss of existing or potential customers, or cause a loss in revenue. Further, such errors or breaches could subject us to claims from our customers for significant damages, and we cannot assure you that courts would enforce the provisions in our customer agreements that limit our liability for damages. In turn, our business, results of operations, cash flow, and financial condition could be materially adversely affected.

**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 personnel, 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 they are 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, and thus we may encounter increased compensation costs that are not offset by increased revenue. We cannot guarantee that we will be able to attract and retain sufficient numbers of these highly skilled employees or motivate them. Because of the complexity of the supply chain 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.

**Our growth is dependent upon the successful development of our direct and indirect sales channel mix.** We believe that our future growth also will depend on further developing and maintaining a successful direct sales force and strategic relationships with systems integrators and other technology companies. We are currently investing, and plan to continue to invest, significant resources to further develop certain of our sales channels. Our investment could adversely affect our operating results if these efforts do not generate license and service revenue necessary to offset the 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, a disproportionate increase in indirect sales could reduce our average selling prices and result in lower gross margins. In addition, sales of our products through indirect channels typically do not generate consulting services revenue for us at the same levels as direct sales, as the third-party systems integrators generally provide these services. Similarly, indirect sales typically do not generate the same levels of direct contact between our human resources and those of our customer, 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.

**Our employee retention and hiring may be hindered by immigration restrictions.** Foreign nationals who are not U.S. citizens or permanent residents constitute a significant part of our professional U.S. workforce. Our ability to hire and retain these workers, and their ability to remain and work in the U.S. are impacted by laws and regulations as well as by processing procedures of various government agencies. Changes in laws, regulations, or procedures may adversely affect our ability to hire or retain such workers and may affect our costs of doing business and/or our ability to deliver services.

**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. There are no assurances that we will be able to protect our proprietary rights against unauthorized disclosure or third-party copying or use. We rely on a combination of copyright, trademark, and trade secret laws, as well as confidentiality agreements, licensing arrangements, and contractual commitments, 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. In turn, our business, results of operations, cash flow, and financial condition could be materially adversely affected.



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**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, inventions, or other intellectual property. We expect that supply chain 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 pay monetary damages or to enter into royalty or licensing agreements, any of which could negatively impact our operating results. There are no assurances that these royalty or licensing agreements, if required, would be available on terms acceptable to us, if at all. We also may be required to indemnify our customers for damages they suffer as a result of such infringement. There are no assurances 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 were successful and we could not obtain a license on acceptable terms or license a substitute technology or redesign the product or feature to avoid infringement, we may be prevented from distributing our software or required to incur significant expense and delay in developing non-infringing software. Any of these events could seriously harm our business, results of operations, cash flow, and financial condition.

**Mergers or other strategic transactions involving our competitors could weaken our competitive position or reduce our revenue.** Our competitors have been consolidating, which may make them more formidable competitors to us. Competing with stronger companies may cause us to experience pricing pressure and loss of market share, either of which could have a material adverse effect on our business, results of operations, cash flow, and financial condition. Our competitors may establish or strengthen their cooperative relationships with vendors, systems integrators, third-party consulting firms, or other parties. Established companies may not only develop their own products but may also acquire or partner with our current competitors. If any of these events occur, our revenue and profitability could significantly decline.

**Our business, results of operations, cash flow, and financial condition may be adversely affected if we cannot integrate acquired companies or manage joint ventures.** We may from time to time acquire companies with complementary products and services. These acquisitions will expose us to increased risks and costs, including those arising from the following: assimilating new operations and personnel; diverting financial and management resources from existing operations; and 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.

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. Goodwill and certain other intangible assets are not amortized to income, but are 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.

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.

**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.

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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. In addition, since we have historically financed our growth through cash flow from operations and available cash, our relative inexperience in accessing the credit or capital markets may impair our ability to do so if the need arises. Our inability to raise capital when needed could have a material adverse effect on our business, results of operations, cash flow and financial condition. If additional funds are raised through the issuance of equity securities, the percentage ownership of our company held 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: global macro-economic contraction impacting demand for supply chain solutions; 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; changes in financial estimates by securities analysts; and mergers, acquisitions, and combinations involving our competitors or us.

During 2012, we repurchased approximately \$99.7 million of Manhattan Associates' outstanding common stock under the share repurchase program approved by our Board of Directors throughout the year. In January 2013, our Board of Directors approved raising our remaining share repurchase authority to \$50.0 million of Manhattan Associates' outstanding common stock.

In addition, the stock market has recently experienced volatility that has particularly affected the market prices of equity securities of many technology companies. The volatility often has been unrelated or disproportionate to the operating performance of those 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.

### **Item 1B. *Unresolved Staff Comments***

As of December 31, 2012, we do not have any unresolved SEC staff comments.

### **Item 2. *Properties***

Our principal administrative, sales, marketing, support, and research and development facility is located in approximately 191,000 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 under multi-year agreements in Indiana. We also occupy facilities outside of the United States under multi-year agreements in the United Kingdom, the Netherlands, France, China, Singapore, India, and Australia. We also occupy offices under short-term agreements in other geographical regions. We believe our office space is adequate to meet our immediate needs; however, we may expand into additional facilities in the future.

### **Item 3. *Legal Proceedings***

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

### ***Liability for our Software and Services***

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 contractually limit our liability for damages arising from product failures or negligent acts or omissions, there can be no assurance that the limitations of liability set forth in our contracts will be enforceable in all instances.

### **Item 4. *Mine Safety Disclosures***

Not applicable.

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

Our common stock is traded on the Nasdaq Global Select 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 Global Select Market for the periods indicated:

<b>Fiscal Period</b>	<b>High Price</b>	<b>Low Price</b>
<b>2012</b>		
First Quarter	\$ 50.10	\$ 39.77
Second Quarter	50.94	43.39
Third Quarter	58.54	41.49
Fourth Quarter	62.58	55.66
<b>2011</b>		
First Quarter	\$ 32.74	\$ 29.23
Second Quarter	37.18	33.08
Third Quarter	37.97	31.37
Fourth Quarter	46.48	31.65

On February 15, 2013, the last reported sales price of our common stock on the Nasdaq Global Select Market was \$69.42 per share. The number of shareholders of record of our common stock as of February 15, 2013 was approximately 20.

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 for investment in our business.

**Equity Compensation Plan Information**

The following table provides information regarding our current equity compensation plans as of December 31, 2012:

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options and rights</b>	<b>Weighted-average exercise price of outstanding options and rights</b>	<b>Number of securities remaining available for future issuance under equity compensation plans</b>
Equity compensation plans approved by security holders	968,949	\$ 22.13	3,533,966
Equity compensation plans not approved by security holders			
<b>Total</b>	<b>968,949</b>	<b>\$ 22.13</b>	<b>3,533,966</b>

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

**Table of Contents****Purchase of Equity Securities**

The following table provides information regarding our common stock repurchases under our publicly-announced share repurchase program and shares withheld for taxes due upon vesting of restricted stock for the quarter ended December 31, 2012. All repurchases related to the share repurchase program were made on the open market.

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share (b)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 - October 31, 2012	217,047	\$ 61.13	213,865	\$ 36,925,385
November 1 - November 30, 2012	215,797	\$ 58.40	215,732	24,326,628
December 1 - December 31, 2012	97,838	\$ 57.20	97,026	18,776,868
Total	530,682	\$ 59.29	526,623	

(a) Includes 3,182 shares, 65 shares, and 812 shares withheld for taxes due upon vesting of restricted stock during October, November, and December, respectively.

(b) The average price paid per share for shares withheld for taxes due upon vesting of restricted stock was \$60.50, \$61.44, and \$57.19 in October, November, and December, respectively.

During the year ended December 31, 2012, we repurchased a total of 1,944,828 shares at an average price per share of \$51.26 under our publicly-announced share repurchase program. In January 2013, our Board of Directors approved raising our remaining share repurchase authority to \$50.0 million of Manhattan Associates outstanding common stock.

**Item 6. Selected 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, 2012, 2011, and 2010, and the balance sheet data as of December 31, 2012 and 2011, 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, 2009 and 2008 and the balance sheet data as of December 31, 2010, 2009, and 2008 are derived from audited financial statements not included herein. Historical results are not necessarily indicative of results to be expected in the future.

Statement of Income Data:	2008	Year Ended December 31,			2012
		2009	2010	2011	
	(in thousands, except per share data)				
Software license	\$ 65,313	\$ 34,686	\$ 54,450	\$ 54,241	\$ 61,494
Total revenue	\$ 337,201	\$ 246,667	\$ 297,117	\$ 329,253	\$ 376,248
Operating income	\$ 25,963	\$ 21,142	\$ 41,927	\$ 61,363	\$ 80,073
Net income	\$ 22,798	\$ 16,562	\$ 28,061	\$ 44,907	\$ 51,853
Earnings per diluted share	\$ 0.94	\$ 0.73	\$ 1.25	\$ 2.09	\$ 2.56

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	2008	2009	December 31, 2010 (in thousands)	2011	2012
<b>Balance Sheet Data:</b>					
Cash, cash equivalents and investments	\$ 88,706	\$ 123,014	\$ 126,869	\$ 99,114	\$ 103,047
Total assets	\$ 270,221	\$ 264,711	\$ 280,464	\$ 259,600	\$ 261,813
Debt	\$	\$	\$	\$	\$
Shareholders' equity	\$ 179,839	\$ 183,365	\$ 183,800	\$ 162,080	\$ 161,509



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

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

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

licenses of our supply chain software;

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

hardware sales and other revenue.

In 2012, we generated \$376.2 million in total revenue, with a revenue mix of: license revenue 16%; services revenue 76%; and hardware and other revenue 8%.

We manage our business based on three geographic regions: North America and Latin America (Americas), Europe, Middle East, and Africa (EMEA), and Asia Pacific (APAC). Geographic revenue is based on the location of the sale. Our international revenue was approximately \$104.4 million, \$90.7 million, and \$80.7 million for the years ended December 31, 2012, 2011, and 2010, respectively, which represents approximately 28%, 28%, and 27% of our total revenue for the years ended December 31, 2012, 2011, and 2010, respectively. International revenue includes all revenue derived from sales to customers outside the United States. At December 31, 2012, we employed approximately 2,400 employees worldwide, of which 1,130 employees are based in the Americas, 170 employees in EMEA, and 1,100 employees in APAC (including India). We have offices in Australia, China, France, India, Japan, the Netherlands, Singapore, and the United Kingdom, as well as representatives in Mexico and reseller partnerships in Latin America, Eastern Europe, the Middle East, South Africa, and Asia.

**Global Economic Trends and Industry Factors**

Global macro economic trends, technology spending, and supply chain management market growth are important barometers for our business. In 2012, approximately 72% of our total revenue was generated in the United States, 12% in EMEA, and the balance in APAC, Canada, and Latin America. In addition, Gartner Inc., an information technology research and advisory company, estimates that nearly 80% of every supply chain software solutions dollar invested is spent in the United States (50%) and Western Europe (28%); consequently, the health of the U.S. and the Western European economies has a meaningful impact on our financial results.



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

In January 2013, the International Monetary Fund (IMF) provided a World Economic Outlook (WEO) update lowering its previous 2013 world economic growth forecast from October 2012 by 10 basis points projecting 3.5 percent growth in 2013 versus 3.2 percent growth in 2012. The WEO noted that Europe and Japan are in recession, and the United States continues to struggle with fiscal policy, including the debt ceiling, tax policy, and entitlement programs. The update stated that [g]lobal growth is projected to increase during 2013, as the factors underlying soft global activity are expected to subside. However, this upturn is projected to be more gradual than in the October 2012 WEO projections. Further the update stated that [g]lobal financial conditions improved further in the fourth quarter of 2012. However, a broad set of indicators for global industrial production and trade suggests that global growth did not strengthen further. The WEO projected that advanced economies, which represent our primary revenue markets, would grow at about 1.4 percent in 2013 and 2.2 percent in 2014, while the emerging and developing economies would continue to grow at about 5.5 percent in 2013 and 5.9 percent in 2014.

During 2012 and 2011, the overall trend has been an increase in large license sales for the Company, with recognized \$1.0 million or larger software license sales totaling twelve and thirteen for 2012 and 2011, respectively, up from nine in 2010. However, the number of large license sales has been inconsistent from quarter to quarter, reflecting what we believe to be ongoing macroeconomic uncertainty in the United States and Western Europe. While we are encouraged by our 2012 and 2011 results, we, along with many of our customers, still remain cautious regarding the pace of global economic recovery. With global GDP growth continuing to be well below pre-2008 levels, we believe global economic volatility likely will continue to shape customers' and prospects' buying decisions, making it more difficult to forecast sales cycles for our products and the timing of large software license sales.

## Revenue

**License revenue:** License revenue, a leading indicator of our business, is primarily derived from software license fees that customers pay for supply chain solutions. In 2012, license revenue totaled \$61.5 million, or 16% of total revenue, with gross margins of 87.3%. For the year ended December 31, 2012, Americas, EMEA, and APAC recognized \$50.0 million, \$9.6 million, and \$1.9 million in license revenue, respectively. Our typical license revenue percentage mix of new to existing customers historically has approximated 50/50. However, for the year ended December 31, 2012, the majority of license revenue was generated from existing customers, largely influenced by two large deals signed during the third quarter ended September 30, 2012, resulting in the percentage mix of new to existing customers of approximately 30/70. We believe our current mix of new customer to existing customer license sales will fluctuate with continuing global macroeconomic uncertainty; however, the mix should return to historically normal levels in improved global economic conditions.

License revenue growth is influenced by the strength of general economic and business conditions and the competitive position of our software products. Our license revenue generally has long sales cycles of which the timing of the closing of a few large license transactions can have a material impact on our license revenues, operating profit, operating margins and earnings per share. For example, \$1.0 million of license revenue in 2012 equates to approximately three cents of diluted earnings per share impact.

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

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**Services revenue:** Our services business consists of professional services (consulting and customer training) and customer support services and software enhancements ( CSSE ). In 2012, our services revenue totaled \$283.9 million, or 76% of total revenue, with gross margins of 54.7%. The Americas, EMEA, and APAC recognized \$228.7 million, \$36.2 million, and \$19.0 million, respectively, in services revenue for the year ended December 31, 2012. Professional services accounted for approximately 65% of total services revenue and approximately 50% of total revenue in 2012. Our consolidated operating margin profile may be lower than those of various other technology companies due to our large services revenue mix as a percentage of total revenue. While we believe our services margins are very strong, they do lower our overall operating margin profile as services margins are inherently lower than license revenue margins.

At December 31, 2012, our professional services organization totaled approximately 1,425 employees, accounting for 60% of our total employees worldwide. Our professional services organization provides our customers with expertise and assistance in planning and implementing our solutions. To ensure a successful product implementation, consultants assist customers with the initial installation of a system, the conversion and transfer of the customer's historical data onto our system, and ongoing training, education, and system upgrades. We believe our professional services enable customers to implement our software rapidly, ensure the customer's success with our solution, strengthen our customer relationships, and add to our industry-specific knowledge base for use in future implementations and product innovations.

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

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

For CSSE, we offer a comprehensive 24 hours per day, 365 days per year program that provides our customers with software upgrades, when and if available, which include additional or improved functionality and technological advances incorporating emerging supply chain and industry initiatives. Our CSSE revenues totaled \$98.6 million in 2012, representing approximately 35% of services revenue and approximately 25% of total revenue, respectively. The growth of CSSE revenues is influenced by: (1) new license revenue growth; (2) annual renewal of support contracts; (3) increase in customers through acquisitions; and (4) fluctuations in currency rates. Substantially all of our customers renew their annual support contracts. Over the last three years, our annual revenue renewal rate of customers subscribing to comprehensive support and enhancements has been greater than 90%. CSSE revenue is generally paid in advance and recognized ratably over the term of the agreement, typically twelve months. CSSE renewal revenue is not recognized unless payment is received from the customer.

**Hardware and other revenue:** Our hardware and other revenue totaled \$30.9 million in 2012 representing 8% of total revenue with gross margins of 18.4%. During 2012, Americas, EMEA, and APAC were responsible for \$28.9 million, \$1.4 million, and \$0.6 million, respectively, in hardware and other revenue. In conjunction with the licensing of our software, and as a convenience for our customers, we resell a variety of hardware products developed and manufactured by third parties. These products include computer hardware, radio frequency terminal networks, RFID chip readers, bar code printers and scanners, and other peripherals. We resell all third-party hardware products and related maintenance pursuant to agreements with manufacturers or through distributor-authorized reseller agreements pursuant to which we are entitled to purchase hardware products and services at discount prices. We generally purchase hardware from our vendors only after receiving an order from a customer. As a result, we generally do not maintain hardware inventory.

Other revenue represents amounts associated with reimbursements from customers for out-of-pocket expenses. The total amount of expense reimbursement recorded to hardware and other revenue was \$12.6 million, \$10.4 million, and \$9.0 million for 2012, 2011, and 2010, respectively.

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### **Product Development**

We continue to invest significantly in research and development (R&D), which historically has averaged about 14 cents of every revenue dollar, excluding hardware and other revenue, to provide leading solutions that help global manufacturers, wholesalers, distributors, retailers, and logistics providers successfully manage accelerating and fluctuating demands as well as the increasing complexity and volatility of their local and global supply chains. Our research and development expenses for the years ended December 31, 2012, 2011, and 2010 were \$44.7 million, \$42.4 million, and \$40.5 million, respectively. At December 31, 2012, our R&D organization totaled approximately 650 employees, located in the U.S. and India.

We expect to continue to focus our R&D resources on the development and enhancement of supply chain software solutions. We offer what we believe to be the broadest solution portfolio in the supply chain solutions marketplace, to address all aspects of planning and forecasting, inventory optimization, order lifecycle management, transportation lifecycle management, and distribution management.

We also plan to continue to enhance our existing solutions and to introduce new solutions to address evolving industry standards and market needs. We identify opportunities to further enhance our solutions and to develop and provide new solutions through our customer support organization, as well as through ongoing customer consulting engagements and implementations, interactions with our user groups, association with leading industry analysts and market research firms, and participation on industry standards and research committees. Our solutions address the needs of customers in various vertical markets, including retail, consumer goods, food and grocery, logistics service providers, industrial and wholesale, high technology and electronics, life sciences, and government.

### **Cash Flow and Financial Condition**

For 2012, we generated cash flow from operating activities of \$75.3 million and have generated a cumulative total of \$181.1 million for the three years ended December 31, 2012. Our cash and investments at December 31, 2012 totaled \$103.0 million, with no debt on our balance sheet. We currently have no credit facilities. During the past three years, our primary uses of cash have been funding investment in R&D and operations to drive earnings growth and repurchases of common stock.

During 2012, we repurchased approximately \$99.7 million of Manhattan Associates' outstanding common stock under the share repurchase program approved by our Board of Directors throughout the year. In January 2013, our Board of Directors approved raising our remaining share repurchase authority to \$50.0 million.

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

### **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 are 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 are: Revenue Recognition, Allowance for Doubtful Accounts, Valuation of Goodwill, Accounting for Income Taxes, and Stock-based Compensation.

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**Table of Contents***Revenue Recognition*

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

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

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

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

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

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



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In accordance with the other presentation matters within the Revenue Recognition Topic of the Financial Accounting Standards Board's (FASB) Accounting Standards Codification, the Company recognizes amounts associated with reimbursements from customers for out-of-pocket expenses as revenue. Such amounts have been included in Hardware and other revenue in the Consolidated Statements of Income. The total amount of expense reimbursement recorded to revenue was \$12.6 million, \$10.4 million, and \$9.0 million for 2012, 2011, and 2010, respectively.

### *Allowance for Doubtful Accounts*

We continuously monitor collections and payments from our customers and maintain an allowance for doubtful accounts 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 losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same loss rates that we have in the past.

### *Valuation of Goodwill*

In accordance with the Intangibles Goodwill and Other Topic of the FASB Accounting Standards Codification, 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 record 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, 2012, our goodwill balance was \$62.3 million.

### *Accounting for Income Taxes*

We provide for the effect of income taxes on our financial position and results of operations in accordance with the Income Taxes Topic of the FASB Accounting Standards Codification. Under this accounting pronouncement, income tax expense is recognized for the amount of income taxes payable or refundable for the current year and for the change in net deferred tax assets or liabilities resulting from events that are recorded for financial reporting purposes in a different reporting period than recorded in the tax return. Management must make significant assumptions, judgments, and estimates to determine our current provision for income taxes and also our deferred tax assets and liabilities and any valuation allowance to be recorded against our net deferred tax asset.

Our judgments, assumptions, and estimates relative to the current provision for income tax take into account current tax laws, our interpretation of current tax laws, allowable deductions, projected tax credits, and possible outcomes of current and future audits conducted by foreign and domestic tax authorities. We do not recognize a tax benefit unless we conclude that it is more likely than not that the benefit will be sustained on audit by the taxing authority based solely on the technical merits of the associated tax position. If the recognition threshold is met, we recognize a tax benefit measured at the largest amount of the tax benefit that, in our judgment, is greater than 50 percent likely to be realized. Changes in tax law or our interpretation of tax laws and the resolution of current and future tax audits could significantly impact the amounts provided for income taxes in our financial position and results of operations. Our assumptions, judgments, and estimates relative to the value of our net deferred tax asset take into account predictions of the amount and category of future taxable income. Actual operating results and the underlying amount and category of income in future years could render our current assumptions, judgments, and estimates of recoverable net deferred taxes inaccurate, thus materially impacting our financial position and results of operations.



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### *Equity-Based Compensation*

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

In January 2010 our Compensation Committee approved certain changes to our historical equity incentive grant practices, with the objective to optimize the Company's performance and retention strength while managing program share usage to improve long-term equity overhang. The change eliminated stock option awards in favor of 100% restricted stock grants, which for the 2011 and 2010 awards contain vesting provisions that are 50% service-based and 50% performance-based. The 2011 and 2010 awards have a four year vesting period, with the performance portion tied to their respective year revenue and adjusted earnings per share targets.

For our historical stock option grants, we estimated the fair value on the date of grant using the Black-Scholes option pricing model. We based 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 based our expected volatilities on a combination of the historical volatility of our stock and the implied volatility of publicly traded options (issued by third party) for our common stock. Due to the limited trading volume of publicly traded options for our common stock, we placed a greater emphasis on historical volatility of our common stock. We also used historical data to estimate the term that options are expected to be outstanding. We based 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 service-based awards with graded vesting on a straight-line basis over the entire vesting period, 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. For our performance-based restricted stock awards with graded vesting, we recognize compensation cost on an accelerated basis applying straight-line expensing for each separately vesting portion of each award. Compensation cost recognized in any period is impacted by the number of stock-based awards granted, the vesting period of the awards (which generally is four years), the estimated forfeiture rate, and the probable outcome of any performance conditions.

### **Accounting Charges**

*Recovery of previously impaired investment.* In the quarter ended September 30, 2008, we recorded an impairment charge of \$3.5 million on an investment in an auction rate security. We 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. In the quarter ended September 30, 2011, we were able to sell the auction rate security recovering 72%, or \$2.5 million, of our original investment.

### **Full Year 2012 Financial Summary**

Diluted earnings per share for the twelve months ended December 31, 2012 was \$2.56, compared to \$2.09 for the twelve months ended December 31, 2011. Results for the twelve months ended December 31, 2011 include a positive impact of \$0.12 per share for the recovery of an auction rate security investment, which had been impaired in a prior period, and a \$2.0 million tax benefit, or \$0.09 per share, resulting from the reduction of a valuation allowance associated with a change in India tax law. The change eliminates the tax holiday for India companies under the Software Technology Park of India (STPI) tax plan;

Consolidated revenue for the twelve months ended December 31, 2012 was \$376.2 million, compared to \$329.3 million for the twelve months ended December 31, 2011. License revenue was \$61.5 million for the twelve months ended December 31, 2012, compared to \$54.2 million for the twelve months ended December 31, 2011;

Operating income was \$80.1 million for the twelve months ended December 31, 2012, compared to \$61.4 million for the twelve months ended December 31, 2011. Results for the twelve months ended December 31, 2011 included a \$2.5 million recovery of a previously impaired auction rate security investment;

Operating margins for 2012 were 21.3%, up 270 basis points compared to operating margins of 18.6% in 2011;

Cash flow from operations totaled \$75.3 million for the full year 2012 compared to \$55.8 million in 2011;

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Cash and investments on hand at December 31, 2012 was \$103.0 million compared to \$99.1 million at December 31, 2011;

During the twelve months ended December 31, 2012, the Company repurchased approximately 2.0 million shares of Manhattan Associates common stock under the share repurchase program authorized by the Board of Directors, for a total investment of \$99.7 million; and

In January 2013, the Board of Directors approved raising the Company's remaining share repurchase authority to \$50.0 million of Manhattan Associates' outstanding common stock.

**Results of Operations**

The following table summarizes selected Statement of Income data for the years ended December 31, 2012, 2011, and 2010.

	Year Ended December 31,			% Change vs. Prior Year	
	2012	2011 (in thousands)	2010	2012	2011
<b>Revenue:</b>					
Software license	\$ 61,494	\$ 54,241	\$ 54,450	13%	0%
Services	283,872	244,058	213,750	16%	14%
Hardware and other	30,882	30,954	28,917	0%	7%
<b>Total revenue</b>	<b>376,248</b>	<b>329,253</b>	<b>297,117</b>	<b>14%</b>	<b>11%</b>
<b>Costs and expenses:</b>					
Cost of license	7,838	6,806	6,172	15%	10%
Cost of services	128,686	107,510	98,776	20%	9%
Cost of hardware and other	25,213	24,785	23,844	2%	4%
Research and development	44,704	42,372	40,508	6%	5%
Sales and marketing	45,622	43,944	42,702	4%	3%
General and administrative	38,474	37,708	34,027	2%	11%
Depreciation and amortization	5,638	7,284	9,161	-23%	-20%
Recovery of previously impaired investment <sup>(1)</sup>		(2,519)		N/A	N/A
<b>Total costs and expenses</b>	<b>296,175</b>	<b>267,890</b>	<b>255,190</b>	<b>11%</b>	<b>5%</b>
<b>Income from operations</b>	<b>\$ 80,073</b>	<b>\$ 61,363</b>	<b>\$ 41,927</b>	<b>30%</b>	<b>46%</b>
<b>Operating margin</b>	<b>21.3%</b>	<b>18.6%</b>	<b>14.1%</b>		

<sup>(1)</sup> Amount represents recovery of an auction rate security investment which had been impaired in a prior period.

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We manage our business based on three geographic regions: the Americas, EMEA, and APAC. Geographic revenue information is based on the location of sale. The revenues represented below are from external customers only. The geographical-based expenses include costs of personnel, direct sales, and marketing expenses, and general and administrative costs to support the business. There are certain corporate expenses included in the Americas region that are not charged to the other segments including research and development, certain marketing and general and administrative costs that support the global organization, and the amortization of acquired developed technology. Included in the Americas costs are all research and development costs, including the costs associated with the Company's India operations. During 2012, 2011, and 2010, 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 vs. Prior Year	
	2012	2011	2010	2012	2011
	(in thousands)				
<b>Revenue:</b>					
<b>Software license</b>					
Americas	\$ 50,036	\$ 45,506	\$ 44,254	10%	3%
EMEA	9,569	6,362	4,972	50%	28%
APAC	1,889	2,373	5,224	-20%	-55%
Total license	\$ 61,494	\$ 54,241	\$ 54,450	13%	0%
<b>Services</b>					
Americas	\$ 228,673	\$ 198,041	\$ 176,912	15%	12%
EMEA	36,167	30,824	26,269	17%	17%
APAC	19,032	15,193	10,569	25%	44%
Total services	\$ 283,872	\$ 244,058	\$ 213,750	16%	14%
<b>Hardware and Other</b>					
Americas	\$ 28,883	\$ 29,312	\$ 27,784	-1%	5%
EMEA	1,402	1,109	925	26%	20%
APAC	597	533	208	12%	156%
Total hardware and other	\$ 30,882	\$ 30,954	\$ 28,917	0%	7%
<b>Total Revenue</b>					
Americas	\$ 307,592	\$ 272,859	\$ 248,950	13%	10%
EMEA	47,138	38,295	32,166	23%	19%
APAC	21,518	18,099	16,001	19%	13%
Total revenue	\$ 376,248	\$ 329,253	\$ 297,117	14%	11%
<b>Operating income:</b>					
Americas	\$ 65,517	\$ 53,550	\$ 35,868	22%	49%
EMEA	9,725	5,239	3,685	86%	42%
APAC	4,831	2,574	2,374	88%	8%
Total operating income	\$ 80,073	\$ 61,363	\$ 41,927	30%	46%

The results of our operations for the years ended December 31, 2012, 2011, and 2010 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 enhancements; hardware sales of complementary radio frequency and computer equipment; and other revenue representing

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amounts associated with reimbursements from customers for out-of-pocket expenses.

	Year Ended December, 31					% of Total Revenue		
	2012	2011	2010	% Change vs. Prior Year		2012	2011	2010
	(in thousands)			2012	2011			
Software license	<b>\$ 61,494</b>	\$ 54,241	\$ 54,450	<b>13%</b>	0%	<b>16%</b>	17%	18%
Services	<b>283,872</b>	244,058	213,750	<b>16%</b>	14%	<b>76%</b>	74%	72%
Hardware and other	<b>30,882</b>	30,954	28,917	<b>0%</b>	7%	<b>8%</b>	9%	10%
<b>Total revenue</b>	<b>\$ 376,248</b>	\$ 329,253	\$ 297,117	<b>14%</b>	11%	<b>100%</b>	100%	100%

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### ***License revenue***

#### *Year 2012 compared with year 2011*

License revenue increased \$7.3 million, or 13%, to \$61.5 million in 2012 compared to 2011. We completed twelve large deals and thirteen large deals greater than \$1.0 million in 2012 and 2011, respectively. Our Americas and EMEA license revenue increased \$4.5 million and \$3.2 million, respectively, while APAC license revenue decreased \$0.5 million over 2011.

The license sales percentage mix across our product suite in 2012 was approximately 65% warehouse management solutions and 35% non-warehouse management solutions. Our warehouse management solutions increased \$6.5 million, or 19%, in 2012 compared to 2011 and non-warehouse management solutions increased \$0.7 million, or 4%, in 2012 over 2011.

#### *Year 2011 compared with year 2010*

License revenue decreased slightly to \$54.2 million in 2011 compared to \$54.5 million in 2010. Our APAC license revenue decreased \$2.9 million in 2011 compared to 2010 partially offset by an increase in Americas and EMEA license revenue of \$1.3 million and \$1.4 million, respectively, in the same period.

The license sales percentage mix across our product suite in 2011 was approximately 60% warehouse management solutions and 40% non-warehouse management solutions. Our warehouse management solutions increased \$2.6 million, or 8%, in 2011 compared to 2010, and non-warehouse management solutions decreased \$2.8 million, or 12%, in 2011 over 2010.

### ***Services revenue***

#### *Year 2012 compared with year 2011*

Services revenue increased \$39.8 million, or 16%, in 2012 compared to 2011 due to a \$28.4 million, or 18%, increase in professional services revenue and an \$11.4 million, or 13%, increase in CSSE revenue. The Americas, EMEA, and APAC segments increased \$30.6 million, \$5.3 million, and \$3.8 million, respectively, compared to 2011. The increase in services revenue is primarily due to customer-specific initiatives in conjunction with customer upgrade activity and size of license deals signed.

#### *Year 2011 compared with year 2010*

Services revenue increased \$30.3 million, or 14%, in 2011 compared to 2010 due to a \$24.9 million, or 19%, increase in professional services revenue and a \$5.4 million, or 7%, increase in CSSE revenue. The Americas, EMEA, and APAC segments increased \$21.1 million, \$4.6 million, and \$4.6 million, respectively, compared to 2010. The increase in services revenue is primarily due to customer-specific initiatives in conjunction with customer upgrade activity and large license deals signed.

### ***Hardware and other***

Sales of hardware decreased \$2.3 million to \$18.3 million in 2012 compared to \$20.5 million in 2011. Sales of hardware increased slightly to \$20.5 million in 2011 from \$19.9 million in 2010. The majority of hardware sales are derived from our Americas segment. Sales of hardware are largely dependent upon customer-specific desires, which fluctuate. Other revenue represents reimbursements for professional service travel expenses that are required to be classified as revenue and are included in hardware and other revenue. Reimbursements by customers for out-of-pocket expenses were approximately \$12.6 million, \$10.4 million, and \$9.0 million for 2012, 2011, and 2010, respectively.

**Table of Contents****Cost of Revenue**

	Year Ended December 31,				
	2012	2011	2010	% Change vs. Prior Year	
	(in thousands)			2012	2011
Cost of license	\$ 7,838	\$ 6,806	\$ 6,172	15%	10%
Cost of services	128,686	107,510	98,776	20%	9%
Cost of hardware and other	25,213	24,785	23,844	2%	4%
Total cost of revenue	\$ 161,737	\$ 139,101	\$ 128,792	16%	8%

**Cost of License**

Cost of license consists of the costs associated with software reproduction; hosting services; media, packaging and delivery, documentation, and other related costs; and royalties on third-party software sold with or as part of our products. Cost of licenses increased \$1.0 million, or 15%, in 2012 compared to 2011, primarily due to increase in sales of over the prior year. Cost of licenses increased \$0.6 million, or 10%, in 2011 compared to 2010, primarily due to increased sales of third party software over the prior year.

**Cost of Services***Year 2012 compared with year 2011*

Cost of services consists primarily of salaries and other personnel-related expenses of employees dedicated to professional and technical services and customer support services. Cost of services increased \$21.2 million, or 20%, in 2012 compared to 2011 principally due to a \$14.3 million increase in employee-related costs such as salary, benefits, and payroll taxes resulting from an increase in the number of professional services personnel in 2012 to support demand and a \$3.1 million increase in performance-based compensation expense.

Services gross margin decreased 120 basis points to 54.7% in 2012 from 55.9% in 2011. The decrease in services margin is primarily attributable to an increase in the hiring of professional services personnel to fulfill services demand.

*Year 2011 compared with year 2010*

Cost of services increased \$8.7 million, or 9%, in 2011 compared to 2010 principally due to an \$11.4 million increase in employee-related costs such as salary, benefits, and payroll taxes resulting from an increase in the number of professional services personnel in 2011 to support demand, partially offset by a \$2.4 million decrease in performance-based compensation expense.

Services gross margin increased 210 basis points to 55.9% in 2011 from 53.8% in 2010. The increase in services margin is attributable to services revenue growth and higher than normal billable utilization from our services personnel.

**Cost of Hardware and other**

In 2012, cost of hardware decreased \$1.6 million to \$12.8 million from \$14.4 million in 2011 as a direct result of a decrease in sales of hardware. Cost of hardware decreased slightly to \$14.4 million in 2011 from \$15.0 million in 2010. Cost of hardware and other includes professional services billed travel expenses reimbursed by customers of approximately \$12.4 million, \$10.4 million, and \$8.8 million for 2012, 2011, and 2010, respectively. Changes in amounts of out-of-pocket expenses correlate to changes in amounts of services revenue.

**Table of Contents****Operating Expenses**

	Year Ended December 31,				
	2012	2011	2010	% Change vs. Prior Year	
	(in thousands)			2012	2011
Research and development	\$ 44,704	\$ 42,372	\$ 40,508	6%	5%
Sales and marketing	45,622	43,944	42,702	4%	3%
General and administrative	38,474	37,708	34,027	2%	11%
Depreciation and amortization	5,638	7,284	9,161	-23%	-20%
Recovery of previously impaired investment		(2,519)		N/A	N/A
Operating expenses	\$ 134,438	\$ 128,789	\$ 126,398	4%	2%

**Research and Development**

Our principal research and development (R&D) activities during 2012, 2011, and 2010 focused on the expansion and integration of new products acquired and new product releases and expanding the product footprint of our supply chain optimization solutions called Supply Chain Optimization from Planning through Execution. The Manhattan SCOPE Platform provides not only a sophisticated service oriented, architecture based application framework, but a platform that facilitates the integration with Enterprise Resource Planning (ERP) and other supply chain solutions.

For the years ended December 31, 2012, 2011, and 2010, we did not capitalize any R&D costs because the costs incurred following the attainment of technological feasibility for the related software product through the date of general release were insignificant.

*Year 2012 compared with year 2011*

R&D expenses primarily consist of salaries and other personnel-related costs for personnel involved in our R&D activities. Consistent with prior years, we typically invest approximately 13% to 15% of total revenue, excluding hardware and other revenue, in R&D. R&D expenses increased \$2.3 million, or 6%, to \$44.7 million in 2012 compared to \$42.4 million in 2011 primarily due to a \$1.4 million increase in salary-related costs resulting from an increase in the number of R&D personnel to support our product development and a \$1.1 million increase in performance-based compensation expense.

*Year 2011 compared with year 2010*

R&D expenses increased to \$42.4 million in 2011 compared to \$40.5 million in 2010 primarily due to a \$1.9 million increase in salary-related costs resulting from an increase in the number of R&D personnel, partially offset by a \$0.7 million decrease in performance-based compensation expense.

**Sales and Marketing***Year 2012 compared with year 2011*

Sales and marketing expenses include salaries, commissions, travel, and other personnel-related costs and the costs of our marketing and alliance programs and related activities. Sales and marketing expenses increased by \$1.7 million, or 4%, in 2012 compared to 2011. The increase was mainly attributable to a \$3.1 million increase in performance-based compensation partially offset by a decrease in travel expense of \$1.1 million.

*Year 2011 compared with year 2010*

Sales and marketing expenses increased by \$1.2 million, or 3%, in 2011 compared to 2010. The increase was mainly attributable to \$1.1 million in compensation and employee-related expenses and \$0.7 million in marketing programs, partially offset by a decrease in performance-based compensation expense of \$0.5 million.





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**Table of Contents*****General and Administrative******Year 2012 compared with year 2011***

General and administrative expenses consist primarily of salaries and other personnel-related costs of executive, financial, human resources, information technology, and administrative personnel, as well as facilities, legal, insurance, accounting, and other administrative expenses. General and administrative expenses increased \$0.8 million, or 2%, in 2012 primarily attributable to an increase in compensation, employee-related expenses, and temporary contracted personnel of \$1.8 million and an increase in performance-based compensation expense of \$0.4 million partially offset by a \$1.1 million decrease in equity-based compensation and a \$0.7 million decrease in professional fees.

***Year 2011 compared with year 2010***

General and administrative expenses increased \$3.7 million, or 11%, in 2011 primarily attributable to (i) an increase in compensation, employee-related expenses, and temporary contracted personnel of \$1.6 million, (ii) an increase in professional fees of \$1.1 million, and (iii) a 2010 non-recurring \$1.2 million recovery of previously recorded state sales tax partially offset by a \$1.0 million decrease in 2011 performance-based compensation expense.

***Depreciation and Amortization***

Depreciation expense amounted to \$5.6 million, \$6.1 million, and \$6.9 million, during 2012, 2011, and 2010, respectively, and has decreased due to lower capital expenditures over the past several years. Amortization of intangibles was nearly nil in 2012, \$1.2 million and \$2.3 million in 2011 and 2010, respectively. We have recorded goodwill and other acquisition-related intangible assets as part of the purchase accounting associated with various acquisitions prior to 2006. The decreases in amortization expense in 2012 and 2011 of \$1.2 million and \$1.1 million, respectively, were associated with certain finite-lived intangible assets related to prior acquisitions, which are now fully amortized.

***Recovery of previously impaired investment***

In September 2008, we recorded an impairment charge of \$3.5 million on an investment in an auction rate security. We 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.

In the quarter ended September 30, 2011, we were able to sell the auction rate security, recovering 72%, or \$2.5 million, of our original investment.

***Operating Income***

Operating income for the year ended December 31, 2012 increased \$18.7 million to \$80.1 million, compared to \$61.4 million, which includes a \$2.5 million recovery of an auction rate security investment which had been impaired in a prior period, for the year ended December 31, 2011. Operating margins were 21.3% for 2012 versus 18.6% for 2011. Operating income and margins increased due to increased services revenue. Operating income in the Americas, EMEA, and APAC segments increased by \$12.0 million, \$4.5 million, and \$2.2 million, respectively in 2012.

Operating income for the year ended December 31, 2011 was \$61.4 million, which includes a \$2.5 million recovery of an auction rate security investment which had been impaired in a prior period, compared to \$41.9 million for the year ended December 31, 2010. Operating margins were 18.6% for 2011 versus 14.1% for 2010. Operating income and margins increased due to services revenue and expense management. Operating income in the Americas, EMEA, and APAC segments increased by \$17.7 million, \$1.6 million, and \$0.2 million, respectively in 2011.

**Table of Contents****Other Income (Loss) and Income Taxes**

	Year Ended December 31,			% Change vs. Prior Year	
	2012	2011	2010	2012	2011
Other income (loss), net	\$ 965	\$ 1,864	\$ (143)	-48%	1403%
Income tax provision	29,185	18,320	13,723	59%	33%
<b>Other Income (Loss), net</b>					

Other income (loss), net primarily includes interest income, foreign currency gains and losses, and other non-operating expenses. Interest income was \$1.1 million for the years ended December 31, 2012 and 2011, and \$0.6 million for the year ended December 31, 2010. The increase of \$0.4 million in interest income in 2011 compared to 2010 was due to a higher weighted-average interest rate earned. The weighted-average interest rate earned on cash and investments was approximately 1% for the years ended December 31, 2012 and 2011, and 0.5% for the year ended December 31, 2010. We recorded a net foreign currency loss of \$0.1 million in 2012, a net foreign currency gain of \$0.8 million in 2011, and a net foreign currency loss of \$0.7 million in 2010. The foreign currency gain and losses mainly 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 Indian Rupee.

**Income Tax Provision**

Our effective income tax rates were 36.0%, 29.0%, and 32.8% in 2012, 2011, and 2010, 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 increase in the effective tax rate for the year ended December 31, 2012 compared to the same periods in the prior year is principally due to the expiration of the federal research and development tax credit and foreign net operating loss carry-forwards benefitted in prior periods that have now been fully utilized.

The effective rate for the year ended December 31, 2011 was impacted by the \$2.5 million recovery of a previously impaired auction rate security investment discussed in Note 3. We did not record a tax benefit in 2008 on the original impairment charge as there were no future capital gains to offset the loss, and we therefore did not have tax expense related to the recovery of the charge. Also, the effective tax rate in 2011 included 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 was attributable to the elimination of the tax holiday for Indian companies under the Software Technology Park of India (STPI) tax plan, based on the February 2011 budget approved by the India Finance Ministry, which will allow us to utilize tax assets previously reserved. In addition, the effective tax rate for the year ended December 31, 2011 included a tax benefit from the disqualifying disposition of incentive stock options that were previously expensed and the reduction of income tax reserves that resulted from the expiration of tax audit statutes and the settlement of an IRS audit.

The effective tax rate in 2010 included a tax benefit from the disqualifying disposition of incentive stock options that were previously expensed and the reduction of U.S. federal income tax reserves that resulted from the expiration of tax audit statutes for tax returns filed for 2006 and prior, partially offset by the establishment of income tax reserves for state audits.

**Liquidity and Capital Resources**

During 2012, 2011, and 2010, we funded our business through cash generated from operations. As of December 31, 2012, our cash and investments totaled \$103.0 million as compared to \$99.1 million at December 31, 2011.

Our cash flow from operating activities totaled \$75.3 million, \$55.8 million, and \$50.0 million in 2012, 2011, and 2010, respectively. Typical factors affecting our cash provided by operating activities include our level of revenue and earnings for the period, the timing and amount of employee bonus payments and income tax payments, and the timing of cash collections from our customers which is our largest source of operating cash flow. Cash flow from operating activities for 2012 increased \$19.4 million compared to 2011 primarily attributable to higher revenue and net earnings combined with lower tax payments in 2012. Cash flow from operating activities for 2011 increased \$5.8 million compared to 2010 primarily attributable to higher revenue and net earnings. Days sales outstanding (DSO) was 60 days, 62 days, and 61 days at December 31, 2012, 2011, and 2010, respectively, reflects strong collection.



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Our investing activities used cash of approximately \$7.0 million, \$4.6 million, and \$8.9 million in 2012, 2011, and 2010, respectively. The use of cash for investing activities for the year ended December 31, 2012 was for capital expenditures of approximately \$7.9 million partially offset by the net maturities of \$0.9 million in investments. The use of cash for investing activities for the year ended December 31, 2011 was \$5.1 million in capital expenditures partially offset by the net maturities of \$0.5 million in investments. The use of cash for investing activities for the year ended December 31, 2010 was for capital expenditures of approximately \$5.9 million and the net purchase of \$3.0 million in short-term investments.

Our financing activities used cash of approximately \$63.5 million, \$77.9 million, and \$40.9 million in 2012, 2011, and 2010, respectively. The principal use of cash for financing activities for the year ended December 31, 2012 was to purchase approximately \$103.2 million of our common stock, including \$3.5 million for shares withheld for taxes due upon vesting of restricted stock, partially offset by proceeds generated from options exercised of \$32.1 million and a \$7.5 million excess tax benefit related to the exercise of stock options and vesting of restricted stock awards. The principal use of cash for financing activities for the year ended December 31, 2011 was to purchase approximately \$133.1 million of our common stock, including \$2.4 million for shares withheld for taxes due upon vesting of restricted stock, partially offset by proceeds generated from options exercised of \$52.7 million and a \$2.5 million excess tax benefit related to the exercise of stock options and vesting of restricted stock awards. The principal use of cash for financing activities for the year ended December 31, 2010 was to purchase approximately \$77.7 million of our common stock, including \$1.2 million for shares withheld for taxes due upon vesting of restricted stock, partially offset by proceeds generated from options exercised of \$36.4 million. In January 2013, our Board of Directors increased our remaining share repurchase authority to a total of \$50.0 million.

Periodically, opportunities may arise to grow our business through the acquisition of complementary and synergistic companies, products, and technologies. Any material acquisition could result in a decrease to our working capital depending on the amount, timing, and nature of the consideration to be paid. We believe that our existing cash and investments will be sufficient to meet our working capital and capital expenditure needs at least for the next twelve months, although there can be no assurance that this will be the case. In 2013, we anticipate that our priorities for use of cash will be similar to prior years, with our first priority being continued investment in product development and profitably growing our business to extend our market leadership. We will continue to evaluate acquisition opportunities that are complementary to our product footprint and technology direction. We will also continue to weigh our share repurchase options against cash for acquisitions and investing in the business. We do not anticipate any borrowing requirements in 2013 for general corporate purposes.

### **New Accounting Pronouncements**

In September 2011, the FASB issued an Accounting Standards Update on testing goodwill for impairment to simplify the goodwill impairment test. The standards update is intended to reduce cost and complexity of the annual goodwill impairment test by permitting companies to first assess qualitative factors to determine whether further impairment testing is necessary. Under this standards update, a company is not required to calculate the fair value of a reporting unit unless the company determines that it is more likely than not that its fair value is less than its carrying amount. The more likely than not threshold is defined as having a likelihood of more than 50 percent. This guidance is effective for interim and annual goodwill impairment tests performed for fiscal years beginning after December 15, 2011. We adopted this guidance as of December 31, 2012. The adoption of this guidance did not have a material impact on our financial statements.

In May 2011, the FASB issued an Accounting Standards Update on fair value measurements that clarifies the application of existing guidance and disclosure requirements, changes certain fair value measurement principles, and requires additional disclosures about fair value measurements. This guidance is effective for interim and annual periods beginning after December 15, 2011. We adopted of this guidance as of December 31, 2012. The adoption this guidance did not have a material impact on our financial statements.

### **Off-Balance Sheet Arrangements and Aggregate Contractual Obligations**

Our principal commitments as of December 31, 2012 consist of obligations under operating leases. We expect to fulfill all of the following commitments from our working capital. We have no off-balance sheet arrangements within the meaning of SEC rules.

**Table of Contents***Lease Commitments*

We lease our facilities and some of our equipment under noncancelable operating lease arrangements that expire at various dates through 2018. Rent expense for these leases aggregated \$5.8 million, \$5.7 million, and \$5.3 million during 2012, 2011, and 2010, respectively.

The following table summarizes our contractual commitments as of December 31, 2012 (in thousands):

	Total	2013	2014	2015	2016	2017	Thereafter
Non-cancelable operating leases	\$ 32,910	\$ 6,630	\$ 6,317	\$ 5,452	\$ 5,410	\$ 5,368	\$ 3,733

*Indemnifications*

Our customer contracts generally contain infringement indemnity provisions. Under those provisions, we generally agree, subject to certain exceptions, to indemnify, defend, and hold harmless the customer in connection with third party claims against the customer alleging that the customer's use of our software products in compliance with their license infringe the third party's patent, copyright, or other intellectual property rights. Conditions to our obligations generally include that we are provided the right to control the defense of the claims and, in general, to control settlement negotiations. Those provisions generally provide also that, if the customer is prevented from using our software because of a third party infringement claim, our sole obligation (in addition to the indemnification, defense, and hold harmless obligation referred to above) is to, at our expense, (i) procure for the customer the right to continue to use the software, (ii) to replace or modify the product so that its use by the customer does not infringe, or, if either of the foregoing are not reasonably feasible, to terminate the customer contract and provide a refund of the unamortized portion of the customer's license fee (based on a five year amortization period). Our customer contracts sometimes also require us to indemnify, defend, and hold harmless the customer in connection with death, personal injury, or property damage claims made by third parties with respect to actions of our personnel or contractors. Conditions to our obligations generally include that we are provided the right to control the defense of the claims and, in general, to control settlement negotiations. The indemnity obligations contained in our customer contracts generally have no specified expiration date and no specified monetary limitation on liability. 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 FASB guidance on 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 contracts as of December 31, 2012.

*Warranties*

In general, in our customer contracts 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 six months 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, 2012.

**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, France, Australia, China, Japan, 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 loss of \$0.1 million in 2012, a foreign exchange gain of \$0.8 million in 2011, and a foreign exchange loss of \$0.7 million in 2010. Foreign exchange rate transaction gains and losses are classified in Other (loss) income, net in our Consolidated Statements of Income. A fluctuation of 10% in the period end exchange rates at December 31, 2012 relative to the U.S. dollar would result in a change of approximately \$0.4 million in the reported foreign currency gain. A fluctuation of 10% in the period end exchange rates at December 31, 2011 relative to the U.S. dollar would result in minimal change to the reported foreign currency gain.



**Table of Contents****Interest Rates**

We currently invest our cash in a variety of financial instruments, including taxable and tax-advantaged floating rate obligations in money market funds and certificates of deposit. These investments are mainly denominated in U.S. dollars. Cash balances in foreign currencies overseas are derived from business operations. At December 31, 2012, our cash, cash equivalents, and investment balances totaled \$103.0 million, of which \$96.7 million is highly liquid. The remaining \$6.3 million balance is invested in short-term certificates of deposit. Our cash equivalents balance at December 31, 2012 was \$45.9 million. Cash equivalents principally consist of highly liquid money market funds and certificates of deposit with maturities of less than three months when purchased.

Investments in both fixed rate and floating rate interest-earning instruments carry 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 of return on cash and investment securities was approximately 1% for the years ended December 31, 2012 and 2011. The fair value of cash equivalents and investments held at December 31, 2012 and 2011 was \$52.3 million and \$42.7 million, respectively. Based on the average investments outstanding during 2012 and 2011, increases or decreases in the rates of return of 25 basis points would result in increases or decreases to interest income of approximately \$0.3 million for both years from the reported interest income.

**Item 8. Financial Statements and Supplementary Data***Financial Statements***INDEX TO CONSOLIDATED 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.

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.

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.

As of the end of the Company's 2012 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, 2012 was effective.

Ernst & Young LLP, the independent registered public accounting firm that audited the Company's financial statements for the year ended December 31, 2012, has audited the Company's internal control over financial reporting as of December 31, 2012 and has issued a report regarding the Company's internal control over financial reporting appearing on page 42, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2012.

/s/ Eddie Capel  
Eddie Capel  
President and Chief Executive Officer

February 22, 2013

/s/ Dennis B. Story  
Dennis B. Story  
Executive Vice President, Chief Financial Officer and  
Treasurer

February 22, 2013

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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 Manhattan Associates, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2012, 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. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on 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, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, 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, Manhattan Associates, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, 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, 2012 and 2011, and the related consolidated statements of income, comprehensive income, cash flows, and shareholders' equity for each of the three years in the period ended December 31, 2012 of Manhattan Associates, Inc. and subsidiaries, and our report dated February 22, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Atlanta, Georgia

February 22, 2013

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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 as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, cash flows, and shareholders' equity for each of the three years in the period ended December 31, 2012. 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 Manhattan Associates, Inc. and subsidiaries at December 31, 2012 and 2011, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, 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.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Manhattan Associates, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 22, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Atlanta, Georgia

February 22, 2013

**Table of Contents****MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES****Consolidated Statements of Income**

(in thousands, except per share amounts)

	Year Ended December 31,		
	2012	2011	2010
<b>Revenue:</b>			
Software license	\$ 61,494	\$ 54,241	\$ 54,450
Services	283,872	244,058	213,750
Hardware and other	30,882	30,954	28,917
<b>Total revenue</b>	<b>376,248</b>	<b>329,253</b>	<b>297,117</b>
<b>Costs and expenses:</b>			
Cost of license	7,838	6,806	6,172
Cost of services	128,686	107,510	98,776
Cost of hardware and other	25,213	24,785	23,844
Research and development	44,704	42,372	40,508
Sales and marketing	45,622	43,944	42,702
General and administrative	38,474	37,708	34,027
Depreciation and amortization	5,638	7,284	9,161
Recovery of previously impaired investment		(2,519)	
<b>Total costs and expenses</b>	<b>296,175</b>	<b>267,890</b>	<b>255,190</b>
Operating income	80,073	61,363	41,927
Interest income	1,062	1,072	636
Other (loss) income, net	(97)	792	(779)
Income before income taxes	81,038	63,227	41,784
Income tax provision	29,185	18,320	13,723
<b>Net income</b>	<b>\$ 51,853</b>	<b>\$ 44,907</b>	<b>\$ 28,061</b>
Basic earnings per share	\$ 2.64	\$ 2.20	\$ 1.31
Diluted earnings per share	\$ 2.56	\$ 2.09	\$ 1.25
<b>Weighted average number of shares:</b>			
Basic	19,660	20,455	21,497
Diluted	20,271	21,492	22,450

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

**Table of Contents****MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES****Consolidated Statements of Comprehensive Income****(In thousands)**

	<b>Year Ended December 31,</b>		
	<b>2012</b>	2011	2010
Net income	<b>\$ 51,853</b>	\$ 44,907	\$ 28,061
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustment	<b>318</b>	(4,024)	1,012
Unrealized gain (loss) on investments, net of taxes of \$53, (\$20) and \$43 in 2012, 2011 and 2010, respectively	<b>92</b>	(33)	71
Other comprehensive income (loss)	<b>410</b>	(4,057)	1,083
Comprehensive income	<b>\$ 52,263</b>	\$ 40,850	\$ 29,144

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

**Table of Contents****MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES****Consolidated Balance Sheets**

(in thousands, except share and per share data)

	December 31,	
	2012	2011
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 96,737	\$ 92,180
Short term investments	6,310	6,079
Accounts receivable, net of allowance of \$6,235 and \$4,816 in 2012 and 2011, respectively	62,102	56,264
Deferred income taxes	7,787	7,599
Income taxes receivable		4,859
Prepaid expenses	7,386	6,059
Other current assets	1,185	1,474
Total current assets	181,507	174,514
Property and equipment, net	15,650	13,321
Long-term investments		855
Goodwill	62,265	62,261
Deferred income taxes	732	5,696
Other assets	1,659	2,953
Total assets	\$ 261,813	\$ 259,600
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 10,229	\$ 8,090
Accrued compensation and benefits	16,720	16,503
Accrued and other liabilities	12,233	13,648
Deferred revenue	47,935	49,882
Income taxes payable	4,024	
Total current liabilities	91,141	88,123
Deferred rent, long-term	5,770	6,612
Deferred income taxes	656	
Other non-current liabilities	2,737	2,785
Shareholders' equity:		
Preferred stock, no par value; 20,000,000 shares authorized, no shares issued or outstanding in 2012 or 2011		
Common stock, \$.01 par value; 100,000,000 shares authorized; 19,620,967 and 20,415,946 shares issued and outstanding at December 31, 2012 and 2011, respectively	196	204
Additional paid-in capital		
Retained earnings	166,016	166,989
Accumulated other comprehensive loss	(4,703)	(5,113)
Total shareholders' equity	161,509	162,080
Total liabilities and shareholders' equity	\$ 261,813	\$ 259,600

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



**Table of Contents****MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES****Consolidated Statements of Cash Flows**

(in thousands)

	Year Ended December 31,		
	2012	2011	2010
<b>Operating activities:</b>			
Net income	\$ 51,853	\$ 44,907	\$ 28,061
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,638	7,284	9,161
Recovery of previously impaired investment		(2,519)	
Equity-based compensation	8,338	10,372	10,420
(Gain) loss on disposal of equipment	(46)	25	(4)
Tax benefits of stock awards exercised/vested	9,901	7,481	2,207
Excess tax benefits from equity-based compensation	(7,531)	(2,474)	(475)
Deferred income taxes	5,388	2,409	(463)
Unrealized foreign currency loss (gain)	427	(189)	210
Changes in operating assets and liabilities:			
Accounts receivable, net	(5,446)	(8,994)	(9,454)
Other assets	281	(1,332)	(2,661)
Accounts payable, accrued and other liabilities	(162)	(3,537)	8,271
Income taxes	8,831	(2,514)	(2,934)
Deferred revenue	(2,201)	4,905	7,633
Net cash provided by operating activities	75,271	55,824	49,972
<b>Investing activities:</b>			
Purchases of property and equipment	(7,873)	(5,074)	(5,871)
Purchases of short-term investments	(7,582)	(7,296)	(8,625)
Maturities of short-term investments	7,446	4,438	4,414
Sales of long-term investments	1,000	3,323	1,200
Net cash used in investing activities	(7,009)	(4,609)	(8,882)
<b>Financing activities:</b>			
Purchase of common stock	(103,155)	(133,144)	(77,704)
Proceeds from issuance of common stock from options exercised	32,082	52,721	36,368
Excess tax benefits from equity-based compensation	7,531	2,474	475
Net cash used in financing activities	(63,542)	(77,949)	(40,861)
Foreign currency impact on cash	(163)	(1,830)	298
Net change in cash and cash equivalents	4,557	(28,564)	527
Cash and cash equivalents at beginning of period	92,180	120,744	120,217
Cash and cash equivalents at end of period	\$ 96,737	\$ 92,180	\$ 120,744
Supplemental disclosures of cash flow information:			
Cash paid for taxes	\$ 6,277	\$ 11,113	\$ 14,340



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

**Table of Contents****MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES****Consolidated Statements of Shareholders' Equity**

(In thousands, except share data)

	Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive (Loss) Income	Total Shareholders' Equity
	Shares	Amount	Capital	Earnings		
Balance, December 31, 2009	22,467,123	225	2,892	182,387	(2,139)	183,365
Repurchase of common stock	(2,766,173)	(28)	(51,380)	(26,296)		(77,704)
Stock option exercises	1,613,735	16	36,352			36,368
Restricted stock shares/units issuance/cancelation	415,104					
Equity-based compensation		4	10,416			10,420
Tax effects of equity-based compensation			2,207			2,207
Foreign currency translation adjustment					1,012	1,012
Unrealized gain on investments					71	71
Net income				28,061		28,061
Balance, December 31, 2010	21,729,789	217	487	184,152	(1,056)	183,800
Repurchase of common stock	(3,685,196)	(37)	(71,037)	(62,070)		(133,144)
Stock option exercises	2,108,066	21	52,700			52,721
Restricted stock shares/units issuance/cancelation	263,287					
Equity-based compensation		3	10,369			10,372
Tax effects of equity-based compensation			7,481			7,481
Foreign currency translation adjustment					(4,024)	(4,024)
Unrealized loss on investments					(33)	(33)
Net income				44,907		44,907
Balance, December 31, 2011	20,415,946	\$ 204	\$	\$ 166,989	\$ (5,113)	\$ 162,080
Repurchase of common stock	(2,022,739)	(20)	(50,309)	(52,826)		(103,155)
Stock option exercises	1,252,634	12	32,070			32,082
Restricted stock shares/units issuance/cancelation	(24,874)					
Equity-based compensation			8,338			8,338
Tax effects of equity-based compensation			9,901			9,901
Foreign currency translation adjustment					318	318
Unrealized loss on investments					92	92
Net income				51,853		51,853
<b>Balance, December 31, 2012</b>	<b>19,620,967</b>	<b>\$ 196</b>	<b>\$</b>	<b>\$ 166,016</b>	<b>\$ (4,703)</b>	<b>\$ 161,509</b>

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

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**MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2012, 2011, and 2010**

**1. Organization, Consolidation and Summary of Significant Accounting Policies**

**Organization and Business**

Manhattan Associates, Inc. (Manhattan or the Company) is a developer and provider of supply chain solutions that help organizations optimize the effectiveness, efficiency, and strategic advantages of their supply chains. The Company's solutions consist of software, services, and hardware, which coordinate people, workflows, assets, events, and tasks holistically across the functions linked in a supply chain from planning through execution. These solutions also help coordinate the actions, data exchange, and communication of participants in supply chain ecosystems, such as manufacturers, suppliers, distributors, trading partners, transportation providers, channels (such as catalogers, store retailers, and Web outlets), and consumers.

The Company's operations are in North America, Europe, and the Asia/Pacific region. The European operations are conducted through the Company's 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 the foreign currency matters topic in the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (the Codification). 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.

**New Accounting Pronouncements**

In September 2011, the FASB issued an Accounting Standards Update on testing goodwill for impairment to simplify the goodwill impairment test. The standards update is intended to reduce cost and complexity of the annual goodwill impairment test by permitting companies to first assess qualitative factors to determine whether further impairment testing is necessary. Under this standards update, a company is not required to calculate the fair value of a reporting unit unless the company determines that it is more likely than not that its fair value is less than its carrying amount. The more likely than not threshold is defined as having a likelihood of more than 50 percent. This guidance is effective for interim and annual goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company adopted this guidance as of December 31, 2012. The adoption of this guidance did not have a material impact on its financial statements.

In May 2011, the FASB issued an Accounting Standards Update on fair value measurements that clarifies the application of existing guidance and disclosure requirements, changes certain fair value measurement principles, and requires additional disclosures about fair value measurements. This guidance is effective for interim and annual periods beginning after December 15, 2011. The Company adopted of this guidance as of December 31, 2012. The adoption this guidance did not have a material impact on its financial statements.

**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.

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**MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2012, 2011 and 2010**

*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. Amounts held at certain financial institutions are above the federally insured limit.

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, 2012 for the Americas, EMEA, and APAC companies were \$51.0 million, \$8.2 million, and \$2.8 million, respectively. Accounts receivable, net as of December 31, 2011 for the Americas, EMEA, and APAC companies were \$46.0 million, \$6.1 million, and \$4.1 million, respectively. The Company's top five customers in aggregate accounted for 12%, 15%, and 10% of total revenue in the period the related sales were recorded for each of the years ended December 31, 2012, 2011, and 2010, respectively. No single customer accounted for more than 10% of revenue in the years ended December 31, 2012, 2011, and 2010 or for more than 10% of accounts receivable as of December 31, 2012 and 2011.

*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 one year or greater from the date of purchase are generally classified as long-term investments. Unrealized holding gains and losses are reflected as a net amount in a separate component of shareholders' equity until realized. For the purposes of computing realized gains and losses, cost is determined on a specific identification basis.

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. In the quarter ended September 30, 2008, the Company recorded an other-than-temporary impairment charge of \$3.5 million for one of its investments. The Company reduced the carrying value of the investment 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. In the quarter ended September 30, 2011, the Company was able to sell the auction rate security and recovered 72%, or \$2.5 million, of its original investment. The \$2.5 million recovery from the sale of the auction rate security is included in the recovery of previously impaired investment line in the Consolidated Statements of Income. During 2010, 2011, and 2012, the Company sold all of its remaining auction rate securities investments at their par value totaling \$3.0 million. The Company currently has no long-term investments.

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At December 31, 2012, the Company's cash, cash equivalents, and short-term investments balances were \$50.8 million, \$45.9 million, and \$6.3 million, respectively. Cash equivalents consist of highly liquid money market funds and certificates of deposit. Short-term investments consist of certificates of deposit. The Company uses quoted prices from active markets that are classified at Level 1 as a highest level observable input in the disclosure hierarchy framework for all available-for-sale securities. At December 31, 2012, the Company has \$35.2 million in money market funds, which are classified as Level 1 and are included in cash and cash equivalents on the Consolidated Balance Sheet. The Company has no investments classified as Level 2 or Level 3.

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**MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2012, 2011 and 2010**

*Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 and cash equivalents, 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 loss, 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 highly competitive, 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, future results could be materially adversely impacted by changes in these or other factors. The Company recognized a foreign exchange rate loss of \$0.1 million in 2012, foreign exchange rate gain of \$0.8 million in 2011, and foreign exchange rate loss of \$0.7 million in 2010. Foreign exchange rate transaction gains and losses are classified in Other (loss) income, net on the Consolidated Statements of Income.

*Revenue Recognition*

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

The Company recognizes license revenue when the following criteria are met: (1) a signed contract is obtained covering all elements of the arrangement, (2) delivery of the product has occurred, (3) the license fee is fixed or determinable, and (4) collection is probable. Revenue recognition for software with multiple-element arrangements requires recognition of revenue using the residual method when (a) there is vendor-specific objective evidence (VSOE) of the fair values of all undelivered elements in a multiple-element arrangement that is not

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accounted for using long-term contract accounting, (b) VSOE of fair value does not exist for one or more of the delivered elements in the arrangement, and (c) all other applicable revenue-recognition criteria for software revenue recognition, are satisfied. For those contracts that contain significant customization or modifications, license revenue is recognized using contract accounting.



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**MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2012, 2011 and 2010**

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

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

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

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

In accordance with the other presentation matters within the Revenue Recognition Topic of the Financial Accounting Standards Board's (FASB) Accounting Standards Codification, the Company recognizes amounts associated with reimbursements from customers for out-of-pocket expenses as revenue. Such amounts have been included in Hardware and other revenue in the Consolidated Statements of Income. The total amount of expense reimbursement recorded to revenue was \$12.6 million, \$10.4 million, and \$9.0 million for 2012, 2011, and 2010, respectively.



**Table of Contents****MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2012, 2011 and 2010***Deferred Revenue*

Deferred revenue represents amounts collected prior to having completed performance of professional services, customer support services and software enhancements, and significant remaining obligations under license agreements. The Company generally 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, 2012 or 2011.

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 \$4.3 million, \$2.5 million, and \$3.5 million for 2012, 2011, and 2010, respectively. In estimating the allowance for doubtful accounts, management considers the age of the accounts receivable, the Company's historical write-offs, and the creditworthiness of the customer, among other factors. 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 allowances. Uncollectible accounts are written off when it is determined that the specific balance is not collectible.

*Property and Equipment*

Property and equipment is recorded at cost and consists of furniture, computers, other office equipment, internal use software, and leasehold improvements. 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 software, five years for office equipment, seven years for furniture and fixtures). Leasehold improvements are depreciated over the lesser of their useful lives or the term of the lease. Depreciation and amortization expense for property and equipment for the years ended December 31, 2012, 2011, and 2010 was approximately \$5.6 million, \$6.1 million, and \$6.9 million, respectively, and was included in Depreciation and amortization in the Consolidated Statements of Income.

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

	December 31,	
	2012	2011
Office equipment	\$ 28,889	\$ 36,667
Computer software	15,727	15,466
Furniture and fixtures	2,892	2,746
Leasehold improvement	15,606	14,834
Property, plant and equipment, gross	63,114	69,713
Less accumulated depreciation and amortization	(47,464)	(56,392)
Property, plant and equipment, net	\$ 15,650	\$ 13,321

*Software Development Costs*

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Research and development expenses are charged to expense as incurred. For the years ended December 31, 2012, 2011, and 2010, the Company did not capitalize any 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 have been insignificant.

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**MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2012, 2011 and 2010**

The Company determines the amount of development costs capitalizable under the provisions of FASB Codification accounting for costs of computer software to be sold, leased, or marketed. Under this guidance, computer software development costs are charged to R&D 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, and high-risk development issues have been resolved through end-to-end system testing.

*Impairment of Long-Lived 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 2012, 2011, and 2010, 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.

*Goodwill and Impairment of Goodwill*

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 was \$62.3 million at the end of each year ended December 31, 2012 and 2011. Approximately \$36.0 million of the gross Goodwill balance is deductible for income tax purposes. To date, there have been no goodwill impairments.

Impairment of Goodwill

The Company evaluates the carrying value of goodwill 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.

The Company adopted the simplified goodwill impairment test for the fiscal year ended December 31, 2012, that permits companies to perform a qualitative assessment based on economic, industry and company-specific factors as the initial step in the annual goodwill impairment test for all or selected reporting units. Based on the results of the qualitative assessment, companies are only required to perform Step 1 of the annual impairment test for a reporting unit if the company concludes that it is more likely than not that the unit's fair value is less than its carrying amount. To the extent the Company concludes it is more likely than not that a reporting unit's fair value is less than its carrying amount, the two-step approach is applied. The first step would require a comparison of each reporting unit's fair value to the respective carrying value. If the carrying value exceeds the fair value, a second step is performed to measure the amount of impairment loss, if any. The Company did not identify any macroeconomic or industry conditions as of December 31, 2012, that would indicate the fair value of the reporting units were more likely than not to be less than their respective carrying values. If circumstances change or events occur to indicate it is more likely than not that the fair value of any reporting units have fallen below their carrying value, the Company would test such reporting unit for impairment. The Company previously performed its periodic review of its goodwill for impairment as of December 31, 2011, and 2010, and did not identify any impairment as a result of the review.



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**MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**December 31, 2012, 2011 and 2010**

*Guarantees and Indemnifications*

The Company accounts for guarantees in accordance with the guarantee accounting topic in the FASB Codification. Our customer contracts generally contain infringement indemnity provisions. Under those provisions, we generally agree, subject to certain exceptions, to indemnify, defend, and hold harmless the customer in connection with third party claims against the customer alleging that the customer's use of our software products in compliance with their license infringe the third party's patent, copyright, or other intellectual property rights. Conditions to our obligations generally include that we are provided the right to control the defense of the claims and, in general, to control settlement negotiations. Those provisions generally provide also that, if the customer is prevented from using our software because of a third party infringement claim, our sole obligation (in addition to the indemnification, defense, and hold harmless obligation referred to above) is to, at our expense, (i) procure for the customer the right to continue to use the software, (ii) to replace or modify the product so that its use by the customer does not infringe, or, if either of the foregoing are not reasonably feasible, to terminate the customer contract and provide a refund of the unamortized portion of the customer's license fee (based on a five year amortization period). Our customer contracts sometimes also require us to indemnify, defend, and hold harmless the customer in connection with death, personal injury, or property damage claims made by third parties with respect to actions of our personnel or contractors. Conditions to our obligations generally include that we are provided the right to control the defense of the claims and, in general, to control settlement negotiations. The indemnity obligations contained in our customer contracts generally have no specified expiration date and no specified monetary limitation on liability. 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 FASB guidance on 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 contracts as of December 31, 2012, or 2011.

In general, in our customer contracts, 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 six months 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, 2012, and 2011.

*Segment Information*

The Company has three reporting segments: Americas, EMEA, and APAC as defined by FASB Codification topic for segment reporting. See Note 7 for discussion of the Company's reporting segments.

*Advertising Costs*

Advertising costs are expensed as incurred and totaled approximately \$95,000, \$240,000, and \$10,000 in 2012, 2011, and 2010, 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.

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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, 2012, 2011, and 2010 (in thousands, except per share data):

	Year Ended December 31,		
	2012	2011	2010
Net income	\$ 51,853	\$ 44,907	\$ 28,061
<b>Earnings per share:</b>			
Basic	\$ 2.64	\$ 2.20	\$ 1.31
Effect of CESs	(0.08)	(0.11)	(0.06)
Diluted	\$ 2.56	\$ 2.09	\$ 1.25
<b>Weighted average number of shares:</b>			
Basic	19,660	20,455	21,497
Effect of CESs	611	1,037	953
Diluted	20,271	21,492	