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

FORM 10-Q

[Mark One]
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 1999

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 [X] No [ ]

The number of shares of the issuer's class of capital stock as of November 12, 1999, the latest practicable date, is as follows: 24,216,587 shares of Common Stock, $0.01 par value per share.

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MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
FORM 10-Q
Quarter Ended September 30, 1999

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	September 30, 1999 (unaudited)	December 31, 1998
ASSETS		
Current Assets:		
Cash and cash equivalents	$13,719	$27,751
Short-term investments	19,450	5,012
Accounts receivable, net of allowance for doubtful accounts of $4,650 and $1,600 at September 30, 1999 and December 31, 1998, respectively	23,816	20,806
Deferred income taxes	1,251	622
Refundable income taxes	413	342
Prepaid expenses and other current assets	1,026	1,328

Total current assets	59,675	55,861
Property and equipment, net	9,486	7,431
Deferred taxes	285	155
Intangible and other assets	4,111	4,328
Total assets	$73,557	$67,775
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 7,455	$ 8,196
Current portion of capital lease obligations	138	126
Deferred revenue	9,064	2,978
Total current liabilities	16,657	11,300
Long-term portion of capital lease obligations	841	840
Shareholders' equity:		
Preferred stock, no par value; 20,000,000 shares authorized, no shares issued or outstanding at September 30, 1999 and December 31, 1998	--	--
Common stock, $.01 par value; 100,000,000 shares authorized, 24,131,587 and 23,937,874 shares issued and outstanding at September 30, 1999 and December 31, 1998, respectively	242	239
Additional paid-in capital	53,574	53,305
Retained earnings	2,597	3,056
Accumulated foreign currency translation adjustment	30	(7)
Deferred compensation	(384)	(958)
Total shareholders' equity	56,059	55,635
Total liabilities and shareholders' equity	$73,557	$67,775

See accompanying Notes to Condensed Consolidated Financial Statements.

Item 1. Financial Statements (continued)

MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1999	1998	1999	1998
Revenue:				
Software license	$ 2,753	$ 3,898	$10,285	$ 8,899
Services	14,488	9,830	38,257	22,283
Hardware	2,814	2,860	9,502	10,870
Total revenue	20,055	16,588	58,044	42,052
Cost of revenue:				
Software license	599	372	1,175	612
Services	8,778	4,312	22,362	10,208
Hardware	2,174	2,038	7,218	8,042
Total cost of revenue	11,551	6,722	30,755	18,862
Gross margin	8,504	9,866	27,289	23,190
Operating expenses:				
Research and development	2,265	2,058	8,066	5,280
Acquired research and development	--	--	--	1,602
Sales and marketing	3,235	2,692	11,322	6,013
General and administrative	3,225	1,884	9,499	4,381
Total operating expenses	8,725	6,634	28,887	17,276
Operating income (loss)	(221)	3,232	(1,598)	5,914
Other income, net	323	442	856	734
Income (loss) before income taxes	102	3,674	(742)	6,648
Income tax expense (benefit):				
Tax provision as a `C' Corporation	41	1,361	(283)	2,063
Deferred tax adjustment	--	--	--	(316)
Historical net income (loss)	$ 61	$ 2,313	$ (459)	$ 4,901
Historical basic net income (loss) per share	$ 0.00	$ 0.10	$ (0.02)	$0.22
Historical diluted net income (loss) per share	$ 0.00	$ 0.09	$ (0.02)	$0.19
Income (loss) before pro forma income taxes	102	3,674	(742)	6,648

Pro forma income tax expense (benefit)	41	1,361	(283)	2,978
Pro forma net income (loss)	$ 61	$ 2,313	$ (459)	$ 3,670
Pro forma basic net income (loss) per share	$ 0.00	$ 0.10	$ (0.02)	$0.17
Pro forma diluted net income (loss) per share	$ 0.00	$ 0.09	$ (0.02)	$0.14

See accompanying Notes to Condensed Consolidated Financial Statements.

Item 1. Financial Statements (continued)

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

	Nine Months Ended September 30,	
	1999	1998
Operating activities:		
Net loss or pro forma net income	$ (459)	$ 3,670
Adjustments to reconcile net loss or pro forma net income to net cash provided by operating activities:		
Pro forma income taxes	--	1,231
Depreciation and amortization	3,529	1,043
Stock compensation	124	204
Gain on sale of equipment	(22)	--
Acquired research and development	--	1,602
Deferred income taxes	(759)	(528)
Accrued interest on note payable to shareholder	--	34
Changes in operating assets and liabilities:		
Accounts receivable, net	(2,967)	(8,503)
Other assets	132	(501)
Accounts payable and accrued liabilities	(884)	3,350
Deferred revenue	6,083	490
Net cash provided by operating activities	4,777	2,092
Investing activities:		
Purchase of property and equipment	(4,073)	(4,582)
Proceeds from the sale of equipment	22	--
Capitalized software development costs	(909)	--
Purchase of short-term investments, net	(14,438)	(9,005)
Payments in connection with the acquisition of Performance Analysis Corporation, net of cash acquired	--	(1,351)
Net cash used in investing activities	(19,398)	(14,938)
Financing activities:		
Distributions to shareholders	--	(11,720)
Payment of capital lease obligations	(138)	--
Borrowings under note payable to shareholder	--	900
Repayment of note payable to shareholder	--	(1,953)
Proceeds from issuance of common stock	722	48,258
Net cash provided by financing activities	584	35,485
Foreign currency impact on cash	5	2
Net increase (decrease) in cash and cash equivalents	(14,032)	22,641
Cash and cash equivalents at beginning of period	27,751	3,194
Cash and cash equivalents at end of period	$ 13,719	$ 25,835
Supplemental cash flow disclosures:		
Issuance of common stock in connection with acquisition of Performance Analysis Corporation	$ --	$ 1,067
Assets acquired under capital lease	$ 151	$ --
Cash paid for income taxes, net	$ 253	$ 2,118

See accompanying Notes to Condensed Consolidated Financial Statements.

MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 1999
(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles 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 by generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, these consolidated financial statements contain all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial position at September 30, 1999, the results of operations for the three and nine month periods ended September 30, 1999 and 1998 and changes in cash flows for the nine month periods ended September 30, 1999 and 1998. The interim results for the three month and nine month periods ended September 30, 1999 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 financial statements for the year ended December 31, 1998.

2. Principles of Consolidation

The accompanying 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. Completion of Initial Public Offering and Conversion

On April 23, 1998, the Company completed its initial public offering (the "Offering") of its $.01 par value per share common stock (the "Common Stock"). The Company sold 3,500,000 shares of Common Stock, excluding 525,000 shares sold by certain selling shareholders as part of the underwriters' over-allotment, for $52,500,000 less issuance costs of approximately $5,242,000.

In connection with the Offering, the assets and liabilities of Manhattan Associates, LLC ("Manhattan LLC") were contributed to the Company in exchange for Common Stock (the "Conversion"). Manhattan LLC then distributed the Common Stock received to its shareholders. Prior to the completion of the Offering, Manhattan LLC distributed all undistributed earnings, calculated on a tax basis, to the shareholders of Manhattan LLC. The amount distributed subsequent to December 31, 1997 and prior to completion of the Offering was approximately $11,720,000.

4. Revenue Recognition

The Company recognizes revenue 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 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 the Company adopted the residual method for such arrangements at that time. For those contracts which contain significant future obligations, license revenue is recognized under the percentage of completion method.

Consulting services are generally billed on an hourly basis and revenue is recognized as the work is performed. Maintenance revenue from ongoing customer support is billed in advance for a one year period and recorded as revenue ratably over the billing period. Hardware revenue is billed and recognized upon shipment to the customer.

5. Comprehensive Income

The Company has adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," which establishes standards for reporting and display of "comprehensive income" and its components. Comprehensive income for the Company consists of net income and foreign currency translation adjustments. Total historical comprehensive income was $147,000 for the three month period ended September 30, 1999 and the historical comprehensive loss was $422,000 for the nine month period ended September 30, 1999. Total historical comprehensive income was $2.3 million and $4.9 million for the three month and nine month periods ended September 30, 1998, respectively.

6. Earnings Per Share

Subsequent to the completion of the Offering, pro forma and historical basic net income per share is calculated using the weighted average number of shares outstanding during the period. Pro forma and historical diluted net income per share is computed on the basis of the weighted average number of common shares outstanding plus the dilutive effect of outstanding stock options using the "treasury stock" method.

Prior to the completion of the Offering, pro forma basic net income per share was computed using pro forma net income divided by (i) the weighted average number of shares of Common Stock outstanding ("Weighted Shares") for the period presented and (ii) pursuant to the Securities and Exchange Commission Staff Accounting Bulletin 1B.3, the number of shares that, at the assumed public offering price, would yield proceeds in the amount necessary to pay the shareholder distribution discussed in Note 3 that is not covered by the earnings for the one year period through the date of distribution ("Distribution Shares"). Pro forma diluted net income per share was computed using pro forma net income divided by (i) the Weighted Shares, (ii) the Distribution Shares and (iii) the treasury stock method effect of common equivalent shares ("CES's") outstanding for each period presented.

No adjustment is necessary for historical and pro forma net income for net income per share presentation. The following is a reconciliation of the shares used in the computation of net income per share:

	Three Months Ended September 30, 1999		Three Months Ended September 30, 1998	
	Basic	Diluted	Basic	Diluted

	Historical		Historical	
	(in thousands)		(in thousands)	
Weighted Shares	24,112	24,112	23,707	23,707
Effect of CES's	--	1,594	--	3,292
	24,112	25,706	23,707	26,999

	Basic	Diluted	Basic	Diluted
	Pro Forma		Pro Forma	
Weighted Shares	24,112	24,112	23,707	23,707
Effect of CES's	--	1,594	--	3,292
	24,112	25,706	23,707	26,999

	Nine Months Ended September 30, 1999		Nine Months Ended September 30, 1998	
	Basic	Diluted	Basic	Diluted
	Historical		Historical	
Weighted Shares	24,042	24,042	22,222	22,222
Effect of CES's	--	--	--	3,284
	24,042	24,042	22,222	25,506

	Basic	Diluted	Basic	Diluted
	Pro Forma		Pro Forma	
Weighted Shares	24,042	24,042	22,222	22,222
Shares to Minority Holder	--	--	--	17
Distribution Shares	--	--	--	30
Effect of CES's	--	--	--	3,284
	24,042	24,042	22,222	25,553

7. Income Taxes

Prior to the Conversion, the Company elected to report as a limited liability company that was treated as a partnership for income tax purposes (see Note 3), and as a result, the Company was not subject to federal and state income taxes. After the Conversion, the Company became subject to federal and state income taxes. In connection with the Conversion, the Company recognized a one-time benefit in April 1998 of $316,000 by recording the asset related to the future reduction of income tax payments due to temporary differences between the recognition of income for financial statements and income tax regulations. Pro forma net income amounts discussed herein include provisions for income taxes on a pro forma basis as if the Company were liable for federal and state income taxes as a taxable corporate entity throughout the periods presented. Pro forma income tax provisions reflect the Company's anticipated effective annual tax rate of 36% for the three month and nine month periods ended September 30, 1998. For the three month and nine month periods ended September 30, 1999, the pro forma income tax provision equals the historical income tax provision.

8. Acquisition

On February 16, 1998, the Company purchased all of the outstanding stock of Performance Analysis Corporation ("PAC") for $2,200,000 in cash and 106,666 shares of the Company's common stock valued at $10.00 per share (the "PAC Acquisition"). PAC is a developer of distribution center slotting software. The PAC Acquisition has been accounted for as a purchase.

The purchase price of approximately $3,300,000 has been allocated to the assets acquired and liabilities assumed of $490,000, acquired research and development of $1,602,000, purchased software of $500,000, and other intangible assets of $750,000. Purchased software will be amortized over an estimated two-year useful life and other intangible assets will be amortized over a seven-year useful life. In connection with the PAC Acquisition, the Company recorded a charge to income of $1,602,000 in the first quarter of 1998 for acquired research and development.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

The Company provides information technology solutions for distribution centers that are designed to enable the efficient movement of goods through the supply chain. The Company's solutions are designed to optimize the receipt, storage and distribution of inventory and the management of equipment and personnel within a distribution center, and to meet the increasingly complex information requirements of manufacturers, distributors and retailers. The Company's solutions consist of software, including PkMS, a comprehensive and modular software system; services, including design, configuration, implementation, training and support; and hardware. The Company's solutions operate on the AS/400, UNIX and Distributed N-Tier platforms. The Company currently provides solutions to manufacturers, distributors and retailers primarily in the e-commerce, retail, apparel/footwear, consumer products manufacturing, food/grocery and third-party logistics markets.

The Company recognizes revenue 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 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 the Company adopted the residual method for such arrangements at that time. For those contracts which contain significant future obligations, license revenue is recognized under the percentage of completion method.

Consulting services are generally billed on an hourly basis and revenue is recognized as the work is performed. Maintenance revenue from ongoing customer support is billed in advance for a one year period and recorded as revenue ratably over the billing period. Hardware revenue is billed and recognized upon shipment to the customer.

Prior to the Conversion, the Company elected to report as a limited liability company that was treated as a partnership for income tax purposes, and as a result, the Company was not subject to federal and state income taxes. Pro forma net income amounts discussed herein include additional provisions for income taxes on a pro forma basis as if the Company was liable for federal and state income taxes as a taxable corporate entity throughout the periods presented. The pro forma tax provision is calculated by applying the Company's statutory tax rate to pre-tax income, adjusted for permanent tax differences. The Company's status as a limited liability company terminated immediately prior to the effectiveness of the Offering, and the Company was thereafter taxed as a business corporation. See Notes to Condensed Consolidated Financial Statements.

Results of Operations

Three Months Ended September 30, 1999 Compared to Three Months Ended September 30, 1998

Revenue

Total revenue increased 21% to $20.1 million for the three months ended September 30, 1999 from $16.6 million for the three months ended September 30, 1998. Total revenue consists of software license revenue, revenue derived from consulting, maintenance and other services and revenue from the sale of hardware. The increase in total revenue was due to an increase in revenue from services.

Software License. Software license revenue decreased 29% to $2.8 million for the three months ended September 30, 1999 from $3.9 million for the three months ended September 30, 1998. The decrease in revenue from software licenses was primarily due to lower demand for the Company's products during the three months ended September 30, 1999 as compared to the three months ended September 30, 1998.

Services. Services revenue increased 47% to $14.5 million for the three months ended September 30, 1999 from $9.8 million for the three months ended September 30, 1998. The increase in revenue from services was principally due to an increase in the number of customers and a related increase in services personnel working on maintenance and billable projects.

Hardware. Hardware revenue decreased 2% to $2.8 million for the three months ended September 30, 1999 from $2.9 million for the three months ended September 30, 1998.

Cost of Revenue

Cost of Software License. Cost of software license revenue consists of the costs of software reproduction and delivery, media, packaging, documentation and other related costs and the amortization of purchased software and capitalized research and development costs. Cost of software license revenue increased to $599,000, or 22% of software license revenue, for the three months ended September 30, 1999 from $372,000, or 10% of software license revenue, for the three months ended September 30, 1998. Cost of software license revenue increased primarily due to an increase in the amortization of capitalized research and development expenses. In addition, approximately $292,000 of purchased software and capitalized research and development costs relating to discontinued projects was expensed during the three months ended September 30, 1999.

Cost of Services. Cost of services revenue consists primarily of consultant salaries and other personnel-related expenses incurred in system implementation projects, training and software support services. Cost of services revenue increased to $8.8 million, or 61% of services revenue, for the three months ended September 30, 1999 from $4.3 million, or 44% of services revenue, for the three months ended September 30, 1998. The increase in cost of services revenue was primarily due to increased personnel. The increase in cost of services revenue as a percentage of revenue was primarily due to a decrease in the percentage of billable time per services employee as well as increased training and other costs related to the increase in services personnel.

Cost of Hardware. Cost of hardware revenue increased to $2.2 million, or 77% of hardware revenue, for the three months ended September 30, 1999 from $2.0 million, or 71% of hardware revenue, for the three months ended September 30, 1998. The increase in the cost of hardware as a percentage of hardware revenue is principally due to an increase in the percentage of hardware products sold with relatively lower gross margins during the three month period ended September 30, 1999 as compared to hardware sales during the three month period ended September 30, 1998.

Operating Expenses

Research and Development. Research and development expenses principally consist of salaries and other personnel-related costs. The Company's research and development expenses increased by 10% to $2.3 million, or 11% of total revenue, for the three months ended September 30, 1999 from $2.1 million, or 12% of total revenue, for the three months ended September 30, 1998. The increase in research and development expenses resulted from an increase in the number of research and development personnel during the three months ended September 30, 1999 as compared to the three months ended September 30, 1998. Significant product development efforts during the three months ended September 30, 1999 included the continued development of the N-Tier version of PkMS, the continued development of PkMS and, to a lesser extent, the development of the Windows based version of SLOT-IT and the continued development of SLOT-IT.

Sales and Marketing. Sales and marketing expenses include salaries, commissions and other personnel-related costs, travel expenses, advertising programs and other promotional activities. Sales and marketing expenses increased by 20% to $3.2 million, or 16% of total revenue, for the three months ended September 30, 1999 from $2.7 million, or 16% of total revenue, for the three months ended September 30, 1998. The increase in sales and marketing expenses was the result of additional sales and marketing personnel and expanded marketing program activities.

General and Administrative. General and administrative expenses consist primarily of salaries and other personnel-related costs of executive, financial and human resources and administrative personnel, as well as facilities, legal, insurance, accounting and other administrative expenses. General and administrative expenses increased by 71% to $3.2 million, or 16% of total revenue, for the three months ended September 30, 1999 from $1.9 million, or 11% of total revenue, for the three months ended September 30, 1998. The increase in general and administrative expenses was primarily due to increased personnel, recruiting expenses, rent and other administrative expenses necessary to support the Company's growth.

Operating Income (Loss). Operating income (loss) decreased to an operating loss of $0.2 million for the three months ended September 30, 1999 from $3.2 million of operating income for the three months ended September 30, 1998. The decrease in operating income (loss) was primarily due to increased payroll and related costs. The Company had 577 full-time employees at September 30, 1999 compared to 407 full-time employees at September 30, 1998. During the quarter ended September 30, 1999, the number of full-time employees decreased by 58 full-time employees from 635 full-time employees at June 30, 1999.

Income Taxes

Provision for Income Taxes. The provision for income taxes for the three months ended September 30, 1999 was $41,000 as compared to a provision for income taxes of $1.4 million for the three months ended September 30, 1998.

Net Income per Share

Net Income per Share. Net income was $61,000, or $0.00 per diluted share, for the three months ended September 30, 1999, compared to net income of $2.3 million, or $0.09 per diluted share, for the three months ended September 30, 1998.

Nine Months Ended September 30, 1999 Compared to Nine Months Ended September 30, 1998

Revenue

Total revenue increased 38% to $58.0 million for the nine months ended September 30, 1999, from $42.1 million for the nine months ended September 30, 1998. Total revenue consists of software license revenue, revenue derived from consulting, maintenance and other services and revenue from the sale of hardware.

Software License. Software license revenue increased 16% to $10.3 million for the nine months ended September 30, 1999 from $8.9 million for the nine months ended September 30, 1998. The increase in revenue from software licenses was primarily due to an increase in the number of licenses of the Company's products.

Services. Services revenue increased 72% to $38.3 million for the nine months ended September 30, 1999 from $22.3 million for the nine months ended September 30, 1998. The increase in revenue from services was principally due to an increase in the number of customers and a related increase in services personnel working on maintenance and billable projects.

Hardware. Hardware revenue decreased 13% to $9.5 million for the nine months ended September 30, 1999 from $10.9 million for the nine months ended September 30, 1998. The decrease in revenue from hardware was principally a result of a higher demand for hardware products during the nine months ended September 30, 1998 as compared to the nine months ended September 30, 1999.

Cost of Revenue

Cost of Software License. Cost of software license revenue consists of the costs of software reproduction and delivery, media, packaging, documentation and other related costs and the amortization of purchased software and capitalized research and development costs. Cost of software license revenue increased to $1.2 million, or 11% of software license revenue, for the nine months ended September 30, 1999 from $600,000, or 7% of software license revenue, for the nine months ended September 30, 1998. Cost of software license revenue increased principally due to an increase in the amortization of purchased software from the PAC Acquisition and the amortization of capitalized research and development expenses. In addition, approximately $472,000 of purchased software and capitalized research and development costs relating to discontinued projects was expensed during the nine months ended September 30, 1999.

Cost of Services. Cost of services revenue consists primarily of consultant salaries and other personnel-related expenses incurred in system implementation projects, training and software support services. Cost of services revenue increased to $22.4 million, or 59% of services revenue, for the nine months ended September 30, 1999 from $10.2 million, or 46% of services revenue, for the nine months ended September 30, 1998. The increase in cost of services revenue was primarily due to increased personnel. The increase in cost of services revenue as a percentage of revenue was primarily due to a decrease in the percentage of billable time per services employee as well as increased training and other costs related to the increase in services personnel.

Cost of Hardware. Cost of hardware revenue decreased to $7.2 million, or 76% of hardware revenue, for the nine months ended September 30, 1999 from $8.0 million, or 74% of hardware revenue, for the nine months ended September 30, 1998. The increase in the cost of hardware as a percentage of hardware revenue is principally due to an increase in the percentage of hardware products sold with relatively lower gross margins during the nine month period ended September 30, 1999 as compared to hardware sales during the nine month period ended September 30, 1998.

Operating Expenses

Research and Development. Research and development expenses principally consist of salaries and other personnel-related costs. The Company's research and development expenses increased by 53% to $8.1 million, or 14% of total revenue, for the nine months ended September 30, 1999 from $5.3 million, or 13% of total revenue, for the nine months ended September 30, 1998. The increase in research and development expenses resulted from an increase in the number of research and development personnel during the nine months ended September 30, 1999 as compared to the nine months ended September 30, 1998. Significant product development efforts during the nine months ended September 30, 1999 included the continued development of the N-Tier version of PkMS, the continued development of PkMS and, to a lesser extent, the development of the Windows based version of SLOT-IT and the continued development of SLOT-IT. During the nine months ended September 30, 1999, the Company capitalized $909,000 of research and development expenses. Those capitalized costs will be amortized over three years commencing upon the availability of the anticipated products.

Acquired Research and Development. In February 1998, the Company purchased all of the outstanding stock of PAC for approximately $2.2 million in cash and 106,666 shares of the Company's common stock valued at $10.00 per share. The acquisition was accounted for as a purchase. In connection with this acquisition, approximately $1.6 million of the purchase price was allocated to acquired research and development and expensed during the first quarter of 1998.

Sales and Marketing. Sales and marketing expenses include salaries, commissions and other personnel-related costs, travel expenses, advertising programs and other promotional activities. Sales and marketing expenses increased by 88% to $11.3 million, or 20% of total revenue, for the nine months ended September 30, 1999 from $6.0 million, or 14% of total revenue, for the nine months ended September 30, 1998. The increase in sales and marketing expenses was the result of additional sales and marketing personnel and expanded marketing program activities.

General and Administrative. General and administrative expenses consist primarily of salaries and other personnel-related costs of executive, financial and human resources and administrative personnel, as well as facilities, legal, insurance, accounting and other administrative expenses. General and administrative expenses increased by 117% to $9.5 million, or 16% of total revenue, for the nine months ended September 30, 1999 from $4.4 million, or 10% of total revenue, for the nine months ended September 30, 1998. The increase in general and administrative expenses was principally due to increased personnel, recruiting expenses, rent and other administrative expenses necessary to support the Company's growth.

Operating Income (Loss). Operating income (loss) decreased to an operating loss of $1.6 million for the nine months ended September 30, 1999 from $5.9 million of operating income for the nine months ended September 30, 1998. The decrease in operating income (loss) was primarily due to increased payroll and related costs. The Company had 577 full-time employees at September 30, 1999 compared to 407 full-time employees at September 30, 1998.

Income Taxes

Provision for Income Taxes. The provision for income taxes for the nine months ended September 30, 1999 was a benefit of $283,000 as compared to a provision for income taxes of $1.7 million, net of a one-time benefit of $316,000, for the nine months ended September 30, 1998.

Prior to the Offering, the Company's predecessor, Manhattan Associates Software, LLC, was treated as a partnership and was not subject to federal income taxes. The income or loss of Manhattan Associates Software, LLC was included in the owners' individual federal and state tax returns. In connection with the conversion of Manhattan Associates, LLC to Manhattan Associates, Inc. in April 1998, the Company recognized a one-time benefit of $316,000 by recording the asset related to the future reduction of income tax payments due to temporary differences between the recognition of income for financial statements and income tax regulations.

Pro Forma Provision for Income Taxes. The pro forma provision for income taxes for the nine months ended September 30, 1998 was $3.0 million. For the nine month period ended September 30, 1999, the pro forma income tax provision equals the historical income tax provision.

Net Income (Loss) per Share

Net Income (Loss) per Share. Net loss was $459,000, or $0.02 per diluted share, for the nine months ended September 30, 1999 compared to pro forma net income, excluding the effect of a one-time acquired research and development charge of $1.6 million, of $5.3 million, or $0.21 per diluted share, for the nine months ended September 30, 1998. Including the effect of the one-time acquired research and development charge, the Company's pro forma net income was $3.7 million, or $0.14 per diluted share, for the nine months ended September 30, 1998.

Liquidity and Capital Resources

Since inception, the Company has funded its operations primarily through cash generated from operations and the Offering. In addition, the Company previously borrowed money from its majority shareholder, which it has subsequently repaid. As of September 30, 1999, the Company had $33.2 million in cash, cash equivalents and short-term investments.

The Company's operating activities provided cash of $4.8 million for the nine months ended September 30, 1999 and $2.1 million for the nine months ended September 30, 1998. Cash from operating activities arose principally from an increase in deferred revenue of approximately $6.1 million, partially reduced by an increase in accounts receivable and decrease in accounts payable and accrued liabilities.

Cash used for investing activities was approximately $19.4 million for the nine months ended September 30, 1999 and $14.9 million for the nine months ended September 30, 1998. The use of cash for the nine months ended September 30, 1999 was primarily for the purchase of short-term investments and the purchase of capital equipment, such as computer equipment and furniture and fixtures, to support the Company's growth. In addition, the Company capitalized $909,000 of research and development costs during the nine months ended September 30, 1999.

Cash provided by financing activities was approximately $584,000 for the nine months ended September 30, 1999 and $35.5 million for the nine months ended September 30, 1998. The principal source of cash provided by financing activities for the nine months ended September 30, 1999 was the proceeds from the issuance of Common Stock pursuant to the exercise of stock options, partially reduced by the payments under capital lease obligations.

In April 1998, the Company completed the Offering, in which the Company received net proceeds of approximately $47.3 million after deducting underwriting discounts and offering expenses. The Company applied a portion of the net proceeds to repay all of the Company's outstanding indebtedness to Silicon Valley Bank ($7.0 million) and a note payable to the Company's Chairman of the Board, Chief Executive Officer and President ($1.9 million). Prior to the Offering, the Company made payments of $11.7 million in distributions to its shareholders. The balance of the net proceeds of the Offering (approximately $34.0 million) has been and will continue to be utilized for general corporate purposes. Such purposes may also include possible acquisitions of, or investments in, businesses and technologies that are complementary to those of the Company. There can be no assurance that the remaining net proceeds from the Offering will be sufficient to pay for future acquisitions, planned research and development projects or other growth-oriented activities, which could require the Company to incur additional debt or other financing that could impose restrictive covenants and other terms having a material adverse effect on the Company's business, financial condition and results of operations.

The Company anticipates that existing cash and cash equivalents will be adequate to meet its cash requirements for the next twelve months.

Year 2000 Readiness Disclosure

Many currently installed computer systems and software products are coded to accept only two digit entries in date code fields. Beginning in the year 2000, many of these systems will need to be modified to accept four digit entries or otherwise distinguish twenty-first century dates from twentieth century dates. As a result, over the next few months, many companies will need to upgrade their computer systems and software products to comply with these "Year 2000" requirements.

In September 1998, the Company formed its Year 2000 Readiness Committee to oversee the Company's Year 2000 Readiness Assessment Program, which includes the following tasks:

- establishing a standard for Year 2000 Readiness;
- designing test parameters for the Company's products, information technology ("IT") and non-IT systems;
- overseeing the remediation program, including establishing priorities for remediation and allocating available resources;
- overseeing the communication of the status of the Company's efforts to its customers; and
- establishing contingency plans in the event that the Company experiences Year 2000 disruptions.

The Company describes its products as "Year 2000 Ready" when they have been successfully tested using the procedure prescribed in the Readiness Assessment Program. This procedure defines the criteria used to design tests that seek to determine the Year 2000 readiness of a product. Under the Company's criteria, a software product is Year 2000 Ready if it:

- will completely and accurately address, present (in a two-digit format), produce, store and calculate data involving dates beginning January 1, 2000 and will not produce abnormally ending or incorrect results involving such dates as used in many forward or regression date based functions;

- will provide that all "date" related functionalities and data fields include the indication of century and millennium, whether shown on-screen or internally noted; and

- will perform calculations that involve a four-digit year field, provided that the data input into the software from any other source has the same Year 2000 capabilities and is in a format that is compatible with the Company's software.

Because the latest versions of the Company's products are designed to be Year 2000 compliant, the Year 2000 remediation efforts with respect to the Company's products have focused on determining the compliance of the Company's earlier software products as implemented in the Company's installed customer base, as well as the impact of any non-compliance on the Company and its customers. The Company offers its customers the alternatives of implementing a modification to their non-compliant versions of the software or migrating to a later version of the software that is Year 2000 Ready. Because the Company's software is often marketed as an integrated system that includes hardware and operating or interface software from third parties over which the Company can assert little control, the Year 2000 Readiness Committee is evaluating the Year 2000 Readiness of such systems and the risks associated with the failure of such third parties to adequately address the Year 2000 issue. The Company makes no representation with respect to third party hardware or software.

The Company's Year 2000 Readiness Committee is also addressing Year 2000 readiness with respect to both IT and non-IT systems on which the Company's operations rely. As a result of the Company's recent rapid growth, it has, or expects it will have by the end of 1999, replaced or significantly upgraded substantially all of the core IT systems, including those related to sales, customer service, human resources, finance and other enterprise resource planning functions. The Company believes that the upgraded systems are all Year 2000 Ready, and it has received assurances from the vendors of these systems to that effect. The Company continues to review its remaining IT systems for Year 2000 Readiness and expects to modify, replace or discontinue the use of non-compliant systems before the end of 1999. In addition, the Company is in the process of evaluating its Year 2000 readiness with respect to non-IT systems, including systems embedded in its communications and office facilities. In many cases these facilities have been recently upgraded or are scheduled to be upgraded before year-end 1999 as a result of the Company's recent growth. Finally, because the Company relies upon relationships with third parties, such as providers of telecommunications and similar infrastructure services, over which it can assert little control, the Year 2000 Readiness Committee is also assessing the risks associated with the failure of these third parties to adequately address Year 2000 issues.

The Company does not currently believe that the effects of any Year 2000 non-compliance in its installed base of software will result in a material adverse effect on its business, financial condition or results of operations. However, the Company's investigation has not been completed, and the Company may be exposed to potential claims resulting from system problems associated with the century change. There can also be no assurance that the Company's software products that are designed to be Year 2000 compliant contain all necessary date code changes. In addition, Year 2000 non-compliance in the Company's internal IT systems or certain non-IT systems on which the Company's operations rely or by the Company's business partners may have an adverse impact on the Company's business, financial condition or results of operations.

The majority of the work performed for the Company's Year 2000 Readiness Assessment Program has been completed by the Company's staff. The total costs for completing the Year 2000 Readiness Assessment Program, including modifications to the Company's software products, is estimated to be between $0.5 million and $1.0 million, funded through the Company's internal operating cash flows. This cost does not include the cost of new software, or for modifications to existing software, or the Company's core IT and non-IT systems, as these projects were not accelerated due to the Year 2000 issue.

The Company's evaluation of Year 2000 issues includes the development of contingency plans for business functions that are most susceptible to a substantive risk of disruption resulting from a Year 2000 related event. Because the Company has not yet identified any business function that is materially at risk of Year 2000 related disruptions, the Company has not yet developed detailed contingency plans specific to Year 2000 events for any business function. The Company is prepared for the possibility, however, that it may identify risks in certain business functions, and it will develop contingency plans for these business functions when and if it identifies them as being at risk.

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 the Company's future results, please see Exhibit 99.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998. 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 Disclaimers About Market Risk.

Foreign Exchange

During 1998, the Company commenced operations in the United Kingdom. Total revenues for the United Kingdom were approximately 6% of the Company's total revenues for the three months ended September 30, 1999.

The Company's international business is subject to risks typical of an international business, including, but not limited to: differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions, and foreign exchange rate volatility. Accordingly, the Company's future results could be materially adversely impacted by changes in these or other factors. The effect of foreign exchange rate fluctuations on the Company during the third quarter of 1999 was not material.

Interest Rates

The Company invests its cash in a variety of financial instruments, including taxable and tax-advantaged variable 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 the Company's investments is carried in "Other income, net" on the Company's Consolidated Financial Statements. The Company accounts for its investment instruments in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115"). All of the cash equivalents and short-term investments are treated as available-for-sale under SFAS 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, the Company's future investment income may fall short of expectations due to changes in interest rates, or the Company may suffer losses in principal if forced to sell securities which have seen a decline in market value due to changes in interest rates. The weighted-average interest rate on investment securities at September 30, 1999 was approximately 5%. The fair value of securities held at September 30, 1999 was $26.8 million.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings.

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

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.

(a) A Special Meeting of Shareholders (the "Special Meeting") of the Company was held on July 24, 1999. There were present at the Special Meeting, in person or by proxy, holders of 16,945,661 shares (or 70%) of the Common Stock entitled to vote.

(b) The sole proposal considered at the Special Meeting was to increase the number of shares available for issuance under the Company's 1998 Stock Incentive Plan from 7,000,000 shares to 9,000,000 shares, an increase of 2,000,000 shares. This proposal was approved with 16,943,761 affirmative votes cast, 1,900 negative votes cast and zero abstentions. The affirmative vote of the holders of a majority of the outstanding shares of Common Stock represented at the annual meeting was required to approve the amendment.

Item 5. Other Information.

On October 18, 1999, the Company announced the appointment of Richard M. Haddrill as president and chief executive officer, effective January 1, 2000. Mr. Haddrill will serve as a consultant in the interim. On October 26, 1999, the Company announced the election of Richard M. Haddrill to the board of directors. On October 26, 1999, the Company announced the resignation of Michael J. Casey, chief financial officer.

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

(a) Exhibits.

The following exhibit is filed with this Report:

Exhibit 27.1 Financial Data Schedule.

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

No reports on Form 8-K were filed during the quarter ended September 30, 1999.

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 15, 1999

/s/ Alan J. Dabbiere

Alan J. Dabbiere
Chairman of the Board,
Chief Executive Officer and
President
(Principal Executive Officer)

Date: November 15, 1999

/s/ Michael J. Casey

Michael J. Casey
Senior Vice President,
Chief Financial Officer and
Treasurer
(Principal Financial and
Accounting Officer)

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF MANHATTAN ASSOCIATES, INC. FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH CONSOLIDATED FINANCIAL STATEMENTS.
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