UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[Mark One]

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2001

OR

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

For the transition period from ____________ to ____________

Commission File Number: 0-23999

MANHATTAN ASSOCIATES, INC.
(Exact Name of Registrant as Specified in Its Charter)

Georgia	**58-2373424**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
2300 Windy Ridge Parkway, Suite 700 **Atlanta, Georgia**	**30339**
(Address of Principal Executive Offices)	(Zip Code)

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

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

The number of shares of the Issuer's class of capital stock outstanding as of November 9, 2001, the latest practicable date, is as follows: 27,576,763 shares of common stock, $0.01 par value per share.

TABLE OF CONTENTS

MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
FORM 10-Q
Quarter Ended September 30, 2001

TABLE OF CONTENTS

PART I
FINANCIAL INFORMATION

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements.

MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)

	September 30, 2001	December 31, 2000
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 87,447	$ 51,032
Short-term investments	6,720	16,635
Accounts receivable, net of allowance for doubtful accounts of $3,970 and $4,798 at September 30, 2001 and December 31, 2000, respectively	28,039	28,177
Deferred income taxes	1,957	2,488
Refundable income taxes	2,147	5,795
Prepaid expenses and other current assets	2,840	2,573
Total current assets	129,150	106,700
Property and equipment, net	11,731	10,833
Deferred income taxes	3,017	2,245
Intangible assets, net	28,622	32,454
Other assets	145	143
Total assets	$ 172,665	$ 152,375
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 14,690	$ 20,877
Current portion of note payable	3,500	1,750
Current portion of capital lease obligations	186	176
Income taxes payable	2,273	374
Deferred revenue	14,024	13,331
Total current liabilities	34,673	36,508
Long-term portion of note payable	3,500	5,250
Long-term portion of capital lease obligations	467	616
Shareholders' equity:		
Preferred stock, no par value; 20,000,000 shares authorized, no shares issued or outstanding at September 30, 2001 and December 31, 2000	—	—
Common stock, $.01 par value; 100,000,000 shares authorized, 27,303,268 and 26,443,996 shares issued and outstanding at September 30, 2001 and December 31, 2000, respectively	273	264
Additional paid-in capital	99,742	89,583
Retained earnings	34,087	20,425
Accumulated other comprehensive income (loss)	48	(78)
Deferred compensation	(125)	(193)
Total shareholders' equity	134,025	110,001
Total liabilities and shareholders' equity	$ 172,665	$ 152,375

See accompanying Notes to Condensed Consolidated Financial Statements.

Item 1. Financial Statements (continued)

MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited and in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Revenue:				
Software fees	$ 9,206	$ 6,529	$ 26,409	$ 17,251
Services	24,694	21,207	72,081	57,979
Hardware	4,521	5,968	12,130	21,445
Total revenue	38,421	33,704	110,620	96,675
Costs and Expenses:				
Cost of software fees	401	192	1,271	1,008
Cost of services	10,994	8,753	30,933	24,944
Cost of hardware	3,729	4,759	9,700	17,448
Research and development	4,739	4,213	14,483	10,301
Sales and marketing	5,779	4,298	16,605	12,906
General and administrative	4,824	3,742	13,673	11,104
Amortization of acquisition-related intangibles	1,310	94	3,930	282
Total costs and expenses	31,776	26,051	90,595	77,993
Operating income	6,645	7,653	20,025	18,682
Other income, net	649	851	1,677	1,841
Income before income taxes	7,294	8,504	21,702	20,523
Income tax provision	2,698	3,231	8,040	7,798
Net income	$ 4,596	$ 5,273	$ 13,662	$ 12,725
Basic net income per share	$ 0.17	$ 0.21	$ 0.51	$ 0.51
Diluted net income per share	$ 0.15	$ 0.17	$ 0.45	$ 0.42
Weighted average number of shares:				
Basic	27,278	25,408	26,922	24,818
Diluted	30,605	30,868	30,678	30,108

See accompanying Notes to Condensed Consolidated Financial Statements.

Item 1. Financial Statements (continued)

MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited and in thousands)

	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
Operating activities:		
Net income	$13,662	$12,725
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,490	3,730
Amortization of acquisition-related intangibles	3,930	282
Stock compensation	68	64
Tax benefit of options exercised	6,423	4,543
Deferred income taxes	(240)	(461)
Changes in operating assets and liabilities:		
Accounts receivable, net	115	(527)
Other assets	(694)	117
Accounts payable and accrued liabilities	(6,184)	7,964
Income taxes	5,506	(2,052)
Deferred revenue	713	5,299
Net cash provided by operating activities	27,789	31,684
Investing activities:		
Purchase of property and equipment	(5,070)	(3,465)
Sales of short-term investments, net	9,978	3,738
Net cash provided by investing activities	4,908	273
Financing activities:		
Payment of capital lease obligations	(139)	(145)
Purchase of Manhattan common stock	(885)	—
Proceeds from issuance of common stock	4,629	8,037
Net cash provided by financing activities	3,605	7,892
Foreign currency impact on cash	113	63
Net increase in cash and cash equivalents	36,415	39,912
Cash and cash equivalents at beginning of period	51,032	19,695
Cash and cash equivalents at end of period	$87,447	$59,607
Supplemental cash flow disclosures:		
Cash paid (received) for income taxes	$ (3,675)	$ 5,743
Cash paid for interest	$ 570	$ 61

See accompanying Notes to Condensed Consolidated Financial Statements.

MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
September 30, 2001
(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required for complete financial statements. In the opinion of the Company's management, these condensed consolidated financial statements contain all adjustments considered necessary for a fair presentation of the financial position at September 30, 2001, the results of operations for the three and nine month periods ended September 30, 2001 and 2000 and changes in cash flows for the nine month periods ended September 30, 2001 and 2000. The results for the three month and nine month periods ended September 30, 2001 are not necessarily indicative of the results to be expected for the full year. These statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2000.

2. Principles of Consolidation

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.

3. Revenue Recognition

The Company's revenue consists of fees generated from the licensing of software; fees from consulting, implementation and training services (collectively, "professional services"); customer support services and software enhancement subscriptions; and sales of complementary radio frequency and computer equipment.

The Company recognizes software fees in accordance with Statement of Position No. 97-2, "Software Revenue Recognition" ("SOP 97-2"), as amended by Statement of Position No. 98-9, "Software Revenue Recognition, With Respect to Certain Transactions" ("SOP 98-9"). Under SOP 97-2, the Company recognizes software fees when the following criteria are met: (1) a signed contract is obtained; (2) shipment of the product has occurred; (3) the license fee is fixed and determinable; (4) collectibility is probable; and (5) remaining obligations under the license agreement are insignificant. SOP 98-9 requires recognition of revenue using the "residual method" when (1) there is vendor-specific objective evidence of the fair values of all undelivered elements in a multiple-element arrangement that is not accounted for using long-term contract accounting; (2) vendor-specific objective evidence of fair value does not exist for one or more of the delivered elements in the arrangement; and (3) all revenue-recognition criteria in SOP 97-2 other than the requirement for vendor-specific objective evidence of the fair value of each delivered element of the arrangement are satisfied. SOP 98-9 was effective for transactions entered into after March 15, 1999, and the Company adopted the residual method for such arrangements at that time. For those contracts that contain significant future obligations, software fees are recognized under the percentage of completion method.

The Company's services revenue consists of fees generated from professional services, customer support services and software enhancement subscriptions related to the Company's software products. Fees for professional services performed by the Company are generally billed on an hourly basis and revenue is recognized as the services are performed. From time to time, the Company will enter into professional services agreements in which billings are limited to contractual maximums for portions of or all of the engagement. Fees from customer support services and software enhancement subscriptions are generally paid in advance and recognized as revenue ratably over the term of the agreements, typically 12 months.

Hardware revenue is generated from the resale of a variety of hardware products, developed and manufactured by third parties, that are integrated with and complementary to the Company's software solutions. These products include computer equipment, radio frequency terminal networks, bar code printers and scanners, and other peripherals. Hardware revenue is recognized upon shipment by the vendor to the customer. The Company generally purchases hardware from its vendors only after receiving an order from a customer. As a result, the Company does not maintain significant amounts of hardware inventory.

4. Comprehensive Income

Comprehensive income includes foreign currency translation gains and losses and unrealized gains and losses on investments that have been previously excluded from net income and reflected in shareholders' equity.

The following table sets forth the calculation of comprehensive income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
	(in thousands)		(in thousands)	
Net income	$4,596	$5,273	$13,662	$12,725
Other comprehensive income (loss):				
Unrealized gain on investments, net of taxes	44	6	40	13
Foreign currency gain (loss), net of taxes	161	(28)	40	(63)
Other comprehensive income (loss)	205	(22)	80	(50)
Comprehensive net income	$4,801	$5,251	$13,742	$12,675

5. 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"). Diluted net income per share is computed using net income divided by Weighted Shares plus common equivalent shares ("CESs") outstanding calculated using the Treasury Stock method.

The following is a reconciliation of the shares used in the computation of net income per share:

	Three Months Ended September 30, 2001		Three Months Ended September 30, 2000	
	Basic	Diluted	Basic	Diluted
	(in thousands)		(in thousands)	
Weighted Shares	27,278	27,278	25,408	25,408
Effect of CESs	—	3,327	—	5,460
	27,278	30,605	25,408	30,868

	Nine Months Ended September 30, 2001		Nine Months Ended September 30, 2000	
	Basic	Diluted	Basic	Diluted
	(in thousands)		(in thousands)	
Weighted Shares	26,922	26,922	24,818	24,818
Effect of CESs	—	3,756	—	5,290
	26,922	30,678	24,818	30,108

6. Shareholders' Equity

During 2000, the Company issued 173,913 shares of the Company's common stock in connection with the acquisition of Intrepa, L.L.C. The number of shares issued by the Company was subject to adjustment on January 1, 2001 and April 1, 2001 based on the average closing price of the Company's stock for the 20 days prior to January 1, 2001 and April 1, 2001. In January 2001 and April 2001, the Company issued 1,225 and 61,819 additional shares, respectively, in connection with these adjustments, bringing the total number of shares issued as part of the Intrepa acquisition to 236,957 shares.

7. Reclassifications

Certain reclassifications were made to the prior year's financial statements to conform to the 2001 presentation.

8. New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement established accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, collectively referred to as derivatives, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The Company adopted the new statement on January 1, 2001. The adoption of this Statement did not have a significant impact on the Company's financial statements.

In September 2000, the Financial Accounting Standards Board issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities – a Replacement of FASB Statement No. 125." This Statement revises the standards for accounting for securitizations and other transfers of financial assets and collateral. This statement is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. The adoption of this Statement did not have a significant impact on the Company's financial statements.

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations." This Statement requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. The Company does not believe the adoption of this Statement will have a significant impact on the Company's financial statements.

Also in July 2001, the Financial Accounting Standards Board issued SFAS No. 142, "Goodwill and Other Intangible Assets." This Statement requires that goodwill and certain intangible assets, including those recorded in past business combinations, no longer be amortized to earnings, but instead be tested for impairment at least annually. SFAS No. 142 will become effective for fiscal years beginning after December 15, 2001. The Company is required to adopt SFAS No. 142 by January 1, 2002 and is currently evaluating the impact of SFAS No. 142 on its financial statements.

Item 2. 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, and our actual results of operations may differ materially from those contained in the forward-looking statements.

Overview

We are a leading provider of technology-based solutions to improve supply chain effectiveness and efficiencies. Our solutions enhance distribution efficiencies through the integration of supply chain constituents, including manufacturers, distributors, retailers, suppliers, transportation providers and end consumers. Our solutions are designed to optimize the receipt, storage, assembly and distribution of inventory and the management of equipment and personnel within a distribution center, and to enhance communications between the distribution center and its trading partners. Our solutions consist of *software,* including products to enable the execution, fulfillment and delivery of customer orders, the optimization of distribution center operations and the collaboration between and among trading partners; *services,* including design, configuration, implementation, and training services, plus customer support and software enhancement subscriptions; and *hardware*. We currently provide solutions to manufacturers, distributors, retailers and transportation providers primarily in the following markets: retail, apparel/footwear, consumer goods manufacturing, direct-to-consumer, third-party logistics, food and grocery, healthcare, and industrial/automotive parts distribution.

Revenues

Our revenues consist of fees from the licensing of software; fees from consulting, implementation and training services (collectively, "professional services"), plus customer support services and software enhancement subscriptions; and sales of complementary radio frequency and computer equipment.

We recognize software fees in accordance with Statement of Position No. 97-2, "Software Revenue Recognition" ("SOP 97-2"), as amended by Statement of Position No. 98-9, "Software Revenue Recognition, With Respect to Certain Transactions" ("SOP 98-9"). Under SOP 97-2, we recognize software license revenue when the following criteria are met: (1) a signed contract is obtained; (2) shipment of the product has occurred; (3) the license fee is fixed and determinable; (4) collectibility is probable; and (5) remaining obligations under the license agreement are insignificant. SOP 98-9 requires recognition of revenue using the "residual method" when (1) there is vendor-specific objective evidence of the fair values of all undelivered elements in a multiple-element arrangement that is not accounted for using long-term contract accounting; (2) vendor-specific objective evidence of fair value does not exist for one or more of the delivered elements in the arrangement; and (3) all revenue-recognition criteria in SOP 97-2 other than the requirement for vendor-specific objective evidence of the fair value of each delivered element of the arrangement are satisfied. SOP 98-9 was effective for transactions entered into after March 15, 1999, and we adopted the residual method for such arrangements at that time. For those contracts that contain significant future obligations, license revenue is recognized under the percentage of completion method.

Our services revenue consists of fees generated from professional services, customer support services and software enhancement subscriptions related to our software products. Fees from professional services performed by us are generally billed on an hourly basis and revenue is recognized as the services are performed. From time to time, we will enter into professional services agreements in which billings are limited to contractual maximums for portions of or all of the engagement. Fees from customer support services and software enhancement subscriptions are generally paid in advance and recognized as revenue ratably over the term of the agreement, typically 12 months.

Hardware revenue is generated from the resale of a variety of hardware products, developed and manufactured by third parties, that are integrated with and complementary to our software solutions. These products include computer equipment, radio frequency terminal networks, bar code printers and scanners, and other peripherals. We generally purchase hardware from our vendors only after receiving an order from a customer and revenue is recognized upon shipment by the vendor to the customer.

Acquisition

On October 24, 2000, we acquired substantially all of the assets of Intrepa, L.L.C. ("Intrepa") for a purchase price of approximately $31.0 million. The purchase price consists of a cash payment of $13.0 million, the issuance of approximately $10.0 million of our $.01 par value per share common stock (totaling 236,957 shares), and the issuance by us of a promissory note for $7.0 million. We also incurred approximately $0.9 million of transaction costs related to the acquisition. The purchase price includes the assumption of substantially all of the liabilities of Intrepa, including immediate payment by us of the remaining $2.0 million of principal and up to $15,000 of interest on a promissory note previously issued by Intrepa. The acquisition has been accounted for under the purchase method of accounting. Based on an independent appraisal, the purchase price has been allocated to net liabilities assumed of $2.6 million, acquired research and development of $2.4 million, acquired developed technology of $7.5 million, and other intangible assets of $23.3 million. Acquired developed technology is being amortized over an estimated five-year useful life and other intangible assets are being amortized over a seven-year useful life. In connection with this acquisition, we realigned our resources, which resulted in severance-related expenses of $576,000 during the quarter ended December 31, 2000.

We are in the process of determining the impact of SFAS No. 142 on our financial statements (see Note 8 to Condensed Consolidated Financial Statements), specifically as it relates to Intrepa and two other acquisitions completed in 1998. SFAS No. 142 is required to be adopted by January 1, 2002.

Results of Operations

Three Months Ended September 30, 2001 Compared to Three Months Ended September 30, 2000

Revenue

Our revenue consists of fees generated from the licensing of software; fees from professional services, customer support services and software enhancement subscriptions; and sales of complementary radio frequency and computer equipment, which are considered non-strategic. Total revenue increased 14% to $38.4 million for the quarter ended September 30, 2001, from $33.7 million for the quarter ended September 30, 2000. Software fees and services revenue grew 41% and 16%, respectively, and sales of hardware declined by 24% as compared to the third quarter of 2000. In spite of the increase in software fees and services revenue over the comparable quarter of the prior year, we have experienced some effects from the deterioration of the United States' economy in the form of delayed and cancelled buying decisions by customers for our software, services and hardware, deferrals by customers of services engagements previously scheduled and pressure by our customers and competitors to either discount our offerings or not be awarded the business. We believe that a continuation of or a further deterioration in the current macro-economic conditions and business climates within the United States and/or other geographic regions in which we operate, principally the United Kingdom and continental Europe, could have a material adverse impact on our operations. Further, the terrorist acts of September 11, 2001 have caused more uncertainty as to whether the macro-economic conditions and business environment will further deteriorate or improve in the near future.

Software Fees. Software fees increased to $9.2 million for the quarter ended September 30, 2001, from $6.5 million for the quarter ended September 30, 2000, an increase of $2.7 million or 41%. The increase in revenue from the licensing of software is primarily due to two factors: (i) an increase in sales of software licenses outside of North America, which accounted for approximately 19% of software fees in the third quarter of 2001 and 7% of software fees in the third quarter of 2000; and (ii) sales of SlotInfo, WorkInfo and SmartInfo (collectively, "Optimize Suite"), PkMS-Pronto and infolink, which accounted for approximately 27% of software fees in the third quarter of 2001. Only SlotInfo and WorkInfo were commercially available for sale in the third quarter of 2000.

Services. Services revenue increased to $24.7 million for the quarter ended September 30, 2001, from $21.2 million for the quarter ended September 30, 2000, an increase of $3.5 million or 16%. The increase in revenue from services is principally due to (i) increases in the number of engagements required to implement the increased amount of software sold and to upgrade existing customers to more current versions of our offerings during the first nine months of 2001; and (ii) renewals of customer support services and software enhancement subscription agreements on a growing installed base.

Hardware. Hardware revenue decreased to $4.5 million for the quarter ended September 30, 2001, from $6.0 million for the quarter ended September 30, 2000, a decrease of $1.5 million or 24%. The decline in hardware sales in the third quarter of 2001 is principally attributable to customers' desires in the current macro-economic environment to buy hardware from other suppliers offering greater discounts.

Costs and Expenses

Cost of Software Fees. Cost of software fees consists of the costs associated with software reproduction and delivery; media, packaging, documentation and other related costs; royalties on third-party software sold with or as part of our products; and the amortization of research and development costs capitalized prior to the third quarter of 1999. Cost of software fees increased by 109% to $401,000, or 4% of software fees, for the quarter ended September 30, 2001, from $192,000, or 3% of software fees, for the quarter ended September 30, 2000. The increase in cost of software fees is primarily attributable to an increase in royalties payable to third parties for software sold as part of our solutions during the quarter ended September 30, 2001.

Cost of Services. Cost of services revenue consists primarily of salaries and other personnel-related expenses of employees dedicated to professional services and customer support services. Cost of services revenue increased by 26% to $11.0 million, or 45% of services revenue, for the quarter ended September 30, 2001, from $8.8 million, or 41% of services revenue, for the quarter ended September 30, 2000. The increase in cost of services revenue is primarily due to an increase in the number of services personnel and the additional expense of staffing international engagements with domestic services personnel in the third quarter of 2001. Approximately 32 services personnel were hired during the third quarter of 2001, most of whom we employ in our international operations. Cost of services as a percentage of services revenue in the third quarter of 2001 was negatively impacted by: (i) non-billable time associated with new releases of existing products; (ii) non-billable time incurred relating to a large fixed-fee engagement; (iii) non-billable time resulting from the terrorist acts of September 11, 2001; and (iv) increased discounting based on current macro-economic conditions.

Cost of Hardware. Cost of hardware revenue decreased by 22% to $3.7 million, or 82% of hardware revenue, for the quarter ended September 30, 2001, from $4.8 million, or 80% of hardware revenue, for the quarter ended September 30, 2000. Cost of hardware declined as a direct result of lower sales of hardware.

Research and Development. Research and development expenses principally consist of salaries and other personnel-related costs for personnel involved in our research and development activities. Our research and development expenses increased by 12% to $4.7 million, or 12% of total revenue, for the quarter ended September 30, 2001, from $4.2 million, or 13% of total revenue, for the quarter ended September 30, 2000. The increase in research and development expenses is principally attributable to approximately 35 research and development personnel who became employees upon our acquisition of Intrepa in the fourth quarter of 2000. Among others, increases in research and development activities include the ongoing development and enhancement of the N-Tier version of PkMS and PkMS Pronto, our Optimize Suite and infolink, our business collaboration product.

Sales and Marketing. Sales and marketing expenses include salaries, commissions, travel and other personnel-related costs of sales and marketing personnel and the costs of our marketing programs and related activities. Sales and marketing expenses increased by 34% to $5.8 million, or 15% of total revenue, for the quarter ended September 30, 2001, from $4.3 million, or 13% of total revenue, for the quarter ended September 30, 2000. The increase in sales and marketing expenses over the comparable quarter of the prior year is principally attributable to an increase in the number of sales and marketing personnel and additional expenses arising from performance-related incentive compensation plans and expenditures to further refine our strategic marketing initiatives.

General and Administrative. General and administrative expenses consist primarily of salaries and other personnel-related costs of executive, financial, human resources and administrative personnel, as well as depreciation and amortization, legal, insurance, accounting and other administrative expenses. General and administrative expenses increased by 29% to $4.8 million, or 13% of total revenue, for the quarter ended September 30, 2001, from $3.7 million, or 11% of total revenue, for the quarter ended September 30, 2000. The increase in general and administrative expenses is principally attributable to increases in personnel, administrative and other costs to grow our business and improve our infrastructure. Infrastructure costs include depreciation and amortization expense of $1.5 million and $1.1 million for the quarters ended September 30, 2001 and 2000, respectively. Other costs include approximately $125,000 for employee appreciation expenses and charitable contributions following the events of September 11, 2001.

Amortization of Acquisition-Related Intangibles. We have recorded intangible assets as part of the purchase method of accounting associated with three acquisitions: (i) the acquisition of Performance Analysis Corporation in February 1998; (ii) the acquisition of certain assets of Kurt Salmon Associates, Inc. in October 1998; and (iii) the acquisition of Intrepa in October 2000. As a direct result of the acquisition of Intrepa, amortization of acquisition-related intangibles increased from $94,000, or 0.3% of total revenue, for the quarter ended September 30, 2000, to $1.3 million, or 3.4% of total revenue, for the quarter ended September 30, 2001.

Operating Income

Operating income decreased $1.1 million to $6.6 million, or 17% of total revenue, for the quarter ended September 30, 2001, from $7.7 million, or 23% of total revenue, for the quarter ended September 30, 2000. The decrease in operating income is principally attributable to the $1.2 million increase in amortization of acquisition-related intangibles associated with Intrepa. Excluding amortization of acquisition-related intangibles, operating income was $8.0 million, or 21% of total revenue, and $7.7 million, or 23% of total revenue, for the third quarters of 2001 and 2000, respectively. The decline in operating income as a percentage of total revenue, excluding amortization of acquisition-related intangibles, is principally attributable to the increase in cost of services revenue in the third quarter of 2001, as discussed above. The 41% growth in software fees in the third quarter of 2001 offset increases in sales and marketing and general and administrative expenses during the same period, as discussed above.

Other Income, net

Other income, net decreased from $851,000 for the quarter ended September 30, 2000 to $649,000 for the quarter ended September 30, 2001. Other income, net for the third quarter of 2001 includes approximately $140,000 of interest expense associated with the note payable issued in conjunction with the purchase of Intrepa, which was not present in the third quarter of 2000. Additionally, an overall decline in market interest rates has lowered our return on invested cash, cash equivalents and short-term investments.

Income Taxes

The provision for income taxes was $2.7 million, or 37% of taxable income, for the quarter ended September 30, 2001, compared to $3.2 million, or 38% of taxable income, for the quarter ended September 30, 2000. The quarterly income tax rate reflects our estimated annual effective income tax rate and considers the source of estimated taxable income, effective state and international income tax rates and anticipated tax credits. The provision for income taxes for the quarters ending September 30, 2000 and 2001 does not include the $2.6 million and $2.5 million tax benefits realized from stock options exercised during the quarters, respectively. These tax benefits reduce our income tax liabilities and are included in additional paid-in capital.

Net Income Per Share

Diluted net income per share for the quarters ended September 30, 2001 and 2000 was $0.15 and $0.17, respectively, on fully diluted shares outstanding of 30,605,000 and 30,868,000, respectively. Excluding tax-effected amortization of acquisition-related intangibles, diluted net income was $5.4 million, or 14% of total revenue and $0.18 per fully diluted share, for the quarter ended September 30, 2001. This compares to diluted net income of $5.3 million, excluding tax-effected amortization of acquisition-related intangibles, or 16% of total revenue and $0.17 per fully diluted share, for the quarter ended September 30, 2000.

Nine Months Ended September 30, 2001 Compared to Nine Months Ended September 30, 2000

Revenue

Total revenue increased 14% to $110.6 million for the nine months ended September 30, 2001, from $96.7 million for the nine months ended September 30, 2000. Software fees and services revenue grew 53% and 24%, respectively, and sales of hardware declined by 43% in the first nine months of 2001 as compared to the first nine months of 2000. In spite of the increase in total revenues over the comparable period of the prior year, we have experienced some effects from the deterioration of the United States' economy in the form of delayed and cancelled buying decisions by customers for our software, services and hardware, deferrals by customers of services engagements previously scheduled and pressure by our customers and competitors to either discount our offerings or not be awarded the business. We believe that a continuation of or a further deterioration in the current macro-economic conditions and business climates within the United States and/or other geographic regions in which we operate, principally the United Kingdom and continental Europe, could have a material adverse impact on our operations. Further, the terrorist acts of September 11, 2001 have caused more uncertainty as to whether the macro-economic conditions and business environment will further deteriorate or improve in the near future.

Software Fees. Software fees increased to $26.4 million for the nine months ended September 30, 2001, from $17.3 million for the nine months ended September 30, 2000, an increase of $9.1 million or 53%. The increase in revenue from the licensing of software is primarily due to two factors: (i) an increase in sales of software licenses outside of North America, which accounted for approximately 24% of software fees during the nine months ended September 30, 2001 and 4% of software fees during the nine months ended September 30, 2000; and (ii) sales of our Optimize Suite, PkMS Pronto and infolink, which accounted for approximately 22% of software fees during the nine months ended September 30, 2001. Only SlotInfo and WorkInfo were commercially available for sale in the first nine months of 2000.

Services. Services revenue increased to $72.1 million for the nine months ended September 30, 2001, from $58.0 million for the nine months ended September 30, 2000, an increase of $14.1 million or 24%. The increase in revenue from services is principally due to three factors: (i) an increase in the number of engagements required to implement the increased amount of software sold and to upgrade existing customers to more current versions of our offerings; (ii) more efficient utilization of professional services personnel; and (iii) increased revenue from customer support and software enhancement subscriptions on a growing installed base.

Hardware. Hardware revenue, which is considered non-strategic, decreased to $12.1 million for the nine months ended September 30, 2001, from $21.4 million for the nine months ended September 30, 2000, a decrease of $9.3 million or 43%. The decline in sales of hardware in the first nine months of 2001 is principally due to an atypically large sale of hardware to a customer in the second quarter of 2000, combined with increased sales of our Optimize Suite of products, which require less hardware than PkMS, and increased sales of software licenses outside of the United States where customers have historically not bought hardware from us.

Costs and Expenses

Cost of Software Fees. Cost of software fees consists of the costs associated with software reproduction and delivery; media, packaging, documentation and other related costs; royalties on third-party software sold with or as part of our products; and the amortization of research and development costs capitalized prior to the third quarter of 1999. Cost of software fees increased by 26% to $1.3 million, or 5% of software fees, for the nine months ended September 30, 2001, from $1.0 million, or 6% of software fees, for the nine months ended September 30, 2000. The increase in cost of software fees is primarily attributable to an increase in royalties payable to third parties for software sold as part of our solutions during the nine months ended September 30, 2001.

Cost of Services. Cost of services revenue consists primarily of salaries and other personnel-related expenses of employees dedicated to professional services and customer support services. Cost of services revenue increased by 24% to $30.9 million, or 43% of services revenue, for the nine months ended September 30, 2001, from $24.9 million, or 43% of services revenue, for the nine months ended September 30, 2000. The increase in cost of services revenue is primarily due to a 14% increase in the average number of services personnel during the nine months ended September 30, 2001, plus the incremental hiring and training costs.

Cost of Hardware. Cost of hardware revenue decreased by 44% to $9.7 million, or 80% of hardware revenue, for the nine months ended September 30, 2001, from $17.4 million, or 81% of hardware revenue, for the nine months ended September 30, 2000. Cost of hardware declined as a direct result of lower sales of hardware.

Research and Development. Research and development expenses principally consist of salaries and other personnel-related costs for personnel involved in our research and development activities. Our research and development expenses increased by 41% to $14.5 million, or 13% of total revenue, for the nine months ended September 30, 2001, from $10.3 million, or 11% of total revenue, for the nine months ended September 30, 2000. The increase in research and development expenses over the prior year is principally attributable to an increase in the average number of full-time and contracted personnel dedicated to our ongoing research and development activities, most of the increase in personnel arising from the acquisition of Intrepa.

Sales and Marketing. Sales and marketing expenses include salaries, commissions, travel and other personnel-related costs of sales and marketing personnel and the costs of our marketing programs and related activities. Sales and marketing expenses increased by 29% to $16.6 million, or 15% of total revenue, for the nine months ended September 30, 2001, from $12.9 million, or 13% of total revenue, for the nine months ended September 30, 2000. The increase in sales and marketing expenses over the comparable nine months of the prior year is principally attributable to an increase in the number of sales and marketing personnel, expanded marketing programs associated with new and existing product lines and expenditures in the third quarter of 2001 to refine our strategic marketing initiatives.

General and Administrative. General and administrative expenses consist primarily of salaries and other personnel-related costs of executive, financial, human resources and administrative personnel, as well as depreciation and amortization, legal, insurance, accounting and other administrative expenses. General and administrative expenses increased by 23% to $13.7 million, or 12% of total revenue, for the nine months ended September 30, 2001, from $11.1 million, or 11% of total revenue, for the nine months ended September 30, 2000. The increase in general and administrative expenses is principally attributable to an increase in depreciation and amortization expense and additional administrative costs and personnel to grow our business and improve our infrastructure. Depreciation and amortization expense included in general and administrative expenses was $4.2 million and $3.4 million for the first nine months of 2001 and 2000, respectively.

Amortization of Acquisition-Related Intangibles. We have recorded intangible assets as part of the purchase accounting associated with three acquisitions: (i) the acquisition of Performance Analysis Corporation in February 1998; (ii) the acquisition of certain assets of Kurt Salmon Associates, Inc. in October 1998; and (iii) the acquisition of Intrepa in October 2000. As a direct result of the acquisition of Intrepa, amortization of acquisition-related intangibles increased from $282,000, or 0.3% of total revenue, for the nine months ended September 30, 2000, to $3.9 million, or 3.6% of total revenue, for the nine months ended September 30, 2001.

Operating Income

Operating income increased $1.3 million to $20.0 million, or 18% of total revenue, for the nine months ended September 30, 2001, from $18.7 million, or 19% of total revenue, for the nine months ended September 30, 2000. The increase in operating income is principally due to the 31% growth in software fees and services for the nine months ended September 30, 2001 over the nine months ended September 30, 2000, combined with improved efficiencies in our business. Excluding amortization of acquisition-related intangibles, operating income was $24.0 million, or 22% of total revenue, and $19.0 million, or 20% of total revenue, for the nine months ended September 30, 2001 and 2000, respectively. The increase in operating income as a percentage of total revenue, excluding amortization of acquisition-related intangibles, is principally attributable to the decline in sales of hardware in 2001, as discussed above.

Other Income, net

Other income, net decreased from $1.8 million for the nine months ended September 30, 2000 to $1.7 million for the nine months ended September 30, 2001. Other income, net for the nine months ended September 30, 2001 includes approximately $420,000 of interest expense associated with the note payable issued in conjunction with the acquisition of Intrepa, which was not present in the nine months ended September 30, 2000. Additionally, an overall decline in market interest rates has lowered our return on invested cash, cash equivalents and short-term investments.

Income Taxes

The provision for income taxes was $8.0 million, or 37% of taxable income, for the nine months ended September 30, 2001, compared to $7.8 million, or 38% of taxable income, for the nine months ended September 30, 2000. The income tax rate reflects our estimated annual effective income tax rate and considers the source of estimated taxable income, effective state and international income tax rates and anticipated tax credits. The provision for income taxes for the nine months ended September 30, 2000 and 2001 does not include the $4.5 million and $6.4 million tax benefits realized from stock options exercised during 2000 and 2001, respectively. These tax benefits reduce our income tax liabilities and are included in additional paid-in capital.

Net Income Per Share

Diluted net income per share for the nine month periods ended September 30, 2001 and 2000 was $0.45 and $0.42, respectively, on fully diluted shares outstanding of 30,678,000 and 30,108,000, respectively. The increase in fully diluted shares outstanding during 2001 is principally attributable to the increase in the number of shares of common stock outstanding as a result of stock option exercises and shares issued in conjunction with the acquisition of Intrepa. Excluding tax-effected amortization of acquisition-related intangibles, diluted net income was $16.1 million, or 15% of total revenue and $0.53 per fully diluted share, for the nine months ended September 30, 2001. This compares to diluted net income of $12.9 million, excluding tax-effected amortization of acquisition-related intangibles, or 13% of total revenue and $0.43 per fully diluted share, for the nine months ended September 30, 2000.

Liquidity and Capital Resources

We have funded our operations primarily through cash generated from operations. As of September 30, 2001, we had approximately $94.2 million in cash, cash equivalents and short-term investments, as compared to approximately $67.7 million at December 31, 2000.

Our operating activities provided cash of approximately $27.8 million for the nine months ended September 30, 2001 and $31.7 million for the nine months ended September 30, 2000. Cash from operating activities for the nine months ended September 30, 2001 arose principally from increases in operating income, prepayments of customer support services and software enhancement subscriptions, improved payments on accounts by customers, an accelerated refund of income taxes and income tax benefits arising from exercises of stock options by employees. Days sales outstanding decreased from 71 days at December 31, 2000 to 67 days at September 30, 2001 through enhanced customer collection programs.

Our investing activities provided cash of approximately $4.9 million for the nine months ended September 30, 2001. Cash from investing activities arose principally from sales of short-term investments (investments with original maturities greater than 90 days), reduced by the purchase of capital equipment to support our business and infrastructure.

Our financing activities provided cash of approximately $3.6 million for the nine months ended September 30, 2001. The principal source of cash provided by financing activities was from the proceeds of the issuance of common stock pursuant to the exercise of stock options. We purchased 65,000 shares of our common stock for approximately $885,000 through open market transactions in the third quarter of 2001 as part of a publicly announced buy-back program.

We believe that existing balances of cash, cash equivalents and short-term investments will be sufficient to meet our working capital and capital expenditure needs at least for the next twelve months.

Forward-Looking Statements

Certain statements contained in this filing are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, including but not limited to statements related to plans for future business development activities, anticipated costs of revenues, product mix and service revenues, research and development and selling, general and administrative activities, and liquidity and capital needs and resources. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. For further information about these and other factors that could affect our future results, please see Exhibit 99.1 to our Annual Report on Form 10-K for the year ended December 31, 2000. Investors are cautioned that any forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Foreign Exchange

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. Accordingly, our future results could be materially adversely impacted by changes in these or other factors.

Total international revenue was approximately $19.1 million and $9.7 million for the nine months ended September 30, 2001 and 2000, respectively, which represents approximately 17% and 10% of our total revenue, respectively. Total international revenue was approximately $7.3 million and $3.2 million for the three months ended September 30, 2001 and 2000, respectively, which represents approximately 19% and 10% of our total revenue, respectively. International revenue includes all revenue associated with sales of software, services and hardware outside the United States.

We conduct our direct European operations principally out of an office in the United Kingdom, consisting of approximately 66 employees. Total revenue for European operations was approximately $16.2 million and $5.5 million for the nine months ended September 30, 2001 and 2000, respectively, which represents approximately 15% and 6% of our total revenue, respectively. Total revenue for European operations was approximately $6.2 million and $2.0 million for the three months ended September 30, 2001 and 2000, respectively, which represents approximately 16% and 6% of our total revenue, respectively.

We recognized a foreign exchange rate gain of approximately $72,000 during the nine month period ended September 30, 2001 and a foreign exchange rate loss of approximately $167,000 during the nine month period ended September 30, 2000, classified in “Other income, net” on our Condensed Consolidated Statements of Income.

Interest Rates

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

Interest income on our investments is classified in “Other income, net” on our Condensed Consolidated Statements of Income. We account for our investment instruments in accordance with Statement of Financial Accounting Standards No. 115, “Accounting for Certain Investments in Debt and Equity Securities” (“SFAS No. 115”). All of the cash equivalents and short-term investments are treated as available-for-sale under SFAS No. 115.

Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates, or we may suffer losses in principal if forced to sell securities that have seen a decline in market value due to changes in interest rates. The weighted-average interest rate on investment securities held at September 30, 2001 was approximately 3.1%, as compared to 6.3% at September 30, 2000. The fair value of cash equivalents and short-term investments held at September 30, 2001 was $77.8 million.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings.

Many of our implementations involve products that are critical to the operations of our clients' businesses. Any failure in our products and/or the related implementations could result in a claim for substantial damages against us, regardless of our responsibility for such failure. Although we attempt to limit contractually our liability for damages arising from product failures or negligent acts or omissions, there can be no assurance the limitations of liability set forth in our contracts will be enforceable in all instances. We were not a party to any material legal proceedings during the quarter covered by the report.

Item 2. Changes in Securities and Use of Proceeds.

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

Item 3. Defaults Upon Senior Securities.

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

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

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

Item 5. Other Information.

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

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibit. The following exhibit is filed as part of this report on Form 10-Q:

Exhibit Number		Description
10.1	—	Executive Employment Agreement Modification by and between the Company and Richard M. Haddrill, effective July 19, 2001

(b) Reports to be filed on Form 8-K.

No reports on Form 8-K were filed during the quarter ended September 30, 2001.

SIGNATURES

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

MANHATTAN ASSOCIATES, INC

Date: November 14, 2001	/s/ Richard M. Haddrill
	Richard M. Haddrill Chief Executive Officer, President and Director (Principal Executive Officer)
Date: November 14, 2001	/s/ Thomas Williams
	Thomas Williams Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)

EXHIBIT 10.1

EXECUTIVE EMPLOYMENT AGREEMENT MODIFICATION

The purpose of this letter is to modify and amend the Executive Employment Agreement (the "Agreement") by and between Manhattan Associates, Inc, a Georgia corporation ("Company"), and Richard Haddrill ("Executive") that was entered into the 11th day of October 1999. This modification to that agreement (the "Modification") shall be effective as of the date of execution. In the event of a conflict between this Modification and the Agreement, the terms of this Modification shall control. Capitalized terms not defined herein shall have the meanings ascribed to them in the Agreement.

Executive has agreed to continue in the position of President and Chief Executive Officer through December 31, 2004. In light of this agreement, Company has agreed to modify the Agreement. This Modification is effective as of July 19, 2001.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth herein, the parties agree as follows:

1. Employment and Duties.

A. Company shall continue to employ Executive as President and Chief Executive Officer. Executive hereby accepts employment on the terms set forth herein and in the Agreement as modified hereby. Executive shall continue to report to the Board of Directors.

B. Executive shall continue with the duties that have been established and as are normally associated with the duties of President and Chief Executive Officer. Specifically, Executive shall have overall primary responsibility for the functions of the Company.

2. Compensation.

A. Base Salary. During his employment hereunder, Company shall continue to pay Executive a base salary ("Base Salary") of $25,000 per month ($300,000.00 annualized), subject to all standard employment deductions, Company and Executive agree that this amount shall be fixed for the duration of this Modification and the Agreement. Executive may request and receive an annual increase of up to six (6) percent per year, compounded annually.

B. Performance-Related Bonus. The Performance-related bonus described in the Agreement shall continue until December 31, 2002. Commencing on January 1, 2003, Executive shall be eligible to receive a performance-related bonus, calculated quarterly, and paid annually on or about the same timing as other executive bonuses are paid, in no event more than ninety (90) days after the end of the Company's fiscal year. The bonus shall have two components and be determined as follows: 1) Executive shall receive 0.25% of the lower of a) the pre-tax operating income, as that term is used in the Agreement (hereinafter "Operating Income") during the quarter or b) the average of the pre-tax Operating Income during the quarter and the preceding three financial quarters; and 2) 2% of the amount by which the pre-tax Operating Income of the quarter exceeds that amount computed in 1) above. Provided, however, the bonus for financial year 2004, shall be paid at the sole discretion of the Board based on, but not limited to Executive's performance in working with the Board to provide for an acceptable succession plan, including hiring of a suitable new Chief Executive Officer, investments made in Company's new products and infrastructure, the status of the Company in its industry and the Company's success in marketing and alliances.

C. Stock Options. In consideration of Executive's continued duties and responsibilities, Executive shall receive an option pursuant to the Manhattan Associates, Inc. Option Plan (the "Option Plan") and the terms of the Agreement to purchase 500,000 shares of the Company's common stock with an exercise price of $26.05 (which amount is the closing price of the Company's shares for the day preceding the effective date of this Modification) and such shares shall vest in eight equal installments on the last day of the eight financial quarters of 2003 and 2004 (March 31, 2003, June 30, 2003, September 30, 2003 and December 31, 2003, March 31, 2004, June 30, 2004, September 30, 2004 and December 31, 2004). Notwithstanding anything to the contrary in the Agreement, these options shall have a term of 5 years, provided however, should Executive's employment terminate voluntarily prior to December 31, 2004, all unvested options granted pursuant to this Modification shall expire and be unexercisable and all vested options granted pursuant to this Modification shall expire 90 days following the termination date of Executive's employment.

3. Severance.

The severance provision of the Agreement shall control with respect to a Termination, other than with respect to a Change in Control though December 31, 2002. Notwithstanding any provision to the contrary and in lieu of any other provisions in the Agreement, in the event of a termination of employment after December 31, 2002 or any Change of Control during the term of this Modification and Agreement, other than a termination based on cause or voluntary termination ("Termination"), Executive shall receive a severance payment equal to One (1) times his annual salary. No severance shall be due upon expiration of this Modification and the Agreement on December 31, 2004. The severance provisions of the Agreement relating to the Options granted under that Agreement shall remain in full force and effect. In the event a voluntary Termination, no severance shall be due.

4. Additional Modifications.

A. Change of Control. The definition of Change of Control in the Agreement is amended by deleting the parenthetical in line 11 of paragraph 1.C. through the word "consolidation" in line 18.

B. Constructive Termination. The definition of Constructive Termination (Paragraph 1.G. (A)(i)) in the Agreement is amended by deleting the words "President and".

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

COMPANY:

Manhattan Associates, Inc.

By: /s/ Deepak Raghavan

Name: Deepak Raghavan

Title: Director

Date: 7/19/2001

EXECUTIVE:

/s/ Richard M. Haddrill

Richard Haddrill

Date: 7/19/01
