

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO
SECTIONS 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

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

For the fiscal year ended December 31, 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 (I.R.S. Employer Identification No.)
Incorporation or Organization)

2300 WINDY RIDGE PARKWAY, SUITE 700 30339
ATLANTA, GEORGIA (Zip Code)
(Address of Principal Executive Offices)

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

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

| Title of Each Class | Name of Exchange on Which Registered |
|---------------------|--------------------------------------|
| None | None |

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

Common Stock, \$.01 par value per share

Indicate by check mark 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 []

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained,

to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes [X] No []

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based upon the closing sales price of the Common Stock on March 29, 2000 as reported by the Nasdaq Stock Market, was approximately \$182,003,381. The shares of Common Stock held by each officer and director and by each person known to the Registrant who owns 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. As of March 24, 2000, the Registrant had outstanding 24,579,888 shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Annual Report to Shareholders for the fiscal year ended December 31, 1999 are incorporated by reference in Parts II and IV of this Form 10-K to the extent stated herein. The Registrant's definitive Proxy Statement for the Annual Meeting of Shareholders to be held May 16, 2000 is incorporated by reference in Part III of this Form 10-K to the extent stated herein.

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FORWARD-LOOKING STATEMENTS

In addition to historical information, this Annual Report may contain "forward-looking statements" relating to Manhattan Associates, Inc. ("Manhattan" or the "Company"). Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements. Among the important factors that could cause actual results to differ materially from those indicated by such forward-looking statements are delays in product development, undetected software errors, competitive pressures, technical difficulties, market acceptance, availability of technical personnel, changes in customer requirements and general economic conditions. Additional factors are set forth in "Safe Harbor Compliance Statement for Forward-Looking Statements" included as Exhibit 99.1 to this Annual Report on Form 10-K. Manhattan Associates, Inc. undertakes no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes in future operating results.

PART I

ITEM 1. BUSINESS.

Manhattan is 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 PkMS(R), a comprehensive and modular software system; services, including design, configuration, implementation, and training services, plus customer support and software upgrades; and hardware. We currently provide solutions to manufacturers, distributors, retailers and transportation providers primarily in the following markets: direct-to-consumer/e-commerce, retail,

apparel/footwear, consumer products manufacturing, food/grocery and third party logistics. As of December 31, 1999, our software was licensed for use by more than 400 customers including Abbott Laboratories, Agrilink Foods, Inc., Calvin Klein, Guess?, Inc., Jockey International, Mikasa, Newell-Rubbermaid, Nordstrom, Patagonia, PlanetRx.com, Playtex Apparel, SEIKO Corporation of America, Sainsbury's Supermarkets Limited, Siemens Energy and Automations, The Sports Authority, Timberland, Warnaco, wine.com and Venator Group.

INDUSTRY BACKGROUND

Over the past two decades, the flow of goods through the supply chain from manufacturers to consumers has undergone significant changes. These changes began in the United States textile industry, which, faced with increased global competition, implemented an industry-wide initiative in the 1980s to lower the cost of goods sold through more efficient inventory management. This initiative, which became known as "Quick Response," uses technology to improve the flow of information among manufacturers, distributors, retailers and transportation providers. Quick Response has allowed retailers to more rapidly advise manufacturers and distributors of their inventory replenishment needs and has allowed manufacturers and distributors to more efficiently restock retailers. As a result, textile product retailers have been able not only to reduce their idle inventory and cost of goods sold, but also to offer a broader range of products with fewer product shortages or stock-outs. The increase in direct-to-consumer, catalog and Internet distribution strategies represents additional inventory demands on retailers, distributors and manufacturers.

More recently, the consumer products industry experienced a similar supply chain re-engineering, driven primarily by the emergence of national superstore chains and category stores. The business model of these stores, which promotes wider product offerings, lower gross profit margins and a higher rate of inventory turnover than traditional stores, represented a competitive threat to retailers of similar products.

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In order to remain competitive in this changing retail landscape, many retailers have demanded that manufacturers and distributors apply Quick Response principles to their supply chain operations to achieve lower costs and higher levels of service. These retailers impose financial penalties, or charge-backs, on providers who fail to comply with these services. Retailers' demands include more sophisticated distribution services, including:

- more frequent store-specific inventory replenishments;
- more customized packing of goods within each delivery to reduce in-store unpacking times;
- more sophisticated packaging and labeling of goods to meet merchandising strategies;
- compliance with unique, customer-specific shipping standards; and
- the exchange of trading information in compliance with electronic data interchange, or EDI, standards.

Demand for these more sophisticated distribution services requires significant modification of distribution center operations for most manufacturers and distributors. For example, a manufacturer that previously may have made one bulk shipment to each of six customer distribution centers each month may now be required to ship thousands of custom-packed and labeled orders per month directly to multiple customers' stores, to the customers' distribution centers for immediate reshipment to stores or directly to

consumers. This level of customization requires a continuous exchange of information among manufacturers, distributors, retailers and transportation providers.

As a result of these retailer demands, distribution centers have increased in size, complexity and cost. Distribution centers today can comprise one million square feet or more with thousands of stock keeping units, or "SKUs", and multi-million dollar investments in automated materials handling equipment. The efficient management of a distribution center operation now requires collecting information regarding:

- customer orders;
- inbound shipments of products;
- products available on-site;
- product storage locations;
- weights and sizes;
- outbound shipping data including customer- or store-specific shipping requirements, routing data and carrier requirements
- electronic communication with other supply chain constituents; and
- personalization for direct-to-consumer shipping.

This information must be analyzed dynamically to determine the most efficient use of the distribution center's labor, materials handling equipment, packaging equipment and shipping and receiving areas. Additionally, manufacturers, distributors and retailers must exchange information with other participants in the supply chain in order to effectively integrate the operation of their distribution centers with the entire supply chain.

In response to these new distribution center challenges, companies have implemented information technology systems designed to manage this new distribution environment. Today, an effective distribution center management system must have the ability to integrate with:

- enterprise resource planning, or ERP, systems;
- supply chain management, or SCM, systems such as transportation, order management and demand planning;
- the existing distribution center equipment, including related radio frequency, or RF, equipment and automated materials handling equipment; and
- ever increasingly, e-business systems of supply chain constituents utilizing Internet technologies as part of their distribution strategies.

Gartner Group, an independent industry analysis and research firm, estimates that by 2001, 80% of U.S. based large enterprises and 30% of non-U.S. enterprises will reorganize their organizations to accommodate e-business. This will fuel increased investment in hardware, software and services which should continue to grow yearly.

In addition, customers frequently require their distribution center management systems to incorporate customer-driven modifications to their

packaging, information and transportation services, new technologies and newly-defined best practices in their industry. Distribution center management systems also must operate with high reliability and efficiency while supporting very high transaction volumes and multiple users, and therefore are almost exclusively deployed on scaleable enterprise servers.

Traditionally, distribution center management systems have been highly customized, difficult to upgrade and have required costly and lengthy implementations. Furthermore, these systems have not readily supported the increased volumes and complexities associated with recent advances in supply chain re-engineering initiatives. Specifically, they have failed to quickly incorporate changing industry and customer-specific shipping standards. Most providers of these systems have not focused on specific vertical markets, but rather have attempted to customize their solutions to differing vertical market demands with each implementation. As a result, many of these providers have been unable to effectively leverage industry-specific expertise for use in future implementations.

THE MANHATTAN SOLUTION

We provide 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 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 PkMS, a comprehensive and modular software system; services, including design, configuration, implementation, and training services, plus customer support and software upgrades; and hardware. We currently provide solutions to manufacturers, distributors, retailers and transportation providers primarily in the following markets: direct-to-consumer/e-commerce, retail, apparel/footwear, consumer products manufacturing, food/grocery and third party logistics.

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PkMS allows organizations to manage the receiving, storage, stock locating, stock picking, order verification, assembly, order packing and shipment of products in complex distribution centers. PkMS is designed to optimize the operation of a distribution center by:

- increasing inventory turnover;
- improving inventory accuracy;
- reducing response times;
- reducing inventory levels;
- complying with industry shipping standards;
- improving communications with other participants in the supply chain;
- increasing the productivity of labor, facilities and materials handling equipment; and
- facilitating multi-channel distribution from one distribution center.

We have developed robust, high volume systems for manufacturers, distributors and retailers of consumer products to support Quick Response and other industry and supply chain initiatives. PkMS employs leading database

technology and can be easily integrated with third party software applications, including the ERP, SCM and e-business systems of our customers.

Our solutions feature PkMS, a modular software system that, together with our consulting, implementation, training, customer support and software upgrade services, provide:

- Comprehensive Functionality--PkMS addresses a full range of requirements of modern, complex distribution centers with an existing product rather than custom-designed and developed applications. PkMS provides comprehensive functionality for specific vertical markets incorporating industry-wide initiatives.
- Ease of Implementation--PkMS' modular design, along with our knowledge of specific vertical markets and expertise in planning and installation, allows our solutions to be implemented more rapidly than highly-customized distribution center management systems. Typical implementations can be completed within four to six months. Our e-fulfillnow methodology can result in full implementation within two months. Because of its modular design, PkMS can be implemented in phases to meet specific customer demands.
- Timely Response to Industry Initiatives--PkMS features a comprehensive program to provide our customers with timely software upgrades offering increased functionality and technological advances that address emerging supply chain and other industry initiatives.
- Flexibility and Configurability--PkMS is designed to be easily configured to meet a distribution center's specific requirements and reconfigured to meet changing customer and industry requirements.
- Scaleability--PkMS is designed to facilitate the management of evolving distribution center systems to accommodate increases in the number of system users, complexity and distribution volume.

STRATEGY

Our objective is to be the leading provider of technology-based solutions to improve supply chain effectiveness and efficiency. We will continue to provide solutions to targeted vertical markets by offering advanced, highly functional, highly scalable applications that allow customers to leverage their investment in distribution centers and meet frequently-changing customer requirements. Our strategy to achieve this objective includes the following key elements:

Develop Business-to-Business Communication Systems. We intend to develop a collaborative information exchange that enables real-time communication between retailers and their suppliers. We have entered into an agreement with one of the world's largest retail chains to build such systems. Communication will be facilitated through Internet-based extensible markup language ("XML") technology. Microsoft Corporation is collaborating with us on the pilot and is providing expertise in the XML document definition, which will be based on the BizTalk(TM) Framework. We believe that this project, internally named Project Wildwood, will play a key role for our existing customers by bringing greater visibility and cooperation within their respective trading communities, which will in turn improve merchandise flow and improve customer support. This will also position us as a leader in providing Internet-based,

business-to-business, supply chain execution solutions to companies in our targeted vertical markets.

Enhance e-fulfillment Solutions. We have moved to solidify our leadership position in the area of e-commerce fulfillment, or e-fulfillment, technologies by establishing a group that primarily focuses on providing comprehensive solutions tailored to the e-fulfillment marketplace. We intend to continually enhance our ability to deliver e-commerce software, services and hardware to companies that range in scope from large manufacturers to Internet-based retailers to third party e-fulfillment providers to e-manufacturers, and in size from some of the largest e-tailers to start-up, pure play dot-coms. This packaged solution includes flexible pricing options, upgradeable platform options, functionality upgrades, fast path consulting, hardware configuration services and strong partnerships with other critical vendors.

Enhance Core Product Functionality. We intend to continue to focus our product development resources on the development and enhancement of PkMS to extend its functionality within our targeted vertical markets. We also plan to continue to provide upgrades to address evolving industry standards. We identify further enhancements to PkMS through on-going customer consulting engagements and implementations, interactions with our user groups and participation in industry standards and research committees.

Target New Vertical Markets. To date we have focused our marketing, sales and product development efforts on specific vertical markets, particularly in the apparel manufacturing industry. We currently provide solutions to manufacturers, distributors, retailers and transportation providers primarily in the following markets: direct-to-customer/e-commerce, retail, apparel/footwear, consumer products manufacturing, food/grocery and third party logistics. We plan to target other vertical markets that adopt Quick Response, Efficient Consumer Response and similar industry initiatives. We also intend to target industries employing direct-to-consumer, catalog and Internet distribution strategies.

Expand Sales, Services and Marketing Organizations. We currently sell and support our products primarily through our direct sales and services personnel. We plan to invest significantly to expand our sales, services and marketing organizations, to pursue strategic marketing partnerships with systems integrators and third party software application providers, and to explore alternative hosting options.

Develop International Sales. Historically, we have principally focused our sales efforts on customers in the United States. We intend to continue to add sales personnel, establish additional offices focused on international opportunities and pursue strategic marketing partnerships with international systems integrators and third party software application providers.

Expand Integration with Complementary Products. We believe that the ability to offer a software solution that can expand integration with leading third party software applications will continue to provide a significant competitive advantage. We intend to continue to develop PkMS to integrate with complementary ERP, SCM and other business applications, and to develop and seek acquisitions of complementary products.

PRODUCTS AND SERVICES

Software. Our software products feature a modular design that permits customers to selectively implement specific functionality depending on the needs of each distribution facility or operation.

The following table describes the functions of the PkMS modules as well as additional software products:

| MODULE | DESCRIPTION |
|---------------------------------------|--|
| INVENTORY MANAGEMENT SYSTEM ("IMS") | MANAGES THE RECEIPT, PUT-AWAY AND MOVEMENT OF ALL INVENTORY THROUGHOUT THE DISTRIBUTION CENTER |
| Receiving | <ul style="list-style-type: none"> - Verifies the accuracy of incoming shipments against the advanced shipping notice - Designates incoming inventory for quality audit and immediate out-going shipment (cross-docking) - Manages receiving yard by scheduling time, dock location and priority of shipments |
| Stock Locator | <ul style="list-style-type: none"> - Enhances inventory movement efficiency by directing put-away, minimizing travel distances and optimizing storage capacity - Tracks movement of inventory by allowing real-time inquiries by location, SKU and other criteria |
| Cycle Count | <ul style="list-style-type: none"> - Enables more efficient inventory counts by permitting specific zones of a distribution center to be "frozen" without interrupting ongoing operations - Automatically generates cycle count tasks for specific SKUs, locations or other user-designated criteria |
| Work Order Management | <ul style="list-style-type: none"> - Directs the assembly of finished goods within a distribution center to match customer demands |
| Radio Frequency Functions for the IMS | <ul style="list-style-type: none"> - Allows the real-time collection of inventory product information and location with remote, hand-held mobile devices for integration with the IMS - Communicates real-time task assignments to workers in remote locations of the distribution center |
| Task Management System for the IMS | <ul style="list-style-type: none"> - Coordinates the sequence of distribution center tasks to optimize labor efficiency |
| OUTBOUND DISTRIBUTION SYSTEM ("ODS") | MANAGES THE PICKING, PACKING AND SHIPPING OF ORDERS IN EFFICIENT RELEASE WAVES |
| Wave Management | <ul style="list-style-type: none"> - Selects, prioritizes and groups outgoing orders in manageable increments based upon user-defined criteria - Routes picktickets based upon retailer requirements and pre-determines carton contents to minimize the number of outgoing cartons - Facilitates stock replenishment for active picking and packing locations |
| Verification | <ul style="list-style-type: none"> - Provides automatic verification of orders and identifies order shortages and overages to maximize shipping accuracy at several different points within the order fulfillment process |
| Radio Frequency Functions for the ODS | <ul style="list-style-type: none"> - Allows the real-time collection of shipment information and location with remote, hand-held mobile devices - Communicates real-time task assignments to workers in remote locations of the distribution center |
| Freight Management System | <ul style="list-style-type: none"> - Sorts orders by specific freight carriers, calculates shipping charges and controls load sequencing based upon truck routes - Generates all documentation required for shipping such as bills of lading and retailer compliant required manifests |
| Parcel Shipping System | <ul style="list-style-type: none"> - Calculates all shipping charges for parcel shipments, generates tracking numbers and provides appropriate documentation for parcel carriers |
| ADDITIONAL SOFTWARE | ADDITIONAL SOFTWARE AVAILABLE FOR AN INCREMENTAL PURCHASE PRICE |
| Order Allocation System | <ul style="list-style-type: none"> - Prioritizes and allocates orders based on current aggregate inventory levels for customers whose host system is unable to perform this function |
| SLOT-IT | <ul style="list-style-type: none"> - Optimizes inventory physical location within a distribution center based on volume, seasonal demands, location of products and size |
| Productivity Manager | <ul style="list-style-type: none"> - Provides employee performance tracking information to warehouse managers, while supplying the warehouse employee estimated task durations prior to starting the task and their individual employee performance throughout the day |

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

Although our professional services are optional, substantially all of our customers use these services for the implementation and ongoing support of our software products. Professional services are billed on an hourly basis. We believe that increased sales of our software products will drive higher demand for our consulting services. Accordingly, we plan to continue to substantially increase the number of consultants to support anticipated growth in product implementations and software upgrades. To the extent we are unable to attract,

train and retain qualified consulting personnel, our operating results may be adversely affected.

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

We have developed a proven implementation methodology, called e-fulfillnow, that leverages the advanced architecture of PkMS with the knowledge and expertise gained from completing more than 750 installations worldwide. The modular design of our products significantly reduces the complexities associated with integrating to existing ERP's, e-business systems, Internet sites and complex material handling systems. As a result, we have been able to demonstrate our ability to deploy a fully automated inbound and outbound system in less than two months.

Support and Software Upgrades. We offer a comprehensive program that provides our customers with timely software upgrades offering increased functionality and technological advances incorporating emerging supply chain and other industry initiatives. As of December 31, 1999, a majority of our customers had subscribed to our comprehensive support and upgrade program. We have the ability to remotely access the customer's system in order to perform diagnostics, on-line assistance and software upgrades. We offer 24-hour support plus upgrades for 20% percent of the current software license fee.

Hardware. Our products operate on multiple hardware platforms utilizing various hardware systems and interoperate with many third party software applications and legacy systems. This open system capability enables customers to continue using their existing computer resources and to choose among a wide variety of existing and emerging computer hardware and peripheral technologies.

In conjunction with the licensing of our software, we resell a variety of hardware products developed and manufactured by third parties in order to provide our customers with an integrated distribution center management solution. These products include computer hardware, radio frequency terminal networks, bar code printers and scanners, and other peripherals. We resell all third party hardware products pursuant to agreements with manufacturers or through distributor-authorized reseller agreements pursuant to which we are entitled to purchase hardware products at discount prices and to receive technical support in connection with product installations and any subsequent product malfunctions. We generally purchase hardware from our vendors only after receiving an order from a customer. As a result, we do not maintain significant hardware inventory.

SALES AND MARKETING

To date, we have generated substantially all of our revenue through our direct sales force. We plan to continue to invest significantly to expand our sales, services and marketing organizations within the United States, Europe and other international locations and to pursue strategic marketing partnerships. We conduct comprehensive marketing programs that include advertising, public relations, trade shows, joint programs with vendors and consultants and ongoing customer communication programs. The sales cycle typically begins with the generation of a sales lead or the receipt of a

request for proposal from a prospective customer. The sales lead or request for proposal is followed by the qualification of the lead or prospect, an assessment of the customer's requirements, a formal response to the request for proposal, presentations and product demonstrations, site visits to an existing customer using our distribution center management system and contract negotiation. The sales cycle can vary substantially from customer to customer, but typically requires three to six months.

CUSTOMERS

To date, our customers have been manufacturers, distributors, retailers and transportation providers primarily in the direct-to-consumer/e-commerce, retail, apparel/footwear, consumer products manufacturing, food/grocery and third party logistics. As of December 31, 1999, our software was licensed for use by more than 400 customers including Abbott Laboratories, Agrilink Foods, Inc., Calvin Klein, Guess?, Inc., Jockey International, Mikasa, Newell Rubbermaid, Nordstrom, Patagonia, PlanetRx.com, Playtex Apparel, Inc., SEIKO Corporation of America, Sainsbury's Supermarkets Limited, Siemens Energy and Automations, The Sports Authority, Timberland, Warnaco, wine.com and Venator Group. The following table sets forth a representative list of our customers as of December 31, 1999, that have purchased at least \$100,000 in products and services from us.

APPAREL MANUFACTURERS

ASICS Tiger
 Birkenstock
 Bugle Boy
 Calvin Klein
 Duck Head Apparel
 Esprit
 Hugo Boss
 Jockey International
 Jones Apparel
 London Fog
 Oxford Industries
 Playtex Apparel
 Timberland
 The North Face
 Tropical Sportswear
 Warnaco

FOOD SERVICE AND DISTRIBUTION

Abbott Foods
 Agrilink Foods, Inc.
 Alliant Atlantic Foodservice
 Arrow Industries
 Austin Quality Foods
 Ben E. Keith Company
 Burns Philp Food/Tones Brothers
 Canned Foods
 Reser's Fine Foods
 Tanimura & Antle
 Sainsbury's Supermarket Limited

THIRD PARTY LOGISTICS

Burnham Services Corporation
 Skyway Freight Systems

CONSUMER PRODUCTS

Abbott Laboratories, Inc.
 Alliance Entertainment
 Brother International
 Bulova
 Conair Group
 Hunter Fan
 Remington Products
 SEIKO Corp. of America

RETAILERS

American Eagle Outfitters
 Casual Corner Group
 Mars Music
 Nordstrom
 The Children's Place
 The Limited
 The Sports Authority
 Venator Group

INDUSTRIAL PRODUCTS

AGFA/Bayer
 American Tack & Hardware
 Delta International Machinery
 Familian Pipe & Supply
 Liberty Hardware
 Loctite
 Motors and Armatures, Inc.
 PPG Architectural Finishes
 Rain Bird Sales
 Siemens Energy and Automations

Many of our existing customers have developed e-commerce strategies and several new customers are principally focused on e-commerce. Within e-commerce, we target customers in the following categories: e-tailers (click and mortar and dot-com); e-fulfillment service providers (third party logistics/outsourced fulfillment); direct-to-consumer (catalog/mail order); e-manufacturers-consumer goods; and business-to-business for consumer goods. The following table sets

forth a representative list of our e-commerce customers as of December 31, 1999, that have purchased at least \$100,000 in products and services from us.

| | |
|----------------------------|-----------------------------|
| Century Martial Art Supply | Newell Rubbermaid |
| Coldwater Creek | Nordstrom Direct |
| Columbia Sportswear | Northern Tool and Equipment |
| Fatbrain.com | Patagonia |
| Guess?, Inc. | PlanetRx.com |
| JC Whitney | Spiegel |
| J. Jill Group | Stride Rite |
| Lenox Collections | Tibbett and Britten Limited |
| Mars Music | ToysRUs.com |
| Metatec Corp. | wine.com |
| MicroWarehouse, Inc. | Yankee Candle |
| Mikasa | |

Our top five customers in aggregate accounted for 10%, 14%, and 22% of total revenue for each of the years ended December 31, 1999, 1998, and 1997, respectively. No single customer accounted for 10% or more of our total revenue during any of the three years ended December 31, 1999.

PRODUCT DEVELOPMENT

Our development efforts are focused on adding new functionality to existing products, enhancing the operability of our products across distributed and changing hardware platforms, operating systems and database systems, and developing new products. We believe that our future success depends in part upon our ability to continue to enhance existing products, respond to changing customer requirements and develop and introduce new or enhanced products that incorporate new technological developments and emerging industry standards. To that end, our development efforts frequently focus on base system enhancements incorporating new user requirements and potential features identified through customer interaction and systems implementations. As a result, we are able to continue to offer our customers a highly configurable product with increasing functionality rather than a custom-developed software program.

We are currently devoting a significant portion of our research and development efforts to the enhancement of the distributed N-Tier architecture version of PkMS, which currently operates with desktops running Windows 95/98/NT, standard radio frequency device clients and servers running both the Windows NT and the UNIX server operating environments. Our distributed N-Tier version is designed to allow different software applications and systems and hardware platforms to operate together more efficiently. We continue to develop new and enhanced functionality for PkMS, such as features designed to enhance worker productivity, improve yard management and schedule inbound shipment receiving appointments. We also plan to focus development efforts on integrating the SLOT-IT application into future releases of PkMS. We plan to principally conduct our development efforts internally in order to retain development knowledge and promote the continuity of programming standards; however, some projects may be outsourced.

We continue to spend a portion of our research and development efforts on the development of Internet or business-to-business products and functionality. We recently entered into an agreement with one of the world's largest retail chains to build a collaborative information exchange service that enables real-time communication between retailers and suppliers. Communication will be facilitated through Internet-based XML technology. Microsoft Corporation is collaborating with us on the pilot and is providing expertise in the XML document definition, which will be based on the

BizTalk(TM) Framework. We feel that this project, internally named Project Wildwood, will play a key role for our existing customers by bringing greater visibility and cooperation within their respective trading communities, which will in turn improve merchandise flow and improve customer support.

Our research and development expenses for the years ended December 31, 1999, 1998 and 1997 were \$10.2 million, \$7.4 million, and \$3.0 million, respectively. We intend to continue to increase our investment in product development.

COMPETITION

Our products are targeted at the distribution center management systems market, which is intensely competitive and characterized by rapid technological change. The principal competitive factors affecting the market for our products include:

- vendor and product reputation;
- compliance with industry standards;
- product architecture, functionality and features;
- ease and speed of implementation;
- return on investment;
- product quality, price and performance; and
- level of support.

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

- distribution center management software vendors including Catalyst International, Inc., EXE Technologies, Inc., Optum, Inc. and McHugh Software International, Inc.;
- ERP or SCM application vendors that offer warehouse management functionality or modules of their product suites, such as Retek, JD Edwards or SAP;
- the corporate information technology departments of current or potential customers capable of internally developing solutions; and
- smaller independent companies that have developed or are attempting to develop distribution center management software that competes with our software solution.

We may face competition in the future from ERP and SCM applications vendors and business application software vendors that may broaden their product offerings by internally developing, or by acquiring or partnering with independent developers of distribution center management software. To the extent such ERP and SCM vendors develop or acquire systems with functionality comparable or superior to our products, their significant installed customer bases, long-standing customer relationships and ability to offer a broad solution could provide a significant competitive advantage over Manhattan. In addition, it is possible that new competitors or alliances among current and new competitors may emerge and rapidly gain significant market share. Increased

competition could result in price reductions, fewer customer orders, reduced gross margins and loss of market share.

Many of our competitors and potential competitors have longer operating histories, significantly greater financial, technical, marketing and other resources, greater name recognition and a larger installed base of customers than we do. In order to be successful in the future, we must continue to respond promptly and effectively to technological change and competitors' innovations. There can be no assurance that our current or potential competitors will not develop products comparable or superior in terms of price and performance features to those developed by us. In addition, no assurance can be given that we will not be required to make substantial additional investments in connection with our research, development, marketing, sales and customer service efforts in order to meet any competitive threat, or that we will be able to compete successfully in the future. Increased competition may result in reductions in market share, pressure for price reductions and related reductions in gross margins, any of which could materially and adversely affect our ability to achieve our financial and business goals. There can be no assurance that in the future we will be able to successfully compete against current and future competitors.

INTERNATIONAL OPERATIONS

For the year ended December 31, 1999, the Company had international revenues of approximately \$5.6 million, or 7% of total revenues. International revenues include all revenues derived from sales to customers outside the United States.

During 1998, we commenced operations in Europe. Total revenues for the Europe were approximately \$3.8 million and \$130,000 for the years ended December 31, 1999 and 1998, respectively, which represents approximately 5% and less than 1%, respectively, of our total revenues.

PROPRIETARY RIGHTS

We rely on a combination of copyright, trade secret, trademark, service mark and trade dress laws, confidentiality procedures and contractual provisions to protect our proprietary rights in our products and technology. We have a registered trademark in "PkMS" and trademarks in "SLOT-IT" and the Manhattan logo. We have no registered copyrights. We generally enter into confidentiality agreements with our employees, consultants, clients and potential clients and limit access to, and distribution of, our proprietary information. We license PkMS to our customers in source code format and restrict the customer's use for internal purposes without the right to sublicense the PkMS or SLOT-IT product. However, we believe that this provides us only limited protection. Despite our efforts to safeguard and maintain our proprietary rights both in the United States and abroad, we cannot assure that we will successfully deter misappropriation or independent third party development of our technology or prevent an unauthorized third party from copying or obtaining and using our products or technology. In addition, policing unauthorized use of our products is difficult, and while we are unable to determine the extent to which piracy of our software products exist, software piracy could become a problem.

As the number of supply chain management applications in the industry increases and the functionality of these products further overlaps, companies that develop software may increasingly become subject to claims of infringement or misappropriation of intellectual property rights. Third parties may assert infringement or misappropriation claims against us in the future for current or future products. Any claims or litigation, with or without merit, could be time-consuming, result in costly litigation, divert management's attention and

cause product shipment delays or require us to enter into royalty or licensing arrangements. Any royalty or licensing arrangements, if required, may not be available on terms acceptable to us, if at all, which could have a material adverse effect on our business, financial condition and results of operations. Adverse determinations in such claims or litigation could also have a material adverse effect on our business, financial condition and results of operations.

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

EMPLOYEES

As of December 31, 1999, we had 557 full-time employees. None of our employees are covered by a collective bargaining agreement. We consider our relations with our employees to be good. As of December 31, 1999, certain of our employees were employed pursuant to the H-1(B), non-immigrant work-permitted visa classification.

EXECUTIVE OFFICERS

The executive officers of Manhattan and certain information about them are as follows:

| NAME ----- | AGE --- | POSITION ----- |
|--------------------------|------------|--|
| Alan J. Dabbiere | 38 | Chairman of the Board of Directors |
| Richard M. Hadrill | 46 | President, Chief Executive Officer and Director |
| Deepak Raghavan | 33 | Senior Vice President, Chief Technology Officer and Director |
| Jeffrey W. Baum | 37 | Senior Vice President--International Operations |
| David K. Dabbiere | 41 | Senior Vice President, Chief Legal Officer and Secretary |
| Thomas Williams | 43 | Senior Vice President, Chief Financial Officer and Treasurer |
| Neil Thall | 53 | Executive Vice President--Professional Services |

ALAN J. DABBIERE, a founder of Manhattan, has served as Chairman of the Board since February 1998 and served as Chief Executive Officer and President of Manhattan from 1990 until October 1999. From 1986 until 1990, Mr. Dabbiere was employed by Kurt Salmon Associates, a management consulting firm specializing in consumer products manufacturing and retailing, where he specialized in consulting for the retail and consumer products manufacturing industries. At Kurt Salmon Associates, Mr. Dabbiere participated in Quick Response pilot projects focused on the value of an integrated supply chain initiative. Mr. Dabbiere serves on the American Apparel Manufacturer Association's Management Systems Committee.

RICHARD M. HADRILL was named President and Chief Executive Officer of Manhattan in October 1999 and appointed to the Board of Directors. Prior to joining the Company, Mr. Hadrill was President, CEO and a Board Member for Powerhouse Technologies, a successful technology, services and gaming company. He joined Powerhouse in 1994 as its Executive Vice President and was then

promoted to President and Chief Executive Officer in 1996. From 1992 until 1994, Mr. Haddrill was President of computer software company KnowledgeWare's international subsidiaries. During his employment at Ernst & Young, from 1975 until 1991, Mr. Haddrill held various positions within the company, including Managing Partner and Partner.

DEEPAK RAGHAVAN, a founder of Manhattan, has served as Senior Vice President of Manhattan since August 1998, Chief Technology Officer since its inception in 1990 and as a Director since February 1998. From 1987 until 1990, Mr. Raghavan was a Senior Software Engineer for Infosys Technologies Limited, a software development company, where he specialized in the design and implementation of information systems for the apparel manufacturing industry.

JEFFRY W. BAUM has served as Senior Vice President -- International Operations of Manhattan since January 2000. From January 1998 to January 2000, Mr. Baum served as Vice President, International Business Development. From January 1997 until February 1998, Mr. Baum served as Vice President, Sales and Marketing of Haushahn Systems & Engineers, a warehouse management systems and material handling automation provider. From March 1992 until December 1996, Mr. Baum served as Senior Account Manager at Haushahn. Prior to that, Mr. Baum served in a variety of business development, account management and marketing positions with Logisticon, Inc. and Hewlett-Packard.

DAVID K. DABBIERE has served as Senior Vice President, Chief Legal Officer and Secretary of Manhattan since August 1998. From March 1998 to August 1998, Mr. Dabbieri served as Vice President, General Counsel and Secretary of Manhattan. From 1984 to 1998, Mr. Dabbieri was employed by The Procter & Gamble Company, most recently as Associate General Counsel. Mr. Dabbieri was responsible for, among other duties, the intellectual property matters for Procter & Gamble's Beauty Care and Cosmetic & Fragrances sectors.

THOMAS WILLIAMS has served as Senior Vice President, Chief Financial Officer and Treasurer of Manhattan since February 2000. From February 1996 to February 2000, Mr. Williams served as Group Vice President, Finance and Administration for Sterling Commerce, Inc., a worldwide leader in providing E-business solutions for the Global 5000 companies. From December 1994 to January 1996, Mr. Williams served as Division Vice President, Finance and Administration for Sterling Software, Inc., one of the 20 largest independent software companies in the world. From June 1989 to November 1994, Mr. Williams held various senior management finance and accounting positions with KnowledgeWare, Inc. Mr. Williams joined KnowledgeWare from Ernst & Young.

NEIL THALL has served as Executive Vice President -- Professional Services of Manhattan since January 2000. From August 1998 to January 2000, Mr. Thall served as Senior Vice President--Supply Chain Strategy, and from January 1998 to August 1998, he served as Vice President--Supply Chain Strategy of Manhattan. From 1992 to 1997, Mr. Thall served as President of Neil Thall Associates, a software development and management consulting subsidiary of HNC Software, Inc. that specialized in inventory management, Quick Response and vendor managed inventory initiatives. Prior to 1992, Mr. Thall was employed by Kurt Salmon Associates as National Service Director--Retail Consulting, where he specialized in the development and implementation of information systems for major department stores and specialty and mass merchant chains.

Other Key Employees

JEFFREY MITCHELL has served as Vice President, North American Sales of Manhattan since May 1999. Prior to that, Mr. Mitchell served in various sales management roles at Manhattan Associates since April 1997. From April 1995 until April 1997, Mr. Mitchell was a sales representative for Intrepa (formerly The Summit Group), a provider of warehouse and transportation management packages. From May 1991 until April 1995, Mr. Mitchell served in various aspects of

account management in the employer services division of ADP providing outsource payroll and human resources solutions.

MICHAEL CROXTON joined Manhattan as Vice President, Marketing and Product Management in December 1999. From 1998 to 1999, Mr. Croxton served as the Vice President of Marketing and Strategic Alliances for Software Solutions, Inc., a supply chain management solution company. From 1993 to 1997, Mr. Croxton was the Vice President of Marketing and Product Development for Softlab, Inc. Mr. Croxton also served as a Product Manager of Enterprise Client Server for Knowledgeware, Inc. from 1989 to 1993. His responsibilities at Knowledgeware, Softlab and Software Solutions included formulating and articulating their corporate strategic vision. Prior to 1989, Mr. Croxton held various consulting positions at Pilot Executive Software, Thorn EMI Computer Software and EPS Consultants.

KEN SHIPP joined Manhattan in December 1999 as Vice President, Product Development. Mr. Shipp was the Vice President of LAN & Database Technology Services for Shared Medical Systems from 1995 until December 1999, where he was responsible for product planning, architecture and development of new products using client/server, intranet and relational database technologies. Mr. Shipp also served as Department Manager, Strategic LAN Development from 1989 to 1995 at Shared Medical Systems. During his employment at IBM Corporation from 1974 until 1989, Mr. Shipp served in various positions including Senior Manager -- Office System Performance, Manager -- Cross-Product System Design, and Senior Product Planner--Office Systems. Mr. Shipp earned six Invention Achievement Awards and has been awarded ten patents for word processing.

ITEM 2. PROPERTIES.

Our principal administrative, sales, marketing, support and research and development facility is located in approximately 94,000 square feet of modern office space in Atlanta, Georgia. Substantially all of this space is leased to us through December 31, 2002. In addition, we may expand into additional facilities in the future.

ITEM 3. LEGAL PROCEEDINGS.

On December 17, 1999, we commenced an action against Wang's International, Inc., a Tennessee corporation, in the Circuit Court of Tennessee for the Thirtieth Judicial District at Memphis. Our complaint alleges breach of contract based upon Wang's failure to pay invoices as due and for its refusal to satisfy an outstanding balance of approximately \$1,000,000 for equipment sales and consulting services. On January 5, 2000, the case was removed to the United States District Court for the Western District of Tennessee, Western Division, where Wang's filed an answer and counterclaim. We believe that the allegations raised by Wang's in its counterclaim are without merit and are not material to our financial condition.

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year ended December 31, 1999.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS.

Our common stock is traded on the Nasdaq National Market under the symbol "MANH". The price per share reflected in the table below represents the range of low and high closing sale prices for our common stock as reported by

The Nasdaq Stock Market for each of the quarters during 1999:

| FISCAL PERIOD ----- | HIGH PRICE ----- | LOW PRICE ----- |
|--|---------------------|--------------------|
| 1998 | | |
| Second Quarter (from April 23, 1998) | \$26.50 | \$17.50 |
| Third Quarter | 28.13 | 10.00 |
| Fourth Quarter | 27.63 | 8.00 |
| 1999 | | |
| First Quarter | \$26.25 | \$ 7.66 |
| Second Quarter | 15.38 | 7.56 |
| Third Quarter | 10.56 | 5.50 |
| Fourth Quarter | 9.44 | 3.53 |

The closing sale price of our common stock as reported by the Nasdaq National Market on March 29, 2000 was \$31.875. The number of shareholders of our common stock as of March 29, 2000 was approximately 112.

Prior to our initial public offering in April 1998, our predecessors historically made distributions to shareholders related to their limited liability company status and the resulting tax payment obligations imposed on its shareholders. We do not intend to declare or pay cash dividends in the foreseeable future. Our management anticipates that all earnings and other cash resources, if any, will be retained by us for investment in our business.

ITEM 6. SELECTED FINANCIAL DATA.

The following selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this Form 10-K and the consolidated financial statements and notes thereto included in Item 8 of this Form 10-K. The statement of income data for the years ended December 31, 1997, 1998 and 1999, and the balance sheet data as of December 31, 1998, and 1999, are derived from, and are qualified by reference to, the audited financial statements included elsewhere in this Form 10-K. The statement of income data for the year ended December 31, 1995, and 1996, and the balance sheet data as of December 31, 1995, 1996, and 1997, are derived from the audited financial statements not included herein. Historical and pro forma results are not necessarily indicative of results to be expected in the future.

| | YEAR ENDED DECEMBER 31, | | | | |
|---|---------------------------------------|----------|----------|-----------|----------|
| | 1995 | 1996 | 1997 | 1998 | 1999 |
| | ----- | | | | |
| | (IN THOUSANDS, EXCEPT PER SHARE DATA) | | | | |
| | ----- | ----- | ----- | ----- | ----- |
| STATEMENT OF INCOME DATA: | | | | | |
| Revenue: | | | | | |
| Software license | \$ 2,463 | \$ 3,354 | \$ 7,160 | \$ 13,816 | \$14,578 |
| Services | 3,503 | 6,236 | 14,411 | 32,358 | 52,889 |
| Hardware | 5,255 | 4,810 | 10,886 | 15,891 | 13,825 |
| Total revenue | 11,221 | 14,400 | 32,457 | 62,065 | 81,292 |
| Cost of revenue: | | | | | |
| Software license | 6 | 177 | 461 | 920 | 1,471 |
| Services | 1,740 | 2,026 | 6,147 | 15,286 | 30,643 |
| Hardware | 3,991 | 3,734 | 8,001 | 11,791 | 10,526 |
| Total cost of revenue | 5,737 | 5,937 | 14,609 | 27,997 | 42,640 |
| Gross margin | 5,484 | 8,463 | 17,848 | 34,068 | 38,652 |
| Operating expenses: | | | | | |
| Research and development | 1,138 | 1,236 | 3,025 | 7,429 | 10,201 |
| Acquired research and development | -- | -- | -- | 1,602 | -- |
| Sales and marketing | 1,147 | 1,900 | 3,570 | 9,045 | 14,344 |
| General and administrative | 1,058 | 1,454 | 2,975 | 6,731 | 13,670 |
| | ----- | ----- | ----- | ----- | ----- |

| | | | | | |
|---|----------|----------|----------|-----------|----------|
| Total operating expenses | 3,343 | 4,590 | 9,570 | 24,807 | 38,215 |
| Income from operations | 2,141 | 3,873 | 8,278 | 9,261 | 437 |
| Other income, net | 40 | 103 | 56 | 1,070 | 1,218 |
| Income before income taxes | 2,181 | 3,976 | 8,334 | 10,331 | 1,655 |
| Income tax expense (benefit): | | | | | |
| Tax provision as a "C" corporation | -- | -- | -- | 3,329 | 554 |
| Deferred tax adjustment | -- | -- | -- | (316) | -- |
| Net income | \$ 2,181 | \$ 3,976 | \$ 8,334 | \$ 7,318 | \$ 1,101 |
| Diluted net income per share | \$ 0.11 | \$ 0.20 | \$ 0.40 | \$ 0.29 | \$ 0.04 |
| Shares used in computing diluted net income per share | 20,010 | 20,308 | 20,761 | 25,651 | 26,553 |
| Income before pro forma income taxes | \$ 2,181 | \$ 3,976 | \$ 8,334 | \$ 10,331 | |
| Pro forma income taxes(1) | 800 | 1,486 | 3,023 | 4,244 | |
| Pro forma net income(1) | \$ 1,381 | \$ 2,490 | \$ 5,311 | \$ 6,087 | |
| Pro forma diluted net income per share(2) | | | | \$ 0.24 | |
| Shares used in computing pro forma diluted net income per share(2) | | | | 25,686 | |

DECEMBER 31,

| 1995 | 1996 | 1997 | 1998 | 1999 |
|----------------|------|------|------|------|
| (IN THOUSANDS) | | | | |

BALANCE SHEET DATA:

| | | | | | |
|----------------------------------|----------|----------|----------|-----------|----------|
| Working capital | \$ 3,199 | \$ 4,116 | \$ 6,268 | \$ 44,561 | \$46,948 |
| Total assets | 5,332 | 7,276 | 15,006 | 67,775 | 80,923 |
| Total shareholders' equity | 3,755 | 4,882 | 8,454 | 55,635 | 58,606 |

- (1) In connection with the conversion from limited liability company status on April 23, 1998, we became subject to federal and state corporate income taxes. Pro forma net income is presented as if we had been subject to corporate income taxes for all periods presented.
- (2) See Note 1 of Notes to Consolidated Financial Statements.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

All statements, trend analyses and other information contained in the following discussion relative to markets for our products and trends in revenue, gross margins and anticipated expense levels, as well as other statements including words such as "anticipate," "believe," "plan," "estimate," "expect," and "intend" and other similar expressions constitute forward-looking statements. These forward-looking statements are subject to business and economic risks and uncertainties, and our actual results of operations may differ materially from those contained in the forward-looking statements.

OVERVIEW

Manhattan is 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 PkMS, a comprehensive and modular software system; services, including design, configuration, implementation, and training services, plus customer support and software upgrades; and hardware. We currently provide solutions to manufacturers, distributors, retailers and transportation providers primarily in the following markets: direct-to-consumer/e-commerce, retail, apparel/footwear, consumer products manufacturing, food/grocery and third party logistics.

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

We recognize license 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, 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 and software upgrades related to our software products. Revenue related to professional services performed by us are generally billed on an hourly basis and revenue is recognized as the services are performed. Revenue related to customer support and software upgrades are generally paid in advance and recognized ratably over the term of the agreement, typically 12 months.

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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 warehouse system solutions. These products include computer hardware, 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.

Organization and Income Taxes

Prior to April 23, 1998, we elected to report as a limited liability company that was treated as a partnership for income tax purposes, and, as a result, we were not subject to federal and state income taxes. Pro forma net income amounts discussed below include additional provisions for income taxes on a pro forma basis as if we were 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 our statutory tax rate to pretax income, adjusted for permanent tax differences. Our status as a limited liability company terminated immediately prior to the effectiveness of our initial public offering in April 1998, and we have been taxed as a business corporation since that time.

Acquisitions

On February 16, 1998, we purchased all of the outstanding stock of Performance Analysis Corporation, or PAC, for approximately \$2.2 million in cash and 106,666 shares of our common stock valued at \$10.00 per share. PAC is a developer of distribution center slotting software. The acquisition was

accounted for as a purchase. The purchase price of approximately \$3.3 million was allocated to the assets acquired and liabilities assumed, including acquired research and development of approximately \$1.6 million, purchased software of \$500,000, and other intangible assets of \$765,000. Purchased software is being amortized over an estimated two-year useful life and other intangible assets are being amortized over a seven-year period. In connection with the PAC acquisition, we recorded a charge to income of \$1.6 million in the first quarter of 1998 for acquired research and development. We have focused development efforts on integrating the SLOT-IT application into future products.

We determined the value of the acquired research and development of approximately \$1.6 million based on the estimated costs to reproduce the efforts that PAC incurred to begin the development of the Windows NT version of SLOT-IT. We estimated the time to reproduce the product to be 20 man years. This estimate was based on the actual time incurred by PAC to develop the software and our years of experience developing and commercializing technologies on these platforms in this industry. Our management and the President and founder of PAC estimated that PAC has put in 40 man years (based on an average of 4 developers over a period of 10 years) to develop both the DOS based version of SLOT-IT (which was being marketed at the time of the acquisition) and the Windows NT version of SLOT-IT (which was being developed at the time of the acquisition). If we were to have recreated the Windows NT version of SLOT-IT with the benefit of an existing DOS based version, we believe we would have spent 20 man years to conceive, design and develop the Windows NT version that existed at the acquisition date. We estimated that this development would have taken 10 employees approximately 2 years to develop, or 20 man years. We estimated the cost per employee based on an estimated fully-loaded cost per development employee per year and applied that cost to the 20 man years. The fully-loaded cost of \$77,000 per year per development employee was based on the actual average salary per development employee of \$70,000 plus payroll taxes of 7% (\$5,000) and employee benefits of 3% (\$2,000). This fully-loaded cost per development employee was increased by 8% for the second year of development.

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We used the cost-based approach to value acquired research and development in the acquisition of PAC. While the cost-based approach is not a widely used methodology, we believe this approach is acceptable based on our experience with similar transactions in the past and our experience in developing cost estimates for designing and developing technology in the industry. Many acquisitions in the software industry, however, are accounted for utilizing an income-based approach to the valuation of acquired research and development. Although we believe that an income-based approach often provides a more precise valuation, because a market had not been established for the Windows NT product, and future cash flow projections were thus not available, we elected to use the cost-based approach.

We accounted for this \$1.6 million amount as acquired research and development as we intend to continue completing the development and integration of the SLOT-IT Windows NT version into PkMS. We completed development of the Windows NT version of SLOT-IT in the first half of 1999. We estimate the cost to fully integrate SLOT-IT into PkMS to range from approximately \$500,000 to \$1,000,000. We are currently in the process of integrating the SLOT-IT software into PkMS. We cannot assure a successful completion of this integration or that the resulting products, if completed, will achieve market acceptance. If such projects are unsuccessful, our business, financial condition and results of operations would likely be materially adversely affected.

In October 1998, we purchased certain assets of Kurt Salmon Associates, Inc., or KSA. The total purchase price for these assets was approximately \$2.0 million consisting of \$1.75 million in cash and assumed liabilities of approximately \$250,000. The purchase price was allocated to the intangible assets acquired, including a customer list, assembled workforce,

purchased software, trade names and goodwill. The assets are being amortized over periods ranging from three to ten years.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, the percentages of total revenues represented by certain items reflected in the Company's consolidated statements of income:

| | YEAR ENDED DECEMBER 31, | | |
|--|-------------------------|-------|-------|
| | 1997 | 1998 | 1999 |
| STATEMENT OF INCOME DATA: | | | |
| Revenue: | | | |
| Software license | 22.1% | 22.3% | 17.9% |
| Services | 44.4 | 52.1 | 65.1 |
| Hardware | 33.5 | 25.6 | 17.0 |
| Total revenue | 100.0 | 100.0 | 100.0 |
| Cost of revenue: | | | |
| Software license | 1.4 | 1.5 | 1.8 |
| Services | 18.9 | 24.6 | 37.7 |
| Hardware | 24.7 | 19.0 | 12.9 |
| Total cost of revenue | 45.0 | 45.1 | 52.4 |
| Gross margin | 55.0 | 54.9 | 47.6 |
| Operating expenses: | | | |
| Research and development | 9.3 | 12.0 | 12.6 |
| Acquired research and development | -- | 2.6 | -- |
| Sales and marketing | 11.0 | 14.6 | 17.6 |
| General and administrative | 9.2 | 10.8 | 16.8 |
| Total operating expenses | 29.5 | 40.0 | 47.0 |
| Income from operations | 25.5 | 14.9 | 0.6 |
| Other income, net | 0.2 | 1.7 | 1.5 |
| Income before income taxes | 25.7 | 16.6 | 2.1 |
| Income tax expense (benefit): | | | |
| Tax provision as a "C" corporation | -- | 5.3 | 0.7 |
| Deferred tax adjustment | -- | (0.5) | -- |
| Net income | 25.7% | 11.8% | 1.4% |
| Income before pro forma income taxes | 25.7 | 16.6 | |
| Pro forma income taxes | 9.3 | 6.8 | |
| Pro forma net income | 16.4% | 9.8% | |

YEARS ENDED DECEMBER 31, 1997, 1998 AND 1999

REVENUE

The Company's revenues consist of fees from the licensing of software; fees from consulting, implementation and training services (collectively, "professional services"), plus customer support and software upgrades; and sales of complementary radio frequency and computer equipment. Total revenue

increased 91.2% from \$32.5 million in 1997 to \$62.1 million in 1998. Total revenue increased 31.0% from \$62.1 million in 1998 to \$81.3 million in 1999. The increases in total revenue were primarily attributable to increases in sales of software licenses and services to new and existing customers.

Software License. Software license revenue increased from \$7.2 million in 1997 to \$13.8 million in 1998, an increase of \$6.6 million or 93.0%. Software license revenue increased from \$13.8 million in 1998 to \$14.6 million in 1999, an increase of \$.8 million or 6.0%. The increases in revenue from software licenses was primarily due to an increase in the number of PkMS licenses sold and, to a lesser extent, license revenue from sales of new, internally-developed products and products acquired from PAC. Additionally, during 1998 and 1999, the Company experienced an increase in the average sales price of PkMS and, to a greater extent in 1999, an increase in the average size of PkMS sales. The increases in the average sales price and sale size of PkMS are principally due to increased product functionality and market acceptance of PkMS. The Company believes that the lower growth in software license revenues in 1999 was at least partially attributable to lower capital expenditures by companies for software and related implementations due to Year 2000 concerns.

Services. Services revenue increased from \$14.4 million in 1997 to \$32.4 million in 1998, an increase of \$18.0 million or 124.5%. Services revenue increased from \$32.4 million in 1998 to \$52.9 million in 1999, an increase of \$20.5 million or 63.4%. The increases in revenue from services were principally due to increases in the number of customers purchasing professional services from the Company, services to support customers and provide software upgrades on a growing installed base, and increases in the number of services personnel devoted to the delivery of billable professional services.

Hardware. Hardware revenue increased from \$10.9 million in 1997 to \$15.9 million in 1998, an increase of \$5.0 million or 46.0%. Hardware revenue decreased from \$15.9 million in 1998 to \$13.8 million in 1999, a decrease of \$2.1 million or 13.0%. Sales of hardware are largely dependent upon the number of PkMS licenses sold, the scope of such PkMS implementations and the technological sophistication and purchasing power of customers buying PkMS. Hardware revenue decreased in 1999 from 1998 due to a decline in the number of PkMS licenses sold and an increase in such sales to customers with technological sophistication and purchasing power.

COST OF REVENUE

Cost of Software License. Cost of software license revenue consists of the costs associated with 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 from \$461,000 in 1997, or 6.4% of software license revenue, to \$920,000 in 1998, or 6.7% of software license revenue. Cost of software license revenue increased to \$1.5 million in 1999, or 10.1% of software license revenue. The increases in cost of software license revenue are primarily due to increases in the amortization of capitalized research and development expenses. Cost of software license revenue for 1999 includes approximately \$472,000 of purchased software and capitalized research and development costs expensed in conjunction with discontinued projects.

Cost of Services. Cost of services revenue consists primarily of salaries and other personnel-related expenses of employees dedicated to system implementation projects, training and software support services. Cost of services revenue increased from \$6.1 million in 1997, or 42.7% of services revenue, to \$15.3 million in 1998, or 47.2% of services revenue. Cost of services revenue increased to \$30.6 million in 1999, or 57.9% of services revenue. The increases in cost of services revenue were directly related to increases in the number of employees and contracted personnel dedicated to

services activities. The increases in cost of services revenue as a percentage of services revenue were principally due to decreases in the percentage of billable time per services personnel, as well as increased training and other costs related to increases in services personnel. Part of the decrease in the percentage of billable time in 1999 was due to over-staffing, as a result of a lower level of software license sales and service revenues than anticipated.

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Cost of Hardware. Cost of hardware revenue increased from \$8.0 million in 1997, or 73.5% of hardware revenue, to \$11.8 million in 1998, or 74.2% of hardware revenue. Cost of hardware revenue decreased to \$10.5 million in 1999, or 76.1% of hardware revenue. The increases in the cost of hardware as a percentage of hardware revenue are principally due to increases in the percentage of hardware products sold with relatively lower gross margins during 1999 as compared to hardware sales during 1997 and 1998.

OPERATING EXPENSES

Research and Development. Research and development expenses principally consist of salaries and other personnel-related costs for personnel involved in the Company's product development efforts. The Company's research and development expenses increased by 145.6% from \$3.0 million in 1997, or 9.3% of total revenue, to \$7.4 million in 1998, or 12.0% of total revenue. The Company's research and development expenses increased by 37.3% from \$7.4 million in 1998, or 12.0% of total revenue, to \$10.2 million in 1999, or 12.6% of total revenue. The increases in research and development expenses were principally due to the addition of development personnel devoted to the enhancement of existing products and new product development. The Company's significant product development efforts include the continued development and enhancement of PkMS, including the N-Tier version of PkMS, and, to a lesser extent, the continued development of SLOT-IT, including the Windows NT version of SLOT-IT. During the years ended December 31, 1998 and 1999, the Company capitalized \$614,000 and \$909,000 of research and development expenses, respectively. The company expensed approximately \$300,000 of such capitalized costs during 1999 in conjunction with discontinued projects, which was classified as cost of software license revenue.

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 has been 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, travel and other personnel-related costs, advertising programs and other promotional activities. Sales and marketing expenses increased by 153.4% from \$3.6 million in 1997, or 11.0% of total revenue, to \$9.0 million in 1998, or 14.6% of total revenue. Sales and marketing expenses increased by 58.6% from \$9.0 million in 1998, or 14.6% of total revenue to \$14.3 million in 1999, or 17.6% of total revenue. The increases in sales and marketing expenses were the result of increases in the number of sales and marketing personnel, incentive sales compensation and, to a greater extent in 1999, continued expansion of marketing programs and related activities.

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 facilities, depreciation and amortization, legal, insurance, accounting and other administrative expenses. General and administrative expenses increased by 126.3% from \$3.0 million in 1997, or 9.2% of total revenue, to \$6.7 million in 1998, or 10.8% of total revenue. General and administrative expenses increased

by 103.1% from \$6.7 million in 1998, or 10.8% of total revenue, to \$13.7 million in 1999, or 16.8% of total revenue. The increases in general and administrative expenses were principally due to increased personnel, recruiting expenses, rent and other administrative expenses related to the Company's growth. Depreciation and amortization expenses included in general and administrative was \$350,000, \$1.4 million and \$4.0 million during 1997, 1998 and 1999, respectively. During 1999, the Company incurred general and administrative expenses of approximately \$1.1 million associated with the recruitment of new members of the Company's executive management team, impaired intangible assets and the abandonment of excess leased facilities.

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Operating Income. Operating income increased by 11.9% from \$8.3 million in 1997, or 25.5% of total revenue, to \$9.3 million in 1998, or 14.9% of total revenue. Operating income decreased by 95.3% from \$9.3 million in 1998, or 14.9% of total revenue, to \$437,000 in 1999, or 0.6% of total revenue. The decrease in operating income was primarily due to increased payroll and related costs. Additionally, during 1999 approximately 10% of the Company's workforce was terminated as part of a plan to realign the Company's resources with anticipated revenue growth. Approximately \$717,000 of severance and other related costs were incurred and expensed in the third quarter of 1999 as part of this plan. Additionally, operating income was affected by amounts expensed for the recruitment of new members of the Company's executive management team, impaired intangible assets and the abandonment of excess leased facilities, as described above.

INCOME TAXES

Provision for Income Taxes. Prior to the initial public offering in April 1998, 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, and as such, no provision for income taxes was recorded in the accompanying statements of income prior to April 23, 1998. The provision for income taxes in 1998 was \$3.0 million, net of a one-time benefit of \$316,000, compared to a provision for income taxes of \$554,000 in 1999.

In connection with the conversion of Manhattan Associates Software, LLC to Manhattan Associates, Inc., the Company recognized a one-time benefit of \$316,000 in 1998 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.

The pro forma provision for income taxes was \$3.0 million in 1997 as compared to \$4.2 million in 1998. The increase in 1998 is a direct result of the Company's increased income in 1998. The pro forma income tax provision for 1999 is the same as the historical income tax provision of \$554,000. The decrease of \$3.7 million in the provision for income taxes for 1999 as compared to the pro forma provision for income taxes in 1998 was the result of the substantial decrease in income before income taxes. The Company's effective income tax rates, assuming pro forma rates for 1997 and 1998, were 36.3%, 41.1% and 33.5% in 1997, 1998 and 1999, respectively. The increase in the effective pro forma income tax rate during 1998 was the result of the in-process research and development charge being non-deductible. Excluding the effect of the in-process research and development charge, the Company's effective pro forma tax rate was 35.6% in 1998.

EARNINGS PER SHARE

Net Income per Share. Pro forma net income was \$5.3 million, or \$0.25 per diluted share for the year ended December 31, 1997. Pro forma net income was \$6.1 million, or \$0.24 per diluted share, for the year ended December 31,

1998. Excluding the effect of the one-time acquired research and development charge of \$1.6 million, pro forma net income for the year ended December 31, 1998 was \$7.7 million, or \$0.30 per diluted share. Net income was \$1.1 million, or \$0.04 per diluted share for the year ended December 31, 1999.

QUARTERLY RESULTS OF OPERATIONS

The following table presents certain unaudited quarterly statements of income data for each of the Company's last eight quarters for the period ended December 31, 1999, as well as the percentage of the Company's total revenue represented by each item. The information has been derived from the Company's audited Financial Statements. The unaudited quarterly Financial Statements have been prepared on substantially the same basis as the audited Financial Statements contained herein. In the opinion of management, the unaudited quarterly Financial Statements include all adjustments, consisting only of normal recurring adjustments, that the Company considers to be necessary to present fairly this information when read in conjunction with the Company's Financial Statements and notes thereto appearing elsewhere herein. The results of operations for any quarter are not necessarily indicative of the results to be expected for any future period.

| | QUARTER ENDED | | | | | | | |
|--|---------------------------------------|------------------|-------------------|------------------|------------------|------------------|-------------------|------------------|
| | MAR. 31, 1998 | JUNE 30, 1998 | SEPT. 30, 1998 | DEC. 31, 1998 | MAR. 31, 1999 | JUNE 30, 1999 | SEPT. 30, 1999 | DEC. 31, 1999 |
| | (IN THOUSANDS, EXCEPT PER SHARE DATA) | | | | | | | |
| STATEMENT OF INCOME DATA: | | | | | | | | |
| Revenue: | | | | | | | | |
| Software license | \$ 2,152 | \$ 2,849 | \$ 3,898 | \$ 4,917 | \$ 4,437 | \$ 3,095 | \$ 2,753 | \$ 4,293 |
| Services | 5,284 | 7,169 | 9,830 | 10,075 | 10,958 | 12,811 | 14,488 | 14,632 |
| Hardware | 3,934 | 4,076 | 2,860 | 5,021 | 2,755 | 3,933 | 2,814 | 4,322 |
| Total revenue | 11,370 | 14,094 | 16,588 | 20,013 | 18,150 | 19,839 | 20,055 | 23,247 |
| Cost of revenue: | | | | | | | | |
| Software license | 69 | 171 | 372 | 308 | 190 | 386 | 599 | 296 |
| Services | 2,519 | 3,377 | 4,312 | 5,078 | 6,042 | 7,542 | 8,778 | 8,281 |
| Hardware | 3,080 | 2,924 | 2,038 | 3,749 | 2,044 | 3,000 | 2,174 | 3,307 |
| Total cost of revenue | 5,668 | 6,472 | 6,722 | 9,135 | 8,276 | 10,928 | 11,551 | 11,884 |
| Gross margin | 5,702 | 7,622 | 9,866 | 10,878 | 9,874 | 8,911 | 8,504 | 11,363 |
| Operating expenses: | | | | | | | | |
| Research and development | 1,285 | 1,937 | 2,058 | 2,149 | 2,719 | 3,082 | 2,265 | 2,135 |
| Acquired research and development | 1,602 | -- | -- | -- | -- | -- | -- | -- |
| Sales and marketing | 1,313 | 2,008 | 2,692 | 3,032 | 4,044 | 4,043 | 3,235 | 3,022 |
| General and administrative | 1,127 | 1,370 | 1,884 | 2,350 | 3,008 | 3,266 | 3,225 | 4,171 |
| Total operating expenses | 5,327 | 5,315 | 6,634 | 7,531 | 9,771 | 10,391 | 8,725 | 9,328 |
| Income (loss) from operations | 375 | 2,307 | 3,232 | 3,347 | 103 | (1,480) | (221) | 2,035 |
| Other income, net | 14 | 278 | 442 | 336 | 262 | 271 | 323 | 362 |
| Income (loss) before income taxes | 389 | 2,585 | 3,674 | 3,683 | 365 | (1,209) | 102 | 2,397 |
| Income taxes and pro forma income taxes(1) | 713 | 904 | 1,361 | 1,266 | 125 | (449) | 41 | 838 |
| Net income (loss) and pro forma net income(1) | \$ (324) | \$ 1,681 | \$ 2,313 | \$ 2,417 | \$ 240 | \$ (760) | \$ 61 | \$ 1,559 |
| Diluted net income (loss) and pro forma diluted net income (loss) per share(1) | \$ (0.02) | \$ 0.07 | \$ 0.09 | \$ 0.09 | \$ 0.01 | \$ (0.03) | \$ 0.00 | \$ 0.06 |
| Shares used in diluted net income and pro forma diluted net income per share(1) | 20,241 | 25,425 | 26,999 | 27,182 | 27,219 | 24,029 | 25,706 | 26,139 |

- (1) In connection with the conversion from limited liability company status on April 23, 1998, we became subject to federal and state corporate income taxes. Pro forma net income is presented as if we had been subject to corporate income taxes for all periods presented.

AS A PERCENTAGE OF TOTAL REVENUE

| | MAR. 31, 1998 | JUNE 30, 1998 | SEPT. 30, 1998 | DEC. 31, 1998 | MAR. 31, 1999 | JUNE 30, 1999 | SEPT. 30, 1999 | DEC. 31, 1999 |
|---|------------------|------------------|-------------------|------------------|------------------|------------------|-------------------|------------------|
| Revenue: | | | | | | | | |
| Software license | 18.9% | 20.2% | 23.5% | 24.6% | 24.4% | 15.6% | 13.7% | 18.5% |
| Services | 46.5 | 50.9 | 59.3 | 50.3 | 60.4 | 64.6 | 72.3 | 62.9 |
| Hardware | 34.6 | 28.9 | 17.2 | 25.1 | 15.2 | 19.8 | 14.0 | 18.6 |
| Total revenue | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Cost of revenue: | | | | | | | | |
| Software license | 0.6 | 1.2 | 2.2 | 1.5 | 1.0 | 2.0 | 3.0 | 1.3 |
| Services | 22.2 | 24.0 | 26.0 | 25.4 | 33.3 | 38.0 | 43.8 | 35.6 |
| Hardware | 27.1 | 20.7 | 12.3 | 18.7 | 11.3 | 15.1 | 10.8 | 14.2 |
| Total cost of revenue | 49.9 | 45.9 | 40.5 | 45.6 | 45.6 | 55.1 | 57.6 | 51.1 |
| Gross margin | 50.1 | 54.1 | 59.5 | 54.4 | 54.4 | 44.9 | 42.4 | 48.9 |
| Operating expenses: | | | | | | | | |
| Research and development | 11.3 | 13.7 | 12.4 | 10.7 | 15.0 | 15.5 | 11.3 | 9.2 |
| Acquired research and development | 14.1 | -- | -- | -- | -- | -- | -- | -- |
| Sales and marketing | 11.5 | 14.3 | 16.2 | 15.2 | 22.2 | 20.4 | 16.1 | 13.0 |
| General and administrative | 9.9 | 9.7 | 11.4 | 11.7 | 16.6 | 16.5 | 16.1 | 17.9 |
| Total operating expenses | 46.8 | 37.7 | 40.0 | 37.6 | 53.8 | 52.4 | 43.5 | 40.1 |
| Income (loss) from operations | 3.3 | 16.4 | 19.5 | 16.8 | 0.6 | (7.5) | (1.1) | 8.8 |
| Other income, net | 0.1 | 2.0 | 2.6 | 1.7 | 1.4 | 1.4 | 1.6 | 1.5 |
| Income (loss) before income taxes | 3.4% | 18.4% | 22.1% | 18.5% | 2.0% | (6.1)% | 0.5% | 10.3% |

Our quarterly revenue and operating results are difficult to predict and may fluctuate significantly from quarter to quarter. Factors which could cause variations in our quarterly revenue and operating results are:

- demand for our products;
- introductions of new products by our competitors;
- the level of price competition by our competitors;
- customers' budgeting and purchasing cycles;
- delays in our implementations at customer sites;
- timing of hiring new services employees and the rate at which such employees become productive;
- development and performance of our direct and indirect sales channels;
- timing of any acquisitions and related costs; and
- identification of software quality problems.

Most of our expenses, such as employee compensation and rent, are relatively fixed. Moreover, our expense levels are based, in part, on our expectations regarding future revenue increases. As a result, any shortfall in revenue in relation to our expectations could cause significant changes in our operating results from quarter to quarter and could result in quarterly losses. As a result of these factors, we believe that period-to-period comparisons of our revenue levels and operating results are not necessarily meaningful. You should not rely on our quarterly revenue and operating results to predict our future performance.

substantially dependent on the availability of our consulting services personnel to assist in the implementation of our software solution. We believe that supporting high growth in revenue requires us to rapidly hire additional skilled personnel for our consulting services group, and there can be no assurance that qualified personnel could be located, trained or retained in a timely and cost-effective manner.

As a result of the foregoing and other factors, we believe that quarter-to-quarter comparisons of results are not necessarily meaningful, and such comparisons should not be relied upon as indications of future performance. Fluctuations in operating results may also result in volatility in the price of the shares of our common stock.

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 the Company's majority shareholder, which was subsequently repaid. As of December 31, 1999, the Company had \$39.9 million in cash, cash equivalents and short-term investments compared to \$32.8 million at December 31, 1998.

The Company's operating activities provided cash of \$11.5 million in 1999, \$2.9 million in 1998 and \$7.0 million in 1997. Cash from operating activities arose principally from an increase in deferred revenue, accrued liabilities and income taxes payable, partially reduced by an increase in accounts receivable.

The Company's investing activities used approximately \$20.9 million, \$14.5 million and \$1.8 million for the years ended December 31, 1999, 1998 and 1997, respectively. The Company's uses of cash were primarily for purchases of short-term investments and capital equipment, such as computer equipment and furniture and fixtures, to support its growth.

The Company's financing activities provided approximately \$1.3 million and \$36.1 million in 1999 and 1998, respectively. The principal source of cash provided by financing activities for 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. The principal source of cash provided by financing activities for 1998 was additional borrowings under a Grid Promissory Note with the Company's majority shareholder; proceeds from the issuance of common stock in the Company's initial public offering, partially reduced by distributions to shareholders prior to the initial public offering; and the repayment of the note payable to the Company's majority shareholder. The Company's financing activities used approximately \$5.1 million in 1997. The principal uses of cash were distributions to shareholders, partially reduced by borrowings from the Company's majority shareholder.

The Company believes that existing balances of cash, cash equivalents and short-term investments will be sufficient to meet its working capital and capital expenditure needs at least for the next twelve months. Thereafter, the Company may require additional sources of funds to continue to support its business.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

FOREIGN EXCHANGE

During 1998, the Company commenced operations in Europe. Total revenues for Europe were approximately 5% of the Company's total revenues for the year ended December 31, 1999, and less than 1% of the Company's total revenues for the year ended December 31, 1998.

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 in 1999 and 1998 were 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 derived from operations.

Interest income on the Company's investments is carried in "Other income, net" on our 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 December 31, 1999 was approximately 5%. The fair value of securities held at December 31, 1999 was \$27.1 million.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

(a) 1. Financial Statements

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders of Manhattan Associates, Inc.:

We have audited the accompanying consolidated balance sheets of MANHATTAN ASSOCIATES, INC. (a Georgia corporation) AND SUBSIDIARIES as of December 31, 1998 and 1999 and the related consolidated statements of income, shareholders' equity, comprehensive income and cash flows for the three years ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Manhattan Associates, Inc. and subsidiaries as of December 31, 1998 and 1999 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Atlanta, Georgia
February 4, 2000

MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

| | DECEMBER 31, | |
|--|--------------|----------|
| | 1998 | 1999 |
| | ----- | ----- |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$27,751 | \$19,695 |
| Short-term investments | 5,012 | 20,220 |
| Accounts receivable, net of a \$1,600 and \$5,473 allowance for doubtful accounts, in 1998 and 1999, respectively | 20,806 | 24,275 |
| Deferred income taxes | 622 | 2,695 |
| Refundable income taxes | 342 | -- |
| Other current assets | 1,328 | 1,492 |
| | ----- | ----- |
| Total current assets | 55,861 | 68,377 |
| | ----- | ----- |
| Property and equipment: | | |
| Property and equipment | 9,185 | 14,207 |
| Less accumulated depreciation | (1,754) | (4,962) |
| | ----- | ----- |
| Property and equipment, net | 7,431 | 9,245 |
| | ----- | ----- |
| Intangible assets, net of accumulated amortization of \$673 and \$2,596 in 1998 and 1999, respectively | 4,204 | 3,172 |
| Deferred taxes | 155 | -- |
| Other assets | 124 | 129 |
| | ----- | ----- |
| Total assets | \$67,775 | \$80,923 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 4,954 | \$ 4,543 |

| | | |
|---|----------|----------|
| Accrued compensation and benefits | 1,674 | 1,589 |
| Accrued liabilities | 1,568 | 4,031 |
| Current portion of capital lease obligations | 126 | 163 |
| Income taxes payable | -- | 2,052 |
| Deferred revenue | 2,978 | 9,051 |
| | ----- | ----- |
| Total current liabilities | 11,300 | 21,429 |
| | ----- | ----- |
| Long-term portion of capital lease obligations | 840 | 799 |
| Deferred income taxes | -- | 89 |
| Shareholders' equity: | | |
| Preferred stock, no par value; 20,000,000 shares authorized, no shares issued or outstanding in 1998 or 1999 | -- | -- |
| Common stock, \$.01 par value; 100,000,000 shares authorized, 23,937,874 shares issued and outstanding in 1998 and 24,221,587 shares issued and outstanding in 1999 | 239 | 242 |
| Additional paid-in-capital | 53,305 | 54,563 |
| Retained earnings | 3,056 | 4,157 |
| Accumulated other comprehensive loss | (7) | (51) |
| Deferred compensation | (958) | (305) |
| | ----- | ----- |
| Total shareholders' equity | 55,635 | 58,606 |
| | ----- | ----- |
| Total liabilities and shareholders' equity | \$67,775 | \$80,923 |
| | ===== | ===== |

The accompanying notes are an integral part of these consolidated balance sheets.

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MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE DATA)

| | YEAR ENDED DECEMBER 31, | | |
|---|-------------------------|----------|----------|
| | 1997 | 1998 | 1999 |
| | ----- | ----- | ----- |
| Revenue: | | | |
| Software license..... | \$ 7,160 | \$13,816 | \$14,578 |
| Services..... | 14,411 | 32,358 | 52,889 |
| Hardware..... | 10,886 | 15,891 | 13,825 |
| | ----- | ----- | ----- |
| Total revenue..... | 32,457 | 62,065 | 81,292 |
| | ----- | ----- | ----- |
| Cost of revenue: | | | |
| Software license..... | 461 | 920 | 1,471 |
| Services..... | 6,147 | 15,286 | 30,643 |
| Hardware..... | 8,001 | 11,791 | 10,526 |
| | ----- | ----- | ----- |
| Total cost of revenue..... | 14,609 | 27,997 | 42,640 |
| | ----- | ----- | ----- |
| Gross margin..... | 17,848 | 34,068 | 38,652 |
| Operating expenses: | | | |
| Research and development..... | 3,025 | 7,429 | 10,201 |
| Acquired research and development..... | -- | 1,602 | -- |
| Sales and marketing..... | 3,570 | 9,045 | 14,344 |
| General and administrative..... | 2,975 | 6,731 | 13,670 |
| | ----- | ----- | ----- |
| Total operating expenses..... | 9,570 | 24,807 | 38,215 |
| | ----- | ----- | ----- |
| Income from operations..... | 8,278 | 9,261 | 437 |
| Other income, net..... | 56 | 1,070 | 1,218 |
| | ----- | ----- | ----- |
| Income before income taxes..... | 8,334 | 10,331 | 1,655 |
| Income tax expense (benefit): | | | |
| Tax provision as a "C" corporation..... | -- | 3,329 | 554 |
| Deferred tax adjustment..... | -- | (316) | -- |
| | ----- | ----- | ----- |
| Net income..... | \$ 8,334 | \$ 7,318 | \$ 1,101 |
| | ===== | ===== | ===== |

| | | | |
|---|----------|-----------|---------|
| Basic net income per share..... | \$ 0.42 | \$ 0.32 | \$ 0.05 |
| | ===== | ===== | ===== |
| Diluted net income per share..... | \$ 0.40 | \$ 0.29 | \$ 0.04 |
| | ===== | ===== | ===== |
| Income before pro forma income taxes..... | \$ 8,334 | \$ 10,331 | |
| Pro forma income taxes..... | 3,023 | 4,244 | |
| | ----- | ----- | |
| Pro forma net income..... | \$ 5,311 | \$ 6,087 | |
| | ===== | ===== | |
| Pro forma basic net income per share..... | | \$ 0.27 | |
| | | ===== | |
| Pro forma diluted net income per share..... | | \$ 0.24 | |
| | | ===== | |

The accompanying notes are an integral part of these consolidated statements.

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MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT SHARE DATA)

| | COMMON STOCK | | ADDITIONAL PAID-IN CAPITAL | RETAINED EARNINGS | ACCUMULATED OTHER COMPREHENSIVE INCOME | | DEFERRED COMPENSATION | TOTAL SHAREHOLDERS' EQUITY |
|--|--------------|--------|----------------------------------|----------------------|---|---------|--------------------------|----------------------------------|
| | SHARES | AMOUNT | | | | | | |
| Balance, December 31, 1996 | 20,000,008 | 200 | 414 | 4,268 | -- | -- | -- | 4,882 |
| Issuance of stock options | -- | -- | 970 | -- | -- | (970) | -- | -- |
| Issuance of stock options to consultant (Note 5)..... | -- | -- | 75 | -- | -- | -- | -- | 75 |
| Distributions to shareholders | -- | -- | -- | (5,144) | -- | -- | -- | (5,144) |
| Amortization of deferred compensation | -- | -- | -- | -- | -- | 307 | -- | 307 |
| Net income | -- | -- | -- | 8,334 | -- | -- | -- | 8,334 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Balance, December 31, 1997 | 20,000,008 | 200 | 1,459 | 7,458 | -- | (663) | -- | 8,454 |
| Distribution to Manhattan LLC shareholders | -- | -- | -- | (11,720) | -- | -- | -- | (11,720) |
| Issuance of stock in connection with the purchase of Performance Analysis Corporation..... | 106,666 | 1 | 1,066 | -- | -- | -- | -- | 1,067 |
| Issuance of stock to minority holder (Note 5)..... | 100,000 | 1 | 999 | -- | -- | -- | -- | 1,000 |
| Issuance of stock in connection with the initial public offering..... | 3,500,000 | 35 | 47,223 | -- | -- | -- | -- | 47,258 |
| Issuance of common stock options | -- | -- | 580 | -- | -- | (580) | -- | -- |
| Exercise of common stock options | 231,200 | 2 | 647 | -- | -- | -- | -- | 649 |
| Tax benefit from stock options exercised | -- | -- | 1,331 | -- | -- | -- | -- | 1,331 |
| Amortization of deferred compensation | -- | -- | -- | -- | -- | 285 | -- | 285 |
| Foreign currency translation adjustment | -- | -- | -- | -- | (7) | -- | -- | (7) |
| Net income..... | -- | -- | -- | 7,318 | -- | -- | -- | 7,318 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Balance, December 31, 1998 | 23,937,874 | 239 | 53,305 | 3,056 | (7) | (958) | -- | 55,635 |
| Issuance of stock to minority holder (Note 5) | 85,000 | 1 | 299 | -- | -- | -- | -- | 300 |
| Cancellation of common stock options..... | -- | -- | (505) | -- | -- | 505 | -- | -- |
| Exercise of common stock options | 198,713 | 2 | 734 | -- | -- | -- | -- | 736 |
| Tax benefit from stock options exercised..... | -- | -- | 730 | -- | -- | -- | -- | 730 |
| Amortization of deferred compensation | -- | -- | -- | -- | -- | 148 | -- | 148 |
| Foreign currency translation adjustment | -- | -- | -- | -- | (23) | -- | -- | (23) |
| Unrealized loss on investments | -- | -- | -- | -- | (21) | -- | -- | (21) |
| Net income..... | -- | -- | -- | 1,101 | -- | -- | -- | 1,101 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Balance, December 31, 1999 | 24,221,587 | \$ 242 | \$54,563 | \$ 4,157 | \$(51) | \$(305) | -- | \$58,606 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== |

The accompanying notes are an integral part of these consolidated statements.

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MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(IN THOUSANDS)

| | YEAR ENDED DECEMBER 31, | | |
|---|-------------------------|---------|---------|
| | 1997 | 1998 | 1999 |
| Net income | \$8,334 | \$7,318 | \$1,101 |
| Other comprehensive net loss, net of tax: | | | |
| Foreign currency translation adjustment | -- | (7) | (23) |
| Unrealized loss on investments | -- | -- | (21) |
| Other comprehensive loss | -- | (7) | (44) |
| Comprehensive net income | \$8,334 | \$7,311 | \$1,057 |

The accompanying notes are an integral part of these consolidated statements.

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MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

| | YEAR ENDED DECEMBER 31, | | |
|---|-------------------------|----------|----------|
| | 1997 | 1998 | 1999 |
| Cash flows from operating activities: | | | |
| Net income or pro forma net income | \$ 5,311 | \$ 6,087 | \$ 1,101 |
| Adjustments to reconcile net income or pro forma net income to net cash provided by operating activities: | | | |
| Pro forma income taxes | 3,023 | 899 | -- |
| Depreciation and amortization | 483 | 1,702 | 5,137 |
| Stock compensation | 382 | 285 | 448 |
| Gain on sale of equipment | -- | (30) | (22) |
| Acquired research and development | -- | 1,602 | -- |
| Deferred income taxes | -- | (403) | (1,829) |
| Accrued interest on note payable to shareholder | 50 | 34 | -- |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable, net | (5,931) | (11,470) | (3,470) |
| Other assets | (474) | (1,691) | 189 |
| Accounts payable | 2,057 | 2,399 | (409) |
| Accrued liabilities | 804 | 1,373 | 2,253 |
| Income taxes payable | -- | 1,203 | 2,052 |
| Deferred revenue | 1,247 | 927 | 6,072 |
| Net cash provided by operating activities | 6,952 | 2,917 | 11,522 |
| Cash flows from investing activities: | | | |
| Purchases of property and equipment | (1,813) | (6,036) | (4,754) |
| Proceeds from the sale of equipment | -- | 275 | 22 |
| Capitalized software development costs | -- | (614) | (909) |
| Purchase of short-term investments, net | -- | (5,012) | (15,229) |
| Payments in connection with the purchase of certain assets of Kurt Salmon Associates, Inc. | -- | (1,750) | -- |
| Payments in connection with the acquisition of Performance Analysis Corporation, net of cash acquired | -- | (1,351) | -- |
| Net cash used in investing activities | (1,813) | (14,488) | (20,870) |
| Cash flows from financing activities: | | | |

| | | | |
|--|----------|-----------|-----------|
| Distributions to shareholders | (5,144) | (11,720) | -- |
| Borrowings under note payable to shareholder | -- | 900 | -- |
| Repayment of note payable to shareholder | -- | (1,953) | -- |
| Payment of capital lease obligations | -- | -- | (155) |
| Proceeds from issuance of common stock | -- | 48,907 | 1,466 |
| | ----- | ----- | ----- |
| Net cash provided by (used in) financing activities | (5,144) | 36,134 | 1,311 |
| | ----- | ----- | ----- |
| Foreign currency impact on cash | -- | (6) | (19) |
| Increase (decrease) in cash and cash equivalents | (5) | 24,557 | (8,056) |
| Cash and cash equivalents, beginning of year | 3,199 | 3,194 | 27,751 |
| | ----- | ----- | ----- |
| Cash and cash equivalents, end of year | \$ 3,194 | \$ 27,751 | \$ 19,695 |
| | ===== | ===== | ===== |
| Supplemental cash flow disclosures: | | | |
| Issuance of common stock in connection with the acquisition of Performance Analysis Corporation | \$ -- | \$ 1,067 | \$ -- |
| | ===== | ===== | ===== |
| Issuance of stock to executive | \$ -- | \$ -- | \$ 300 |
| | ===== | ===== | ===== |
| Assets acquired under capital lease | \$ -- | \$ 965 | \$ 151 |
| | ===== | ===== | ===== |
| Cash paid (received) for income taxes | \$ -- | \$ 2,845 | \$ (734) |
| | ===== | ===== | ===== |

The accompanying notes are an integral part of these consolidated statements.

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MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1997, 1998 AND 1999

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND BUSINESS

Manhattan Associates, Inc. ("Manhattan" or the "Company") is a provider of technology-based solutions to improve supply chain effectiveness and efficiencies. The Company's 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. The Company's solutions consist of software, including PkMS, a comprehensive and modular software system; services, including design, configuration, implementation, and training services, plus customer support and software upgrades; and hardware.

COMPLETION OF INITIAL PUBLIC OFFERING AND CONVERSION

On April 23, 1998, the Company completed an 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 Company's initial public offering Manhattan Associates, Inc., a Georgia corporation, was formed. The attached consolidated financial statements include the accounts of Manhattan Associates, LLC ("Manhattan LLC") from January 1, 1996 to April 23, 1998. As of the effective date of the Offering, Manhattan LLC contributed its assets and liabilities to the Company in exchange for common stock of the Company (the "Conversion"). Manhattan LLC then distributed the common stock of the Company received to its shareholders and Manhattan LLC was dissolved.

Prior to the completion of the initial public 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 the completion of the initial public offering was approximately \$11,720,000. These distributions were funded through a series of payments from available Company cash and from the proceeds of the Company's line of credit. The advances or balance on the line of credit incurred to fund these distributions was repaid using a portion of the net proceeds of the Offering.

All share and per share data in the accompanying consolidated financial statements have been adjusted to reflect the Conversion. Unless otherwise indicated, all references to the Company or Manhattan assume the completion of the Conversion and include Manhattan LLC and Pegasys.

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.

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MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

DECEMBER 31, 1997, 1998 AND 1999

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

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

Short-term Investments

The Company's short-term investments are categorized as available-for-sale securities, as defined by Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Unrealized holding gains and losses are reflected as a net amount in a separate component of shareholders' equity until realized. For the purposes of computing realized gains and losses, cost is identified on a specific identification basis. At December 31, 1999, the unrealized loss on investments was \$21,000.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The carrying values of cash, accounts receivable, accounts payable, and other financial instruments included in the accompanying balance sheets approximate their fair values principally due to the short-term maturities of these instruments.

Risks Associated with Single Product Line, Technological Advances, and Hardware Revenue

The Company currently derives substantially all its revenues from

sales of its PkMS software and related services and hardware. Any factor adversely affecting the distribution management center market could have an adverse effect on the Company's business, financial condition, and results of operations.

The market for distribution center management systems is subject to rapid technological change, changing customer needs, frequent new product introductions, and evolving industry standards that may render existing products and services obsolete. As a result, the Company's position in this market could be eroded rapidly by unforeseen changes in customer requirements for application features, functions, and technologies. The Company's growth and future operating results will depend, in part, upon its ability to enhance existing applications and develop and introduce new applications that meet changing customer requirements, that respond to competitive products and that achieve market acceptance.

The Company resells a variety of hardware products developed and manufactured by third parties. Revenue from such hardware sales can amount to a significant portion of the Company's total revenue in any period. As the market for distribution of hardware products becomes more competitive, the Company's customers may find it attractive to purchase such hardware directly from the manufacturer of such products, with a resultant decrease in the Company's revenues from hardware.

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MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

DECEMBER 31, 1997, 1998 AND 1999

Revenue Recognition

The Company's revenue consists of revenues from the licensing of software; fees from consulting, implementation and training services (collectively, "professional services"), plus customer support services and software upgrades; and sales of complementary radio frequency and computer equipment. For the year ended December 31, 1997, the Company recognized software license revenue in accordance with the provisions of American Institute of Certified Public Accountants Statement of Position ("SOP") No. 91-1, "Software Revenue Recognition." Accordingly, software license revenue is recognized upon shipment of the software following execution of a contract, provided that no significant vendor obligations remain outstanding, amounts are due within one year, and collection is considered probable by management. If significant post-delivery obligations exist, the revenue from the sale of the software license, as well as other components of the contract, is recognized using percentage of completion accounting.

Effective January 1, 1998, the Company adopted 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.

The Company's services revenue consists of fees generated from professional services, customer support and software upgrades related to the Company's software products. Professional services are typically contracted for under separate service agreements. Revenue related to professional services performed by the Company are generally billed on an hourly basis and revenue is recognized as the services are performed. Revenue related to customer support and software upgrades are generally paid in advance and recognized ratably over the term of the agreement, typically 12 months.

Hardware revenue is generated from the resale of a variety of hardware products, developed and manufactured by third parties, that are integrated with and complementary to the Company's warehouse system solutions. As part of a complete distribution center management system solution the Company's customers frequently purchase hardware from the Company in conjunction with the licensing of software. These products include computer hardware, radio frequency terminals networks, bar code printers and scanners, and other peripherals. Hardware revenue is recognized upon shipment 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 hardware inventory.

Deferred Revenue

Deferred revenue represents amounts collected prior to complete performance of customer support and software upgrade services and obligations under license agreements.

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MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

DECEMBER 31, 1997, 1998 AND 1999

Returns and Allowances

The Company provides for the costs of returns and product warranty claims at the time of sale. The Company has not experienced significant returns or warranty claims to date and, as a result, has not recorded a provision for the cost of returns and product warranty claims at December 31, 1998 or 1999.

Property and Equipment

Property and equipment consists of furniture, computers, other office equipment, purchased software, web site development and leasehold improvements. The Company depreciates the cost of furniture, computers, other office equipment, purchased software and web site development on a straight-line basis over their estimated useful lives (three years for computer equipment and software, five years for office equipment, seven years for furniture). Leasehold improvements are depreciated over the term of the lease. Included in computer equipment and software is a capital lease of approximately \$1,116,000 as of December 31, 1999. Depreciation and amortization expense for property and equipment for the years ended December 31, 1997, 1998, and 1999 was \$349,000, \$1,294,000 and \$3,213,000, respectively.

Property and equipment, at cost, consist of the following:

DECEMBER 31,

| | 1998 | 1999 |
|--|----------|----------|
| | ----- | ----- |
| Computer equipment and software | \$ 5,629 | \$ 8,884 |
| Furniture and office equipment | 2,702 | 3,765 |
| Leasehold improvements | 854 | 1,558 |
| | ----- | ----- |
| | 9,185 | 14,207 |
| Less accumulated depreciation and amortization ... | (1,754) | (4,962) |
| | ----- | ----- |
| | \$ 7,431 | \$ 9,245 |
| | ===== | ===== |

Intangible Assets

Intangible assets include purchased software, goodwill and capitalized development costs. The assets are being amortized on a straight-line basis over a period of 3 to 10 years. Total amortization expense was \$133,000, \$406,000 and \$1,924,000 for the years ended December 31, 1997, 1998 and 1999, respectively, and is included in cost of software licenses and general and administrative expenses in the accompanying statements of income. During 1999, the Company expensed \$300,000 of capitalized software development costs and \$495,000 of purchased software and goodwill due to impairment of certain assets.

MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

DECEMBER 31, 1997, 1998 AND 1999

Income Taxes

Prior to April 23, 1998, Manhattan LLC was treated as a partnership; therefore, the company was not subject to federal income taxes. The income or loss of Manhattan LLC was included in the owners' individual federal and state tax returns, and as such, no provision for income taxes is recorded in the accompanying statements of income prior to April 23, 1998. The Company has historically made distributions on behalf of the owners to pay the anticipated tax liability.

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. The pro forma income tax provision has been computed by applying the Company's anticipated statutory tax rate to pretax income, adjusted for permanent tax differences (Note 3).

Capitalized Software Development Costs

Research and development expenses are charged to expense as incurred. Computer software development costs are charged to research and development expense until technological feasibility is established, after which remaining software production costs are capitalized in accordance with Statement of Financial Accounting Standards ("SFAS") No. 86, "Accounting for Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed." The Company has defined technological feasibility as the point in time at which the Company has a detailed program design or a working model of the related product, depending on the type of development efforts. The Company concluded that the amount of development costs capitalizable under the provisions of SFAS No. 86 was not material to the financial statements for the year ended December 31, 1997.

Therefore, the Company expensed all internal software development costs as incurred for the year ended December 31, 1997. For the years ended December 31, 1998 and 1999, the Company capitalized \$614,000 and \$909,000 in development costs, respectively. Amounts capitalized include salaries and other payroll-related costs and other direct expenses.

Impairment of Long-Lived and Intangible Assets

The Company periodically reviews the values assigned to long-lived assets, including property and intangible assets, to determine whether events and circumstances have occurred which indicate that the remaining estimated useful lives may warrant revision or that the remaining balances may not be recoverable. In such reviews, undiscounted cash flows associated with these assets are compared with their carrying value to determine if a write-down to fair value is required. Management believes the long-lived and intangible assets in the accompanying balance sheets are appropriately valued.

Segment Information

The Company operates in a single segment as defined by SFAS No. 131, "Disclosures about Segments of and Enterprise and Related Information" and does not have material operations in foreign locations.

MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

DECEMBER 31, 1997, 1998 AND 1999

Basic and Diluted Net Income Per Share

Basic net income per share is computed using historical or pro forma net income divided by the weighted average number of shares of common stock outstanding ("Weighted Shares") for the period presented.

Diluted net income per share is computed using historical or pro forma net income divided by Weighted Shares, and the treasury stock method effect of common equivalent shares ("CES's") outstanding for each period presented. Pro forma basic and diluted net income per share also includes the number of shares pursuant to the Securities and Exchange Commission Staff Accounting Bulletin 1B.3, that at the assumed public offering price would yield proceeds in the amount necessary to pay the shareholder distribution that is not covered by the earnings for the year ("Distribution Shares").

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 for the years ended December 31, 1997, 1998 and 1999:

| | 1997 | | 1998 | | 1999 | |
|----------------------|------------|------------|------------|------------|------------|------------|
| | BASIC | DILUTED | BASIC | DILUTED | BASIC | DILUTED |
| Weighted shares..... | 20,000,008 | 20,000,008 | 22,610,153 | 22,610,153 | 24,083,571 | 24,083,571 |
| Effect of CES's..... | -- | 761,300 | -- | 3,040,440 | -- | 2,469,008 |
| | 20,000,008 | 20,761,308 | 22,610,153 | 25,650,593 | 24,083,571 | 26,552,579 |

| | PRO FORMA | |
|--|------------|------------|
| | BASIC | DILUTED |
| Weighted Shares..... | 22,610,153 | 22,610,153 |
| Shares issued to Minority Holder (Note 5)..... | -- | 12,877 |
| Distribution Shares..... | -- | 22,447 |
| Effect of CES's..... | -- | 3,040,440 |
| | 22,610,153 | 25,685,917 |

Stock-Based Compensation Plan

The Company accounts for its stock-based compensation plan for stock issued to employees under Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and, accordingly, records deferred compensation for options granted at an exercise price below the fair value of the underlying stock. The deferred compensation is presented as a component of equity in the accompanying balance sheets and is amortized over the periods to be benefited, generally the vesting period of the options. Effective in fiscal year 1996, the Company adopted the pro forma disclosure option for stock-based compensation issued to employees of SFAS No. 123, "Accounting for Stock-Based Compensation."

MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

DECEMBER 31, 1997, 1998 AND 1999

2. RELATED PARTY TRANSACTIONS

During the years ended December 31, 1997 and 1998, the Company contracted with parties related to the Company's majority shareholder ("Majority Shareholder") for marketing and legal services for an aggregate amount of \$389,000 and \$17,000, respectively. In the opinion of management, the rates, terms, and considerations of the transactions with related parties approximate those with unrelated entities. At December 31, 1997 and 1998, there were no fees outstanding for the services provided. During the year ended December 31, 1999, there were no related party transactions.

During the year ended December 31, 1998, the Company advanced approximately \$105,000 to four shareholders. As of December 31, 1998, the amount is included in other current assets in the accompanying balance sheet. The advanced amounts were repaid to the Company during 1999.

3. INCOME TAXES

After the Conversion, the Company is subject to future federal and state income taxes and has recorded net deferred tax assets. Deferred tax assets and liabilities are determined based on the difference between the financial accounting and the tax bases of assets and liabilities. Significant components of the Company's deferred tax assets and liabilities as of December 31, 1999 are as follows:

| DECEMBER 31, | |
|--------------|-------|
| 1998 | 1999 |
| ----- | ----- |

| | | |
|------------------------------------|-----------|-------------|
| Deferred tax assets: | | |
| Accounts receivable..... | \$607,000 | \$1,955,000 |
| Accrued liabilities..... | 53,000 | 740,000 |
| Stock compensation expense..... | 198,000 | 239,000 |
| Other..... | 4,000 | 174,000 |
| | ----- | ----- |
| | 862,000 | 3,108,000 |
| | ----- | ----- |
| Deferred tax liabilities: | | |
| Capitalized development costs..... | -- | 447,000 |
| Depreciation..... | 85,000 | 55,000 |
| | ----- | ----- |
| Net deferred tax assets..... | \$777,000 | \$2,606,000 |
| | ===== | ===== |

The components of the pro forma and historical income tax provision for the years ended December 31, 1997, 1998, and 1999 are as follows:

| | 1997 | 1998 | 1999 |
|--------------|-------------|-------------|--------------|
| | ----- | ----- | ----- |
| | (Pro forma) | | (Historical) |
| Current: | | | |
| Federal..... | \$2,565,000 | \$3,985,000 | \$ 2,264,000 |
| State..... | 303,000 | 662,000 | 401,000 |
| | ----- | ----- | ----- |
| | 2,868,000 | 4,647,000 | 2,665,000 |
| | ----- | ----- | ----- |
| Deferred: | | | |
| Federal..... | 138,000 | (339,000) | (1,777,000) |
| State..... | 17,000 | (64,000) | (334,000) |
| | ----- | ----- | ----- |
| | 155,000 | (403,000) | (2,111,000) |
| | ----- | ----- | ----- |
| Total..... | \$3,023,000 | \$4,244,000 | \$ 554,000 |
| | ===== | ===== | ===== |

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MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

DECEMBER 31, 1997, 1998 AND 1999

The income tax benefits related to the exercise of stock options were allocated to additional paid-in capital. Such amounts were approximately \$1,331,000 and \$730,000 for 1998 and 1999, respectively.

The following is a summary of the items which resulted in recorded pro forma income taxes to differ from taxes computed using the statutory federal income tax rate for the years ended December 31, 1997, 1998, and 1999:

| | 1997 | 1998 | 1999 |
|--|-------------|-------|--------------|
| | ----- | ----- | ----- |
| | (Pro forma) | | (Historical) |
| Statutory federal income tax rate | 34.0% | 34.0% | 34.0% |
| Effect of: | | | |
| State income tax, net of federal benefit | 3.9 | 4.0 | 4.0 |
| Research and development credits | (1.9) | (4.6) | (16.6) |
| Other tax credits | -- | (1.0) | -- |
| Acquired research and development | -- | 5.9 | -- |
| Foreign operations | -- | 2.3 | (0.7) |
| Tax exempt income | -- | (1.0) | (5.2) |
| Meals and entertainment | -- | -- | 6.0 |
| Intangibles | -- | -- | 12.0 |

| | | | |
|--------------------|-------|-------|-------|
| Other | 0.3 | 1.5 | -- |
| | ----- | ----- | ----- |
| Income taxes | 36.3% | 41.1% | 33.5% |
| | ===== | ===== | ===== |

4. STOCK OPTION PLANS

The Manhattan Associates LLC Option Plan (the "LLC Option Plan") became effective on January 1, 1997. The LLC Option Plan is administered by a committee appointed by the Board of Directors. The aggregate number of shares reserved for issuance under the LLC Option Plan was 5,000,000 shares. The options are granted at terms determined by the committee; however, the option cannot have a term exceeding ten years. Options granted under the LLC Option Plan have vesting periods ranging from immediately to six years. Subsequent to February 28, 1998, no additional options could be granted pursuant to the LLC Option Plan.

Prior to the establishment of the LLC Option Plan, the Company issued options to purchase 661,784 shares of common stock to certain employees. These grants contain provisions similar to options issued under the LLC Option Plan.

The Company's 1998 Stock Incentive Plan (the "Stock Incentive Plan") was adopted by the Board of Directors and approved by the shareholders in February 1998. The Stock Incentive Plan provides for the grant of incentive stock options. Optionees have the right to purchase a specified number of shares of common stock at a specified option price and subject to such terms and conditions as are specified in connection with the option grant. The Stock Incentive Plan is administered by the Compensation Committee of the Board of Directors. The committee has the authority to adopt, amend and repeal the administrative rules, guidelines and practices relating to the Stock Incentive Plan generally and to interpret the provisions thereof. Options granted under the Stock Incentive Plan cannot have a term exceeding ten years and typically vest over a period of three to six years.

MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

DECEMBER 31, 1997, 1998 AND 1999

The Stock Incentive Plan provides for issuance of up to 9,000,000 shares of common stock (subject to adjustment in the event of stock splits and other similar events), less the number of shares issued under the LLC Option Plan, in the form of stock options and other stock incentives.

A summary of changes in outstanding options is as follows:

| | OPTIONS | PRICE | WEIGHTED AVERAGE EXERCISE PRICE |
|-------------------------|-----------|---------------|------------------------------------|
| | ----- | ----- | ----- |
| December 31, 1996 | 661,784 | \$ 0.24-0.56 | \$ 0.30 |
| Granted | 2,495,166 | 2.50-7.50 | 2.99 |
| Canceled | (127,000) | 2.50 | 2.50 |
| Exercised | -- | -- | -- |
| | ----- | ----- | ----- |
| December 31, 1997 | 3,029,950 | \$ 0.24-7.50 | \$ 2.42 |
| Granted | 3,719,520 | 7.50-23.50 | 12.06 |
| Canceled | (549,300) | 2.50-22.375 | 9.54 |
| Exercised | (231,200) | 0.24-7.50 | 3.08 |
| | ----- | ----- | ----- |
| December 31, 1998 | 5,968,970 | \$ 0.24-23.50 | \$ 7.71 |
| | ----- | ----- | ----- |
| Granted | 4,661,114 | 3.531-17.50 | 7.07 |

| | | | |
|-------------------------|-------------|---------------|---------|
| Canceled | (2,756,221) | 2.50-23.50 | 10.60 |
| Exercised | (198,713) | 2.50-10.00 | 3.70 |
| | ----- | ----- | ----- |
| December 31, 1999 | 7,675,150 | \$ 0.24-23.50 | \$ 6.38 |
| | ===== | ===== | ===== |

Details of options outstanding at December 31, 1999 are as follows:

| EXERCISE PRICES | OPTIONS OUTSTANDING | WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE | WEIGHTED AVERAGE EXERCISE PRICES | OPTIONS EXERCISABLE | AVERAGE EXERCISE PRICE |
|-----------------|---------------------|---|----------------------------------|---------------------|------------------------|
| ----- | ----- | ----- | ----- | ----- | ----- |
| \$0.24-3.50 | 1,919,901 | 6.8 | \$ 1.81 | 1,472,122 | \$ 1.89 |
| 3.51-7.50 | 2,427,850 | 9.3 | 4.58 | 252,569 | 6.39 |
| 7.51-15.00 | 2,789,999 | 8.9 | 8.98 | 522,917 | 9.99 |
| 15.01-20.00 | 520,900 | 8.5 | 17.17 | 113,605 | 17.18 |
| 20.01-23.50 | 16,500 | 5.6 | 21.63 | 3,300 | 21.63 |
| | ----- | --- | --- | ----- | ----- |
| | 7,675,150 | 8.5 | \$ 6.38 | 2,364,513 | \$ 4.93 |

At December 31, 1999, 1,556,721 shares are available for future grant.

The Company recorded deferred compensation of \$970,000 and \$580,000 on options granted during 1997 and 1998, respectively, as the exercise price was less than the deemed fair value of the underlying common stock. The Company amortizes deferred compensation over a period not to exceed six years. The Company recognized compensation expense of \$307,000, \$285,000 and \$148,000 for the year ended December 31, 1997, 1998 and 1999, respectively, and had deferred compensation expense of \$305,000 at December 31, 1999.

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MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

DECEMBER 31, 1997, 1998 AND 1999

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 123

Pro forma information regarding net income and net income per share is required by SFAS No. 123, which also requires that the information be determined as if the Company had accounted for its employee stock option grants under the fair value method required by SFAS No. 123. The fair value of each option grant has been estimated as of the date of grant using the Black-Scholes option pricing model with the following assumptions:

| | 1997 | 1998 | 1999 |
|---|-----------|---------|---------|
| | ----- | ----- | ----- |
| Dividend yield..... | -- | -- | -- |
| Expected volatility..... | 65% | 88% | 119% |
| Risk-free interest rate at the date of grant..... | 5.7%-6.3% | 4.0% | 5.0% |
| Expected life..... | 1-6 years | 5 years | 5 years |

Using these assumptions, the fair values of the stock options granted during the years ended December 31, 1997, 1998 and 1999 are \$3,625,000, \$9,099,000 and \$24,410,000, respectively, which would be amortized over the vesting period of the options.

The weighted average fair market values of options at the date of grant for the years ended December 31, 1997, 1998 and 1999 was \$1.67, \$8.48 and \$5.90, respectively.

The following pro forma information adjusts the pro forma net income and pro forma net income per share of common stock for the impact of SFAS No. 123:

| | 1997 ----- | 1998 ----- | 1999 ----- |
|---|---------------|---------------|---------------|
| Net income or pro forma net income: | | | |
| As reported | \$5,311 | \$ 6,087 | \$ 1,101 |
| Pro forma in accordance with SFAS No. 123 | \$4,842 | \$(2,727) | \$(11,481) |
| Basic net income per share: | | | |
| As reported | \$ 0.26 | \$ 0.27 | \$ 0.05 |
| Pro forma in accordance with SFAS No. 123 | \$ 0.24 | \$ (0.12) | \$ (0.48) |
| Diluted net income per share: | | | |
| As reported | \$ 0.25 | \$ 0.24 | \$ 0.04 |
| Pro forma in accordance with SFAS No. 123 | \$ 0.23 | \$ (0.12) | \$ (0.48) |

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MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

DECEMBER 31, 1997, 1998 AND 1999

The following table summarizes the range of exercise price and the weighted average exercise price for the options granted during the three years ending December 31, 1999:

| YEAR OF GRANT ----- | NUMBER OF SHARES ----- | RANGE OF EXERCISE PRICE ----- | WEIGHTED AVERAGE EXERCISE PRICE ----- |
|--|---------------------------------|-------------------------------------|--|
| 1997 | | | |
| Options granted at fair market value | 1,718,166 | 2.50-7.56 | 2.50 |
| Options granted at less than fair market value | 650,000 | 3.50-4.25 | 3.85 |
| 1998 | | | |
| Options granted at fair market value | 3,134,320 | 10.00-23.50 | 12.85 |
| Options granted at less than fair market value | 585,200 | 7.50 | 7.50 |
| 1999 | | | |
| Options granted at fair market value | 4,661,114 | 3.531-17.50 | 7.069 |
| Options granted at less than fair market value | -- | -- | -- |

5. SHAREHOLDERS' EQUITY

ISSUANCE OF STOCK

On May 5, 1997, the majority shareholder granted to two employees and a consultant, all of whom are related to the majority shareholder, options to purchase shares of the Company's stock from the majority shareholder. This grant did not result in additional shares being outstanding as the shares under option were currently outstanding and held by the majority shareholder. This grant included a grant of an option to purchase 80,000 and 50,000 shares of the Company's stock held by the majority shareholder to two employees of the Company and a grant of an option to purchase 50,000 shares of the Company's stock held by the majority shareholder to a consultant of the Company. The stock options were then exercised by the employees and the consultant of the Company for a nonrecourse, noninterest-bearing note to the majority shareholder with a term

equal to the contractual term of the option. The exercise price was equal to the fair value of the Company's stock at the date of grant of \$2.50 per share. The Company recorded the grant to the employees of the Company under APB Opinion No. 25 and recorded no compensation expense on the date of grant as the grant was issued at fair value and due to the nonvariable nature of the nonrecourse note. The Company recorded \$75,000 of compensation expense in the year ended December 31, 1997 for the option granted to the consultant.

One of the Company's shareholders purchased 100,000 shares of the Company's common stock for \$1,000,000 on February 16, 1998.

During 1999, the Company issued 85,000 shares of common stock to one of the Company's executives as part of his employment agreement. Compensation expense of approximately \$300,000 was recorded in connection with the issuance.

MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

DECEMBER 31, 1997, 1998 AND 1999

6. COMMITMENTS AND CONTINGENCIES

LEASES

Rents charged to expense were approximately \$466,000, \$1,740,000 and \$2,878,000 for the years ended December 31, 1997, 1998 and 1999, respectively. Aggregate future minimum lease payments under the capital lease and noncancellable operating leases as of December 31, 1999 are as follows (in thousands):

| Year Ended December 31,: | CAPITAL LEASES | OPERATING LEASES |
|--|-------------------|---------------------|
| ----- | ----- | ----- |
| 2000 | \$ 241 | \$ 2,820 |
| 2001 | 241 | 2,587 |
| 2002 | 241 | 2,432 |
| 2003 | 230 | 399 |
| 2004 and thereafter | 222 | 332 |
| | ----- | ----- |
| Total..... | \$1,175 | \$ 8,570 |
| Less amount representing interest..... | (213) | |
| | ----- | |
| Net present value of future minimum lease payments | 962 | |
| Less current portion of capital lease obligation | (163) | |
| | ----- | |
| Long-term portion of capital lease obligation | \$ 799 | |
| | ===== | |

EMPLOYMENT AGREEMENTS

The Company has entered into employment contracts with certain executives and other key employees. The agreements provide for total severance payments of up to approximately \$1.6 million for termination of employment for any reason other than cause. Payment terms vary from a lump sum payment to equal monthly installments over a period of not more than 12 months.

LEGAL MATTERS

Many of the Company's installations involve products that are critical to the operations of its clients' businesses. Any failure in a Company product

could result in a claim for substantial damages against the Company, regardless of the Company's responsibility for such failure. Although the Company attempts to limit contractually its liability for damages arising from product failures or negligent acts or omissions, there can be no assurance the limitations of liability set forth in its contracts will be enforceable in all instances.

On December 17, 1999, we commenced an action against Wang's International, Inc., a Tennessee corporation, in the Circuit Court of Tennessee for the Thirtieth Judicial District at Memphis. Our complaint alleges breach of contract based upon Wang's failure to pay invoices as due and for its refusal to satisfy an outstanding balance of approximately \$1,000,000 for equipment sales and consulting services. On January 5, 2000, the case was removed to the United States District Court for the Western District of Tennessee, Western Division, where Wang's filed an answer and counterclaim. We believe that the allegations raised by Wang's in its counterclaim are without merit and are not material to our financial condition.

MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

DECEMBER 31, 1997, 1998 AND 1999

7. ACQUISITIONS

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 was accounted for as a purchase. The purchase price of approximately \$3,300,000, has been allocated to the assets acquired and liabilities assumed of \$464,000, including acquired research and development of \$1,602,000, purchased software of \$500,000, and other intangible assets of \$765,000. Purchased software is being amortized over an estimated two-year useful life and other intangible assets are being amortized over a seven-year useful life.

In October 1998, the Company purchased certain assets of Kurt Salmon Associates, Inc., or KSA. The total purchase price for these assets was approximately \$2,000,000 consisting of \$1,750,000 in cash and assumed liabilities of approximately \$250,000. The purchase price was allocated to the intangible assets acquired, including a customer list, assembled workforce, purchased software, trade names and goodwill. The assets are being amortized over periods ranging from three to ten years.

Unaudited pro forma operating results for the years ended December 31, 1997 and 1998, assuming that the acquisitions had occurred at the beginning of 1997 are as follows:

| | YEAR ENDED DECEMBER 31, | |
|--|-------------------------|----------|
| | 1997 | 1998 |
| | ----- | ----- |
| Revenues | \$37,795 | \$66,249 |
| Pro forma net income | 5,375 | 6,195 |
| Pro forma diluted net income per share | 0.26 | 0.24 |

8. FOREIGN OPERATIONS

During 1998, the Company commenced operations in Europe. Total revenue, net losses and total assets for Europe were approximately \$130,000, \$609,000 and \$283,000, respectively, for the year ended December 31, 1998. For the year ended December 31, 1999, total revenue, net income and total assets for Europe were approximately \$3,789,000, \$28,000 and \$2,299,000, respectively.

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MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

DECEMBER 31, 1997, 1998 AND 1999

9. EMPLOYEE BENEFIT PLAN

The Company sponsors the Manhattan Associates 401(k) Plan and Trust (the "401(k) Plan"), a qualified profit sharing plan with a 401(k) feature covering substantially all employees of the Company. Under the 401(k) Plan's deferred compensation arrangement, eligible employees who elect to participate in the 401(k) Plan may contribute up to 18% or \$10,000 of eligible compensation, as defined, to the 401(k) Plan. The Company provides for a 50% matching contribution up to 6% of eligible compensation being contributed after the participant's first year of employment. During the years ended December 31, 1997, 1998 and 1999, the Company made matching contributions to the 401(k) Plan of \$53,000, \$159,000 and \$413,000, respectively.

The Company also had a defined contribution pension plan (the "Pension Plan") covering substantially all employees of the Company. Through December 31, 1997, the Company provided up to 8% of the participant's yearly compensation after the participant's first year of employment. During the year ended December 31, 1997, the Company made matching contributions to the Pension Plan of \$224,000. The Plan was terminated in 1998.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Certain information required by this item is incorporated by reference from the information contained in the Company's Proxy Statement for the Annual Meeting of Shareholders expected to be filed with the Commission on April 10, 2000 under the captions "Election of Directors," "Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance." Certain information regarding executive officers of the Company is included in Part I of this report on Form 10-K under the caption "Executive Officers."

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this item is incorporated by reference from the information contained in the Company's Proxy Statement for the Annual Meeting of Shareholders expected to be filed with the Commission on April 10, 2000 under the caption "Executive Compensation."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information required by this item is incorporated by reference from the information contained in the Company's Proxy Statement for the Annual Meeting of Shareholders expected to be filed with the Commission on April 10, 2000 under the caption "Security Ownership of Certain Beneficial Owners and Management."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required by this item is incorporated by reference from the information contained in the Company's Proxy Statement for the Annual Meeting of Shareholders expected to be filed with the Commission on April 10, 2000 under the caption "Certain Transactions."

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

(a) 1. Financial Statements

The response to this item is submitted as a separate section of this Form 10-K. See item 8.

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2. Financial Statement Schedule

The following financial statement schedule is filed as a part of this report:

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULE

To the Shareholders of Manhattan Associates, Inc.

We have audited in accordance with auditing standards generally accepted in the United States, the financial statements of Manhattan Associates, Inc. and subsidiaries included in this Form 10-K and have issued our report thereon dated February 4, 2000. Our audits were made for the purpose of forming an opinion on those statements taken as a whole. The forgoing schedule is the responsibility of the company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Atlanta, Georgia
February 4, 2000

SCHEDULE II

MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS

| | BALANCE AT BEGINNING OF PERIOD ----- | ADDITIONS CHARGED TO OPERATIONS ----- | DEDUCTIONS ----- | BALANCE AT END OF PERIOD ----- |
|---------------------------------|---|--|---------------------|---|
| CLASSIFICATION: | | | | |
| Allowance for Doubtful Accounts | | | | |
| Year Ended: | | | | |
| December 31, 1997..... | \$ 325,000 | \$ 645,000 | \$ -- | \$ 970,000 |
| December 31, 1998..... | 970,000 | 3,409,000 | 2,779,000 | 1,600,000 |
| December 31, 1999..... | 1,600,000 | 9,015,000 | 5,142,000 | 5,473,000 |

All other schedules are omitted because they are not required or the required information is shown in the financial statements or notes thereto.

(b) Reports on Form 8-K.

None.

(c) Exhibits. The following exhibits are filed as part of, or are incorporated by reference into, this report on Form 10-K:

| EXHIBIT NUMBER ----- | DESCRIPTION ----- |
|----------------------------|---|
| 3.1 | Articles of Incorporation of the Registrant (Incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (File No. 333-47095) filed on February 27, 1998). |
| 3.2 | Bylaws of the Registrant (Incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1 (File No. 333-47095) filed on February 27, 1998). |
| 4.1 | Provisions of the Articles of Incorporation and Bylaws of the Registrant defining rights of the holders of common stock of the Registrant (Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 (File No. 333-47095) filed on February 27, 1998). |
| 4.2 | Specimen Stock Certificate (Incorporated by reference to Exhibit 4.2 filed to the Company's Pre-Effective Amendment No. 1 to its Registration Statement on Form S-1 (File No. 333-47095) filed on April 2, 1998). |
| 10.1 | Lease Agreement by and between Wildwood Associates, a Georgia |

general partnership, and the Registrant dated September 24, 1997 (Incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1 (File No. 333-47095) filed on February 27, 1998).

- 10.2 First Amendment to Lease between Wildwood Associates, a Georgia general partnership, and the Registrant dated October 31, 1997 (Incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-1 (File No. 333-47095) filed on February 27, 1998).
- 10.3 Summary Plan Description of the Registrant's Money Purchase Plan & Trust, effective January 1, 1997 (Incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-1 (File No. 333-47095) filed on February 27, 1998).
- 10.4 Summary Plan Description of the Registrant's 401(k) Plan and Trust, effective January 1, 1995 (Incorporated by reference to Exhibit 10.4 to the Company's Registration Statement on Form S-1 (File No. 333-47095) filed on February 27, 1998).
- 10.5 Form of Indemnification Agreement with certain directors and officers of the Registrant (Incorporated by reference to Exhibit 10.5 to the Company's Registration Statement on Form S-1 (File No. 333-47095) filed on February 27, 1998).
- 10.6 Contribution Agreement between the Registrant and Daniel Basmajian, Sr. (Incorporated by reference to Exhibit 10.6 to the Company's Registration Statement on Form S-1 (File No. 333-47095) filed on February 27, 1998).
- 10.7 Form of Tax Indemnification Agreement for direct and indirect shareholders of Manhattan Associates Software, LLC (Incorporated by reference to Exhibit 10.7 to the Company's Registration Statement on Form S-1 (File No. 333-47095) filed on February 27, 1998).

| EXHIBIT NUMBER ----- | DESCRIPTION ----- |
|----------------------------|---|
| 10.8 | Second Amendment to Lease Agreement between Wildwood Associates, a Georgia general partnership, and the Registrant, dated February 27, 1998 (Incorporated by reference to Exhibit 10.8 to the Company's Pre-Effective Amendment No. 1 to its Registration Statement on Form S-1 (File No. 333-47095) filed on April 2, 1998). |
| 10.9 | Share Purchase Agreement between Deepak Raghavan and the Registrant effective as of February 16, 1998 (Incorporated by reference to Exhibit 10.9 to the Company's Registration Statement on Form S-1 (File No. 333-47095) filed on February 27, 1998). |
| 10.10 | Manhattan Associates, Inc. Stock Incentive Plan (Incorporated by reference to Exhibit 10.10 to the Company's Registration Statement on Form S-1 (File No. 333-47095) filed on February 27, 1998). |
| 10.11 | Manhattan Associates, LLC Option Plan (Incorporated by reference |

to Exhibit 10.11 to the Company's Registration Statement on Form S-1 (File No. 333-47095) filed on February 27, 1998).

- 10.14 Executive Employment Agreement executed by Neil Thall (Incorporated by reference to Exhibit 10.14 to the Company's Pre-Effective Amendment No. 1 to its Registration Statement on Form S-1 (File No. 333-47095) filed on April 2, 1998).
- 10.15 Executive Employment Agreement executed by Michael J. Casey (Incorporated by reference to Exhibit 10.15 to the Company's Pre-Effective Amendment No. 1 to its Registration Statement on Form S-1 (File No. 333-47095) filed on April 2, 1998).
- 10.18 Form of License Agreement, Software Maintenance Agreement and Consulting Agreement (Incorporated by reference to Exhibit 10.18 to the Company's Pre-Effective Amendment No. 1 to its Registration Statement on Form S-1 (File No. 333-47095) filed on April 2, 1998).
- 10.19 Sub-Sublease Agreement between Scientific Research Corporation, a Georgia corporation, and the Registrant, dated July 2, 1998. (Incorporated by reference to Exhibit 10.19 to the Company's Annual Report for the period ended December 31, 1998, filed on March 31, 1999)

| EXHIBIT NUMBER ----- | DESCRIPTION ----- |
|----------------------------|--|
| 10.20 | Sub-Sublease Agreement between The Profit Recovery Group International 1, Inc., a Georgia corporation, and the Registrant, dated August 19, 1998 (Incorporated by reference to Exhibit 10.20 to the Company's Annual Report for the period ended December 31, 1998, filed March 31, 1999). |
| 10.21 | Form of Software License, Services and Maintenance Agreement (Incorporated by reference to Exhibit 10.21 to the Company's Annual Report for the period ended December 31, 1998, filed March 31, 1999). |
| 10.22 | First Amendment to the Manhattan Associates, Inc. 1998 Stock Incentive Plan (Incorporated by reference to Exhibit 10.22 to the Company's Annual Report for the period ended December 31, 1998, filed March 31, 1999). |
| 10.23 | Second Amendment to the Manhattan Associates, Inc. 1998 Stock Incentive Plan (Incorporated by reference to Exhibit 10.23 to the Company's Annual Report for the period ended December 31, 1998, filed March 31, 1999). |
| 10.24 | Third Amendment to the Manhattan Associates, Inc. 1998 Stock Incentive Plan (Incorporated by reference to Exhibit 10.24 to the Company's Annual Report for the period ended December 31, 1998, filed March 31, 1999). |

- 10.25 Fourth Amendment to the Manhattan Associates, Inc. 1998 Stock Incentive Plan.
- 10.26 Executive Employment Agreement executed by Richard M. Haddrill, dated October 11, 1999.
- 10.27 Lease Agreement by and between Tektronix UK Limited, Manhattan Associates Limited and Manhattan Associates, Inc., dated October 21, 1999.
- 21.1 List of Subsidiaries (Incorporated by reference to Exhibit 21.1 to the Company's Registration Statement on Form S-1 (File No. 333-47095) filed on February 27, 1998).
- 23.1 Consent of Arthur Andersen LLP.
- 27.1 Financial Data Schedule (for SEC use only).
- 99.1 Safe Harbor Compliance Statement for Forward-Looking Statements.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ Alan J. Dabbiere

 Alan J. Dabbiere
 Chairman of the Board of Directors

Date: March 30, 2000

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

| SIGNATURE | TITLE | DATE |
|---|--|----------------|
| /s/ Alan J. Dabbiere ----- Alan J. Dabbiere | Chairman of the Board | March 30, 2000 |
| /s/ Richard M. Haddrill ----- Richard M. Haddrill | Chief Executive Officer and President (Principal Executive Officer) | March 30, 2000 |
| /s/ Thomas Williams ----- Thomas Williams | Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer) | March 30, 2000 |
| /s/ Deepak Raghavan ----- Deepak Raghavan | Director | March 30, 2000 |
| /s/ Brian J. Cassidy ----- Brian J. Cassidy | Director | March 30, 2000 |
| /s/ John J. Huntz, Jr. ----- | Director | March 30, 2000 |

John J. Huntz, Jr.

/s/ Thomas E. Noonan

Director

March 30, 2000

Thomas E. Noonan

AMENDMENT NO. 4
TO
MANHATTAN ASSOCIATES, INC.
STOCK INCENTIVE PLAN

The Manhattan Associates, Inc. Stock Incentive Plan (the "Plan") is hereby amended as follows:

1. Increase in Authorized Shares. Section 3 of the Plan is hereby amended by deleting "7,000,000" in the first sentence thereof and substituting "9,000,000" in its place, so that the first sentence reads: "The initial number of Shares reserved for issuance under this Plan shall be 9,000,000, as adjusted pursuant to Section 11, less the number of Shares subject to options issued under the Manhattan Associates, LLC Option Plan (the "LLC Plan")."

2. Effective Date. The effective date of this Amendment shall be July 24, 1999.

3. Miscellaneous.

(a) Capitalized terms not otherwise defined herein shall have the meanings given them in the Plan.

(b) Except as specifically amended hereby, the Plan shall remain in full force and effect.

IN WITNESS WHEREOF, the Company has caused this Amendment No. 4 to the Manhattan Associates, Inc. Stock Incentive Plan to be executed on the Effective Date.

Manhattan Associates, Inc.

By: /s/ Alan J. Dabbieri

Alan J. Dabbieri

Attest:

/s/ David K. Dabbieri

David K. Dabbieri, Secretary

YOU ARE STRONGLY ENCOURAGED TO READ THIS DOCUMENT CAREFULLY AND TO CONSULT WITH AN ATTORNEY BEFORE EXECUTING THIS DOCUMENT.

Company's stockholders was approved by a vote of at least a majority of the Incumbent Board, such new director shall be considered as a member of the Incumbent Board. A Constructive Termination which occurs prior to a Change of Control but which is at the request of a third party who has taken steps reasonably calculated to effect a Change of Control and which is required by a written agreement between such third party and the Company to occur prior to such Change of Control shall constitute a Change of Control;

D. Company shall mean Manhattan Associates, Inc., a Georgia corporation, and any successor thereto.

E. Company Business shall mean the development, marketing, selling, implementation and installation of computer software solutions specifically designed for the supply chain including but not limited to management of warehouse and distribution.

F. Confidential Information shall mean Company information in whatever form, other than Trade Secrets, that is of value to its owner and is treated as or marked as confidential.

G. Constructive Termination shall mean a situation where (A) (i) the Executive is no longer serving as President and Chief Executive Officer of the Company, the Executive is directed to report to other than the Board, the Executive is not timely paid his compensation under this Agreement or the assignment to the Executive of any duties or responsibilities which are inconsistent with the status, title, position or responsibilities of such positions (which assignment is not rescinded after the Company receives written notice from the Executive providing a reasonable description of such inconsistency); (ii) after a Change of Control, the Company's headquarters being outside of the greater Atlanta area or the Company requiring the Executive to be based at any place outside a 30-mile radius from the principal location from which the Executive served as an employee of the Company immediately prior to the Change of Control; (iii) after a Change of Control, the failure by the Company to provide the Executive with compensation and benefits substantially comparable, in the aggregate, to those provided for under the employee benefit plans, programs and practices in effect immediately prior to the Change of Control (other than stock option and other equity based compensation plans); (iv) after a Change of Control, the insolvency or the filing (by any party including the Company) of a petition for bankruptcy of the Company; or (v) after a Change of Control, the failure of the Company to obtain an agreement from any successor or assignee of the Company to assume and agree to perform this Agreement unless such successor or assignee is bound to the performance of this Agreement as a matter of law; provided however, that the aforementioned situations will not be deemed to be a Constructive Termination hereunder until such time as the Executive has given written notice to the Board of the situation constituting a "Constructive Termination" hereunder, and the Board has failed to cure such situation within thirty (30) days following receipt of such written notice, and (B) the Executive terminates his employment with the Company.

H. Customers shall mean any current customer or prospective customer which has been actively solicited by the Company within the preceding 12 months of Company.

I. Disability shall mean, when used to describe the Executive, a physical or mental impairment that substantially limits one or more of the major life activities of such individual, and shall be determined in accordance with the Americans with Disabilities Act, as amended, and any regulations promulgated thereunder.

J. Effective Date shall mean October 11, 1999, the date of execution of this Agreement.

K. Proprietary Information means all Trade Secrets and Confidential Information of Company.

L. Severance Amount shall mean, with respect to a given calendar year, the sum of (i) the Executive's Base Salary as in effect under Section 3(A) of this Agreement for such calendar year, and (ii) the Executive's Performance Related Bonus as in effect under Section 3(B) of this Agreement for such calendar year, not to exceed the Executive's Base Salary as in effect under Section 3(A) of this

Agreement for such calendar year and (iii) a Gross-Up Payment as calculated in, and in accordance with the

SEPARATION AGREEMENT AND GENERAL RELEASE

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YOU ARE STRONGLY ENCOURAGED TO READ THIS DOCUMENT CAREFULLY AND TO CONSULT WITH AN ATTORNEY BEFORE EXECUTING THIS DOCUMENT.

requirements of, Section 22 of this Agreement (but in no event shall such amount exceed one million two hundred thousand dollars (\$1,200,000.00)). In the event of a termination of employment which is not at the end of the fiscal year, the Performance Related Bonus shall be calculated based on the twelve calendar months preceding the month in which he terminates or, in the event that a Change of Control has occurred prior to his termination of employment, the twelve calendar months preceding the announcement of a proposed Change of Control. If Executive has been employed for less than twelve (12) months, the Performance Related Bonus shall be calculated based on only those calendar months he was employed by the Company preceding the month of termination annualized on a twelve (12) month basis. To the extent that the Executive (including his dependents) is entitled to any right to receive continuation coverage available pursuant to, and as required under the provisions of, ERISA ss.ss.601 through 608 and Code ss.4980B ("COBRA") under the Company's group health plan (not including any medical reimbursement plan of the Company) and/or the Company group dental plan, if any, if the Executive (and/or his dependents) exercises such right in accordance with COBRA and the terms and provisions of such group health and/or dental plan, the Company shall pay 100% of the required COBRA premium for the Executive (and/or his dependents) for a period of 18 months following his termination of employment.

M. Trade Secrets shall mean information of Company constituting a "trade secret" within the meaning of Sections 10-1-760, et seq., of the Georgia Trade Secrets Act of 1990, including all amendments hereafter adopted.

N. Work Product shall mean the data, materials, documentation, computer programs, inventions (whether or not patentable), and all works of authorship, including all worldwide rights therein under patent, copyright, trade secret, confidential information, or other property right, created or developed in whole or in part by Executive while performing services in furtherance of or related to the Company Business.

2. Employment Duties and Authority.

A. Effective as of the Effective Date, Company shall employ Executive to advise on the business affairs of the Company so as to not interfere with his obligations to Anchor Gaming, and effective as of January 1, 2000, the Executive shall assume the responsibilities of President and Chief Executive Officer in accordance with the terms and conditions set forth in this Agreement. The Company shall take such actions as necessary to appoint Executive as a member of the Board effective as of the Effective Date, or as soon thereafter as practicable, and the Company shall take such actions as necessary to ensure that the Executive shall have the right to nominate one (1) outside board member with the approval of the Board. Executive hereby accepts employment on the terms set forth herein. Executive shall report to the Board.

B. Beginning January 1, 2000, the Executive shall perform such services and duties as are incident to the position of President

and Chief Executive Officer and such other duties as determined from time to time by the Board which are consistent with such positions. All officers of the Company and its subsidiaries (excluding only the Chairman of the Board) shall report to the Executive, and the Executive shall have the authority, consistent with guidelines adopted by the Board, to hire, terminate and determine the compensation of such officers and other employees of the Company and such subsidiaries. The Executive's duties shall include, without additional compensation, the performance of similar services for any affiliates of the Company as may be reasonably requested by the Board from time to time. The Executive will use his best efforts to promote the interests of the Company. The Executive will not, without the prior written approval of the Board, engage in any other business activity which would interfere with the performance of his duties, services and responsibilities hereunder or which is in violation of policies established from time to time by the Company and provided to the Executive; provided, however, that Executive may manage his personal finances and investments. The Executive may participate in civic and charitable activities and serve on the board of directors of three companies of the Executive's choosing (to include initially Anchor Gaming and Bulldog Funds) to the extent they do not materially affect the Executive's ability to perform his duties as President and CEO of the Company and provided each board position is approved by the Board in advance, which approval will not be unreasonably withheld. Executive may perform without hindrance his currently existing contractual obligations to Anchor Gaming. The Executive agrees to perform such duties diligently and efficiently and in accordance with the reasonable directions of the Board. The Executive shall conduct himself at all times in a business like and

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professional manner as appropriate for his position and shall represent the Company in all respects as complies with good business and ethical practices. In addition, the Executive shall be subject to and abide by the policies and procedures of the Company applicable to personnel of the Company, as adopted from time to time.

C. Executive agrees that he shall at all times faithfully and to the best of his ability and experience perform all of the duties that may be required of him pursuant to the terms of this Agreement except as outlined in Section 2(B). above. Executive shall devote his full business time, energies, efforts and attention to the performance of his obligations hereunder, and shall not engage in any outside employment without the express written consent of the Board. The Executive may pursue personal interest as he may have as long as such participation does not interfere with the Executive's performance of his duties hereunder, and the Executive may participate in industry, civic and charitable activities so long as such activities do not materially interfere with the performance of his duties hereunder. The Executive may also participate in any interest or activity which is approved in writing by the Board.

3. Compensation.

A. Base Salary. Effective January 1, 2000, Company shall pay to Executive an annual base salary ("Base Salary") of three hundred thousand dollars (\$300,000.00), payable in accordance with the Company's standard payroll practices and subject to all required employment deductions, which amount shall be increased annually at the discretion of the Board of Directors as of the beginning of each calendar year starting with the calendar year 2001, but such annual increases shall in no event be less than six percent

(6%) each year. The Board shall consider the growth in both revenue and complexity of the business in the review of the Base Salary. As compensation for the period prior to January 1, 2000, Company shall pay Executive forty-four thousand dollars (\$44,000.00).

B. Performance-Related Bonus. In addition to the Base Salary, the Executive shall be eligible to receive from the Company an annual performance-related bonus for each calendar year of his employment. Such annual performance-related bonus shall be two percent (2%) of pre-tax operating income (excluding non-recurring or unusual charges (as defined by GAAP) and GAAP extraordinary items) for the calendar year 2000 and for calendar years thereafter (the "Performance Related Bonus"). Such bonus shall be subject to all required employment deductions, and the actual amount shall be determined by the Board in its reasonable discretion based upon financial information compiled by the Company's accountants. Bonuses shall be earned each month but paid to the Executive in a single lump sum on the later of (1) within sixty (60) days of the end of the fiscal year during which the bonus was earned, or (2) the date on which a determination may reasonably and administratively be made as to the pre-tax operating income for the Company as to the fiscal year of determination, but in no event later than 90 days after the end of the Company's fiscal year. As a bonus for the period prior to January 1, 2000, Company shall pay Executive the amount of fifteen thousand dollars (\$15,000.00).

C. Common Stock. Within ninety (90) days following the date of execution of this Agreement, the Executive shall be granted eighty-five thousand (85,000) shares of common stock which shall be fully vested on the Effective Date subject to such restrictions as may be required by applicable securities laws or by the bylaws or Articles of the Company, and subject to compliance with applicable federal and state withholding laws.

D. Stock Options. On the Effective Date, the Executive shall receive a ten year option (the "Option") to purchase one million two hundred fifteen thousand (1,215,000) shares of the Company's common stock at an exercise price per share equal to \$3.53125, which is the closing price of a share on the day immediately preceding the Effective Date. The Option shall vest over a three (3) year period in equal quarterly installments beginning as of the date of grant, or, if earlier, upon a Change of Control of the Company. To the extent that the fair market value of a share of the Company's common stock declines within six (6) months from the date of grant of the aforementioned Option, the Board shall consider granting additional options to purchase common stock of the Company to the Executive. To the extent that there is dilution in the Executive's ownership of the Company due to growth in the number of employees of the Company or due to options granted to employees of the Company (but not due to acquisition dilution), the Board shall consider granting additional options to purchase common stock of the Company to the Executive. All of the Executive's nonqualified options which are

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vested shall be exercisable for the life of the option whether or not Executive remains in the employ of the Company.

On the Effective Date, the Company shall grant to Executive a ten year incentive stock option, as such term is used in Code ss.422("ISO"), to purchase eighty-five thousand (85,000) shares of the Company's common stock at an exercise price per share equal to the fair market value of a share of stock on the date the option is granted. The ISO shall vest one-twelfth on February 1,

2000, and one-twelfth on each calendar quarter thereafter (May 1, August 1 and November 1) until fully vested, or if earlier, upon the occurrence of a Change of Control.

E. Employee Benefits. During his employment with the Company, Executive shall be entitled to participate in all employee benefit plans, including those employee benefit plans providing retirement and health care, which Company provides for its employees at the executive level in accordance with the terms and provisions of such plans.

F. Expenses. Executive shall be reimbursed for expenses reasonably incurred in the performance of his duties hereunder in accordance with the policies of Company then in effect.

G. Vacation. Executive shall be entitled to four weeks of vacation per year.

H. Relocation Package. Executive agrees to relocate his primary residence from Las Vegas, Nevada to metropolitan Atlanta, Georgia by June 1, 2000, and the Company agrees to pay the Executive \$100,000 to defray all of his direct and indirect moving expenses.

I. Club Dues. During his employment with the Company, the Executive shall be entitled to reimbursement of the Executive's dues for membership at one (1) club at which he holds a membership.

J. Life Insurance. During his employment with the Company, the Executive shall be entitled to reimbursement by the Company for the cost of life insurance on the Executive's life in an amount to be determined by the Executive; provided, however, in no event will the annual amount reimbursed exceed \$11,000.00.

4. Term. The term of this Agreement shall be two (2) years from the Effective Date. However, unless either of the parties hereto gives at least sixty (60) days notice to the other party prior to such end of term date, this Agreement shall automatically be extended for an additional year, and this Agreement shall automatically be extended for each year thereafter unless notice to the contrary is given by one party to the other party at least sixty (60) days prior to the beginning of such year. However, notwithstanding the preceding sentence, during the term of this Agreement, the parties agree that Executive's employment may be terminated at any time, for any reason or for no reason, with or without notice, by the Company or by the Executive, and such termination shall have the consequences set forth in the provisions of this Agreement. Upon any such termination, Executive shall return immediately to the Company all documents and other property of Company, together with all copies thereof, including all Work Product and Proprietary Information, within Executive's possession or control. Furthermore, the Executive's obligations under this Agreement with respect to Trade Secrets and Confidential Information, Non-Solicitation and Non-Competition (i.e., those obligations under Sections 8, 9 and 10 hereof) shall continue after the Executive's termination of employment in accordance with the provisions of this Agreement and without regard to the term of this Agreement.

5. Severance.

A. Termination Other Than For Cause . Subject to Section 5(D) below, in the event of a termination of employment of the Executive by the Company, other than a termination for Cause, or a termination of employment by the Executive which constitutes a Constructive Termination, Executive shall (a) accrue six months credit for purposes of stock option vesting, (b) receive the Performance Bonus accrued through the month end preceding termination, and (c) receive a cash severance payment equal in the aggregate to two (2) times the Severance Amount. Such cash severance payment shall be subject to all required deductions, and shall be paid in a lump sum less applicable withholdings, or as otherwise mutually agreed upon between the parties, within ten (10) days of the later of the Executive's termination of employment or the Executive's execution of a release as

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described in the next sentence. Company's obligation to make the cash severance payments shall be conditioned upon Executive's (i) execution of a release agreement in the form attached hereto as Exhibit A , and (ii) compliance with the restrictive covenants and all post-termination obligations contained in this Agreement.

B. For Cause or Volitional Terminations. Subject to Section 5(D) below, in the event of a termination of employment of the Executive by the Company for Cause, or in the event of a termination of employment of the Executive by the Executive (including a termination for death or Disability) but excluding a Constructive Termination, no further benefits under this Agreement shall be payable other than those benefits which have accrued prior to the date of the Executive's termination of employment, to include any Performance Bonus accrued through the month end preceding such termination payable within ten (10) days of such termination, except as required by law or by the applicable terms and provisions of any employee benefit plan or arrangement applicable to the Executive.

C. Expiration of Term. Subject to Section 5(D) below, in the event of a termination of employment of the Executive due to the termination of this Agreement initiated by the Executive's giving written notice of non-renewal in accordance with Section 4 above (other than a Constructive Termination by the Executive), Section 5(B) above shall apply. In the event of a termination of employment of the Executive due to the termination of this Agreement due to a Constructive Termination by the Executive or due to the Company's giving written notice of non-renewal in accordance with Section 4 above, Section 5(A) above shall apply.

D. Change of Control. Upon a Change of Control, Executive shall be eligible to receive a cash payment equal in the aggregate to two (2) times the Severance Amount for the calendar year during which the Change of Control occurs, as well as immediate vesting of all unvested Options as provided in Section 3(D) above. Such cash payment shall be subject to all required deductions, and shall be paid in a lump sum less applicable withholdings, within ten (10) days following the later of the Change of Control or the Executive's execution of a release as described in the next sentence. Company's obligation to make the cash payment shall be conditioned upon Executive's (i) execution of a release agreement in the form attached hereto as Exhibit B, and (ii) compliance with the restrictive covenants and all post-termination obligations contained in this Agreement. In the event that the Executive receives a payment under this Section 5(D), then Sections 5(A) and 5(C) above shall no longer be applicable to any termination of the Executive's employment, and Section 5(B) above shall apply to any termination of the Executive's employment thereafter.

6. Ownership.

A. All Work Product will be considered work made for hire by Executive and owned by Company. To the extent that any Work Product may not by operation of law be considered work made for hire or if ownership of all rights therein will not vest exclusively in Company, Executive assigns to Company, now or upon its creation without further consideration, the ownership of all such Work Product. Company has the right to obtain and hold in its own name copyrights, patents, registrations, and any other protection available in the Work Product. Executive agrees to perform any acts as may be reasonably requested by Company to transfer, perfect, and defend Company's ownership of

the Work Product.

B. To the extent any materials other than Work Product are contained in the materials Executive delivers to Company or its Customers, Executive grants to Company an irrevocable, nonexclusive, worldwide, royalty-free license to use and distribute (internally or externally) or authorize others to use and distribute copies of, and prepare derivative works based upon, such materials and derivative works thereof. Executive agrees that during his or her employment, any money or other remuneration received by Executive for services rendered to a Customer belong to Company.

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7. Trade Secrets and Confidential Information.

A. Company may disclose to Executive certain Proprietary Information. Executive agrees that the Proprietary Information is the exclusive property of Company (or a third party providing such information to Company) and Company (or such third party) owns all worldwide copyrights, trade secret rights, confidential information rights, and all other property rights therein.

B. Company's disclosure of the Proprietary Information to Executive does not confer upon Executive any license, interest or rights in or to the Proprietary Information. Except in the performance of services for Company, Executive will hold in confidence and will not, without Company's prior written consent, use, reproduce, distribute, transmit, reverse engineer, decompose, disassemble, or transfer, directly or indirectly, in any form, or for any purpose, any Proprietary Information communicated or made available by Company to or received by Executive. Executive agrees to notify Company immediately if he discovers any unauthorized use or disclosure of the Proprietary Information.

C. To further protect Proprietary Information, Executive agrees that if his or her employment with Company ends for any, then for a period of two (2) years after the end of Executive's employment he will not, without Company's prior written consent, perform any of the duties that he performed on behalf of Company for any subsequent employers of the Executive if such subsequent employers compete with the Company Business.

D. Executive's obligations under this Agreement with regard to (i) Trade Secrets shall remain in effect for as long as such information remains a trade secret under applicable law, and (ii) Confidential Information shall remain in effect during Executive's employment with Company and for three years there after. These obligations will not apply to the extent that Executive establishes that the information communicated (1) was received by Executive in good faith from a third party lawfully in possession thereof and having no obligation to keep such information confidential; or (2) was publicly known at the time of its receipt by Executive or has become publicly known other than by a breach of this Agreement or other action by Executive.

8. Non-Solicitation.

A. Customers. The relationships made or enhanced during Executive's employment with Company belong to Company. During Executive's employment and the one (1) year period beginning immediately upon the termination of Executive's employment with Company for any reason (the "One Year Limitation Period"), Executive will not, without Company's prior written consent, contact, solicit or attempt to solicit, on his own or another's

behalf, any Customer with whom Executive had contact in the one year prior to the end of Executive's employment with Company for any reason (the "One Year Restrictive Period") with a view of offering, selling or licensing any program, product or service that is competitive with the Company Business.

B. Employees/Independent Contractors. During Executive's employment and the One Year Limitation Period, Executive will not, without Company's prior written consent, call upon, solicit, recruit, or assist others in calling upon, soliciting or recruiting any person who is or was an employee of Company during the One Year Restrictive Period for the purpose of having such person work in any other corporation, entity, or business.

9. Non-Competition. During the One Year Limitation Period, Executive agrees that he will not, without Company's prior written consent, perform his or her duties for any person or entity in competition directly with the Company Business if Company is still engaged in the Company Business during such One Year Limitation Period. The parties agree and acknowledge that (i) the definitions of Duties and period of restriction reasonably and fairly limit this noncompete restriction and are reasonably required for Company's protection because Executive must perform his or her duties on behalf of Customers; and (ii) by having access to information concerning employees and Company's Customers, Executive shall obtain a competitive advantage as to such parties.

10. Acknowledgments. The parties hereto agree that: (i) the restrictions contained in this Agreement are fair and reasonable in that they are reasonably required for the protection of Company; (ii) by having access to information concerning employees and customers of Company, Executive shall obtain a competitive advantage as to such parties; (iii) the covenants and agreements of Executive contained in this Agreement are reasonably

SEPARATION AGREEMENT AND GENERAL RELEASE

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necessary to protect the interests of Company in whose favor said covenants and agreements are imposed in light of the nature of Company's business and the involvement of Executive in such business; (iv) the restrictions imposed by this Agreement are not greater than are necessary for the protection of Company in light of the substantial harm that Company will suffer should Executive breach any of the provisions of said covenants or agreements and (v) the covenants and agreements of Executive contained in this Agreement form material consideration for this Agreement.

11. Remedy for Breach. Executive agrees that the remedies at law of Company for any actual or threatened breach by Executive of the covenants contained in Sections 6 through 9 of this Agreement would be inadequate and that Company shall be entitled to specific performance of the covenants in such paragraphs or injunctive relief against activities in violation of such paragraphs, or both, by temporary or permanent injunction or other appropriate judicial remedy, writ or order, in addition to any damages and legal expenses (including attorney's fees) which Company may be legally entitled to recover. Executive acknowledges and agrees that the covenants contained in Sections 6 through 9 of this Agreement shall be construed as agreements independent of any other provision of this or any other agreement between the parties hereto, and that the existence of any claim or cause of action by Executive against Company, whether predicated upon this or any other agreement, shall not constitute a defense to the enforcement by Company of said covenants.

12. No Prior Agreements. Executive hereby represents and warrants

to Company that the execution of this Agreement by Executive and Executive's employment by Company and the performance of Executive's duties hereunder shall not violate or be a breach of any agreement with a former employer, client or any other person or entity.

13. Assignment; Binding Effect. Executive understands that Executive has been selected for employment by Company on the basis of Executive's personal qualifications, experience and skills. Executive agrees, therefore, that Executive cannot assign all or any portion of Executive's performance under this Agreement. Subject to the preceding two (2) sentences and the express provisions of Section 14. below, this Agreement shall be binding upon, inure to the benefit of and be enforceable by the parties hereto and their respective heirs, legal representatives, successors and assigns. The rights and obligations of Company hereunder shall be available to a successor in interest of Company, including a successor established for the purpose of converting Company to a corporation.

14. Complete Agreement. This Agreement is not a promise of future employment. Executive has no oral representations, understandings or agreements with Company or any of its officers, directors or representatives covering the same subject matter as this Agreement. This Agreement hereby supersedes any other employment agreements or understandings, written or oral, between Company and Executive. This written Agreement is the final, complete and exclusive statement and expression of the agreement between Company and Executive and of all the terms of this Agreement, and it cannot be varied, contradicted or supplemented by evidence of any prior or contemporaneous oral or written agreements. This written Agreement may not be later modified except by a further writing signed by a duly authorized officer of Company and Executive, and no term of this Agreement may be waived except by writing signed by the party waiving the benefit of such term.

15. Notice. Whenever any notice is required hereunder, it shall be given in writing addressed as follows:

To Company: Manhattan Associates, Inc
2300 Windy Ridge Pkwy
7th Floor
Atlanta, Georgia 30339
Attention: Chairman of the Board

SEPARATION AGREEMENT AND GENERAL RELEASE

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To Executive: Richard Haddrill
417 Pinnacle Heights
Las Vegas, Nevada 89144

With a copy to: Edward J. Hardin, Esq.
Rogers & Hardin
229 Peachtree Street, N.E.
2700 International tower
Atlanta, Georgia 30303

Notice shall be deemed given and effective three (3) days after the deposit in the U.S. mail of a writing addressed as above and sent first class mail, certified, return receipt requested, or when actually received. Either party may change the address for notice by notifying the other party of such change in accordance with this Section 15.

16. Severability; Headings. If any portion of this Agreement is held invalid or inoperative, the other portions of this Agreement shall be deemed valid and operative and, so far as is reasonable and possible, effect shall be given to the intent manifested by the portion held invalid or inoperative. The Section headings herein are for reference purposes only and are not intended in any way to describe, interpret, define or limit the extent or intent of the Agreement or of any part hereof.

17. Counterparts. This Agreement may be executed simultaneously in two (2) or more counterparts, each of which shall be deemed an original and all of which together shall constitute, but one and the same instrument.

18. Applicable Law. This Agreement shall be construed and enforced in accordance with the laws of the State of Georgia.

19. Withholding, FICA, FUTA, Etc. Any amount to be paid to the Executive under the provisions of this Agreement shall be subject to, and reduced by, any applicable federal, state or local taxes imposed by law.

20. Press Releases. Executive and Company agree that no press releases will be issued concerning this Agreement, its modification or termination without the mutual approval of Executive and Company, subject to any disclosure requirements imposed by applicable law based on the reasonable opinion of counsel for the Company.

21. Expenses. Company agrees to pay all expenses associated with this Agreement including the reasonable fees and expenses of counsel for Executive not to exceed \$5,000.

22. Calculation of Golden Parachute Excise Tax. The following provisions shall apply in the determination of whether an Code ss.4999 excise tax is payable by the Executive for purposes of this Agreement:

(a) Upon a Change In Control, if the Executive believes that he might be required to pay any Code ss.4999 excise tax and makes a calculation under subsection (b) below, an independent tax consultant (herein the "ITC") who shall be a lawyer, certified public accountant or a compensation consultant with expertise in the area of executive compensation tax law, shall be selected by the Company. All fees and disbursements of the ITC shall be paid by the Company.

(b) Upon a Change of Control, if the Executive believes that he might be required to pay any Code ss.4999 excise tax, the Executive shall be entitled to request the calculation and payment of such excise tax to the extent provided in this Agreement; provided, however, that the Executive must provide the ITC with all information necessary for the ITC to determine the proper amount of excise tax which should be paid by the Executive, and must agree with the release of such information by the Company to the ITC.

(c) Upon selection and receipt of pertinent information from the Company and from the Executive, the ITC shall, with respect to the Executive upon his making a request for the calculation and payment of Code ss.4999 excise tax, make a determination as to whether the amounts paid to the Executive which

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EXHIBIT A

SEPARATION AGREEMENT AND GENERAL RELEASE

THIS SEPARATION AGREEMENT AND GENERAL RELEASE (the "Agreement") is made and entered into as of the date noted on the last pages hereof, by and between Manhattan Associates, Inc. (the "Employer") and Richard Haddrill (the "Employee").

W I T N E S S E T H:

WHEREAS, pursuant to the terms and provisions of that certain employment agreement between the parties dated October 11, 1999, the Employee is entitled to certain separation benefits if the Employee will execute this Agreement; and

WHEREAS, the Employee and the Employer desire to enter into this Agreement to resolve any disputes regarding, or relating to, the Employee's relationship with the Employer, the termination of that employment relationship, and other matters as set forth herein;

NOW, THEREFORE, in consideration of the payment of such separation benefits under such employment agreement, the parties hereto agree as follows:

ARTICLE I
DEFINITIONS

For all purposes of this Agreement, the following definitions shall be applicable:

- 1.1 The term "Agreement" shall mean this Separation Agreement and General Release between the parties hereto.
- 1.2 The phrase "Effective Date" shall mean the date on which this Agreement shall become effective, which shall be the date which is exactly eight (8) days following the Execution Date, unless this Agreement has been revoked by Employee prior to such date in accordance with the provisions of this Agreement.
- 1.3 The term "Employee" shall mean Richard Haddrill.
- 1.4 The phrase "Employee's related entities and persons" shall mean and include the heirs, executors, administrators, beneficiaries, assigns, agents, representatives, and successors of Employee, and any other persons acting or purporting to act on behalf of, or in the name of, or asserting claims by, on behalf of, or through, Employee, and the successors and assigns of such persons, and the successors and assigns of Employee.
- 1.5 The term "Employer" shall mean Manhattan Associates, Inc.
- 1.6 The phrase "Employers related employers" shall mean and include any parent, subsidiaries and related corporations or entities, predecessors, successors and assigns of the Employer.
- 1.7 The phrase "the Employers related entities and persons" shall mean and include the agents, employees, servants, independent contractors, attorneys, representatives, actuaries, accountants, directors, officers, and trustees of (1) the Employer and/or any one or more of the Employers related employers and (2) every person (whether natural or artificial), firm, or entity now or previously affiliated with the Employer and/or any one or more of the Employers related employers in any manner whatsoever, and every such person, firm or entity with which the Employer and/or any one or more of the Employees related employers may affiliate in any manner whatsoever in the future.

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- 1.8 The term "Employment Agreement" shall mean that certain employment agreement between the parties dated October 11, 1999, to which a copy of this Separation Agreement and General Release was attached as Exhibit A.
- 1.9 The phrase "Execution Date" shall mean the date on which this Agreement is executed (as noted in writing on the last page hereof).
- 1.10 The term "Plan(s)" shall mean, when referenced as Plan(s) of a particular entity, individual or other person, all employee benefit plans (within the meaning ERISA ss.3(3)) sponsored by, contributed to, or maintained by such entity, individual or other person.
- 1.11 The phrase "Plan's (Plans') related entities and persons," when referencing one or more Plans, shall mean and include (1) the agents, employees, servants, independent contractors, attorneys, representatives, actuaries, accountants, fiduciaries, administrators, administrative committee(s) or other committee(s), and trustees of, (2) every other person (whether natural or artificial), firm or entity now or previously affiliated in any manner whatsoever with, and (3) every such other person, firm or entity which in the future may affiliate in any manner whatsoever with, the one or more Plan(s) so referenced.
- 1.12 The phrase "Severance Date" shall mean the date on which the Employee separated from service (the earlier of layoff or termination of employment) with the Employer, i.e., [INSERT DATE OF TERMINATION].

ARTICLE II
TERMINATION OF EMPLOYEE'S EMPLOYMENT

Employee and the Employer agree and acknowledge that Employee's employment with the Employer was terminated as of the Severance Date, and, accordingly, that such Severance Date shall be used to determine Employee's entitlement to any benefits generally available to employees of the Employer under a Plan of the Employer, or a Plan of the Employers related employers, as well as the amount of any such benefits to which Employee may be entitled.

ARTICLE III
PAYMENTS TO EMPLOYEE

In addition to the general compensation and benefits to which Employee would be entitled based upon his employment with the Employer through the Severance Date, Employee shall, as additional consideration which is significant and substantial, receive separation benefits in accordance with the terms and provisions of Section 5(A) of his Employment Agreement. The parties agree that these additional consideration payments shall be subject to any applicable federal, state and/or local income tax withholding requirements.

ARTICLE IV
RIGHT OF REVOCATION BY EMPLOYEE

From the Execution Date until the Effective Date, Employee may revoke this Agreement by sending written notice of revocation within that period to:

Manhattan Associates, Inc.
2300 Windy Ridge Parkway
7th Floor
Atlanta, Georgia 30339
Attention: Chairman of the Board

and, if he does so, this Agreement shall be null and void in its entirety, and shall be of no force or effect. If not revoked within said period, this Agreement will become effective, binding and irrevocable as of the Effective Date.

SEPARATION AGREEMENT AND GENERAL RELEASE

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ARTICLE V
GENERAL RELEASE BY EMPLOYEE

Except as specifically provided in the Article immediately following this Article, for and in consideration of the additional consideration to be provided to Employee by the Employer pursuant to Article III of this Agreement, the sufficiency of which is hereby acknowledged, Employee does hereby, for and on behalf of himself and Employee's related entities and persons, fully and finally release, acquit and forever discharge the Employer, the Employer's related employers, the Employees related entities and persons, all Plans of the Employer and all Plans of any of the Employer's related employers, and such Plans' related entities and persons, of and from any and all claims, counterclaims, actions, causes of action, demands, rights, damages, costs, expenses or compensation which Employee and/or Employee's related entities and persons now have, or may have, or may hereafter claim to have had as of the Execution Date, whether developed or undeveloped, anticipated or unanticipated, based on any acts, omissions, transactions or occurrences whatsoever occurring prior to and/or up until the Execution Date, and specifically, but not by way of limitation, from those claims which are, or arise by reason of, or are in any way connected with, or which are or may be based in whole or in part on the employment relationship which existed between Employee and the Employer and the termination of that employment relationship (including, without limitation, (i) those claims arising under any foreign, federal, state, county or municipal fair employment practices act and/or any law, ordinance or regulation promulgated by any foreign, federal, state, county, municipality or other state subdivision; (ii) those claims for breach of duty and/or implied covenant of good faith and fair dealing; (iii) those claims for interference with and/or breach of contract (express or implied, in fact or in law, oral or written); (iv) those claims for retaliatory or wrongful discharge of any kind; (v) those claims for intentional or negligent infliction of emotional distress or mental anguish; (vi) those claims for outrageous conduct; (vii) those claims for interference with business relationships, contractual relationships or employment relationships of any kind; (viii) those claims for breach of duty, fraud, fraudulent inducement to contract, breach of right of privacy, libel, slander, or tortious conduct of any kind; (ix) those claims arising under Title VII of the Civil Rights Act of 1964 and/or the Civil Rights Act of 1991 and/or 42 U.S.C. ss.1981; (x) those claims arising under the Age Discrimination in Employment Act of 1967, the Age Discrimination Claims Assistance Act of 1988 and/or the Older Workers' Benefit Protection Act; (xi) those claims arising under any state or federal handicap or disability discrimination law or act, including but not limited to the Rehabilitation Act of 1973 and the Americans with Disabilities Act; (xii) those claims arising from any damages suffered at any time by reason of the effects or continued effects of any alleged or actual discriminatory or wrongful acts; (xiii) those claims arising under or in reliance upon any statute, regulation, rule or ordinance (local, state or federal); (xiv) those claims arising under

ERISA or the Family and Medical Leave Act; (xv) those claims arising under the workers' compensation laws of any state or other jurisdiction; and (xvi) any and all other claims arising under law or in equity in the United States of America or in any foreign jurisdiction).

ARTICLE VI
LIMITATION OF RELEASE BY EMPLOYEE

Notwithstanding the previous Article, it is understood and agreed that the waiver of benefits and claims contained in the previous Article does not include a waiver of the right to payment of any vested, nonforfeitable benefits to which Employee or a beneficiary of Employee may be entitled under the terms and provisions of any Plan of the Employer which have accrued as of the Severance Date, and/or under the terms and provisions of any stock options or stock appreciation rights previously granted to the Employee and vested as of the Execution Date, and does not include a waiver of the right to the consideration to be paid to Employee under Article III of this Agreement. Employee acknowledges that he is only entitled to the additional consideration set forth in Article III of this Agreement, and that all other claims for any other benefits or compensation are hereby waived, except those expressly stated in the preceding sentence. Nothing in this Agreement shall be construed to limit the Executive's entitled rights to director and/or officer indemnification and related director and/or officer liability insurance.

SEPARATION AGREEMENT AND GENERAL RELEASE

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YOU ARE STRONGLY ENCOURAGED TO READ THIS DOCUMENT CAREFULLY AND TO CONSULT
WITH AN ATTORNEY BEFORE EXECUTING THIS DOCUMENT.

ARTICLE VII
NON-SOLICITATION, NON-COMPETITION, TRADE SECRETS & CONFIDENTIAL INFORMATION

For and in consideration of the additional consideration to be provided to Employee by the Employer pursuant to Article III of this Agreement, the Employee agrees that he will continue to comply with the provisions set forth in Sections 7, 8 and 9 of the Employment Agreement for the terms set forth therein.

ARTICLE VIII
KNOWING AND VOLUNTARY WAIVER OF RIGHTS BY EMPLOYEE

Employee agrees and acknowledges that he has carefully reviewed, studied and thought over the terms of this Agreement, and that all questions concerning this Agreement have been answered to his satisfaction. Employee does further acknowledge and agree that he has had the opportunity to keep this Agreement in his possession for at least thirty (30) days, and that he has had the opportunity to consider and reflect upon the terms of this Agreement before signing it, that he knowingly and voluntarily entered into and signed this Agreement after deliberate consideration and review of all of its terms and provisions, that he was not coerced, pressured or forced in any way by the Employer or anyone else to accept the terms of this Agreement, that the decision to accept the terms of this Agreement was entirely his own, that HE WAS ADVISED IN WRITING TO CONSULT WITH AN ATTORNEY PRIOR TO EXECUTING THIS AGREEMENT AND PRIOR TO THE EXECUTION DATE OF THIS AGREEMENT, AND THAT HE HAS HAD THE OPPORTUNITY TO CONSULT WITH AN ATTORNEY THROUGHOUT THE NEGOTIATIONS CONCERNING THIS AGREEMENT, during which time proposals and counter proposals were or could have been presented, discussed and made a part of the final version of this Agreement. Employee also acknowledges that no promises or inducements to enter into and execute this Agreement have been offered or made except those which are specifically set out in this Agreement, and that he was not coerced or forced to enter into and execute this Agreement.

ARTICLE IX
ENTIRE AGREEMENT BETWEEN PARTIES AND NO INDICATION OF FAULT

This Agreement constitutes the entire agreement between Employee and the Employer pertaining to the subjects contained in it and supersedes any and all prior and/or contemporaneous agreements, representations, or understandings, written or oral. It is expressly understood and agreed that this Agreement may not be altered, amended, modified or otherwise changed in any respect or particular whatsoever except in writing duly executed by Employee and an authorized representative of the Employer acting on behalf of the Employer. This Agreement is intended to fully, completely, and forever resolve all disputes or potential disputes based upon events, omissions or acts occurring on or prior to the Severance Date as well as all other issues or claims in any way arising out of or connected with the prior employment of Employee with the Employer or the termination of that employment. It is expressly understood and agreed that the provisions contained in this document are intended to resolve any doubtful and/or disputed issues, prevent future disputes, controversies and/or litigation, and provide both the Employer and Employee with significant benefits and that the signing of this document is not to be construed as an admission of any liability and/or fault by the Employer or by Employee.

ARTICLE X
BINDING NATURE OF AGREEMENT

This Agreement shall be binding upon both Employee and Employee's related entities and individuals, and upon the Employer and the Employer's related employers.

ARTICLE XI
NO PRIOR ASSIGNMENTS OF INTERESTS OR EXERCISE OF RIGHTS

All signatories to this Agreement hereby warrant, covenant, and represent that prior to the Execution Date, they have not conveyed, transferred, pledged, hypothecated, or in any manner whatsoever assigned or encumbered any of the rights, demands, claims, suits, actions, or causes of action released herein, and all signatories to this Agreement also hereby warrant, covenant and represent that, prior to the Execution Date, they have not filed a lawsuit or asked the assistance of any governmental agency or collective bargaining agent to

SEPARATION AGREEMENT AND GENERAL RELEASE

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enforce rights or to seek remedies for any claim which is waived pursuant to the terms and provisions of this Agreement.

YOU ARE STRONGLY ENCOURAGED TO READ THIS DOCUMENT CAREFULLY AND TO CONSULT
WITH AN ATTORNEY BEFORE EXECUTING THIS DOCUMENT.

ARTICLE XII
WARRANTY OF EXPRESS AUTHORITY AND CAPACITY TO CONTRACT

The undersigned parties, acting through their duly authorized officers or individually, as the case may be, do hereby warrant that the signatories hereto have express authority and have the legal capacity to enter into this Agreement.

ARTICLE XIII
CHOICE OF LAW

This Agreement is to be construed in accordance with the laws of the State of Georgia.

ARTICLE XIV
NEGOTIATED AGREEMENT

The parties agree that this Agreement was negotiated between them. As a result, the parties agree that, in the event of a dispute about the meaning, construction or interpretation of this Agreement, no presumption shall apply to construe the language of this Agreement either for or against any party.

ARTICLE XV
PRESS RELEASES REGARDING AGREEMENT

The parties agree that no press releases will be issued concerning this Agreement, or the termination of Employee's employment with the Employer, without the mutual approval of Employee and Employer, subject to any disclosure requirements imposed by applicable law based on the reasonable opinion of counsel for the Company.

IN WITNESS WHEREOF, the undersigned has executed this Separation Agreement and General Release on this ___ day of _____, _____.

EMPLOYEE:

Richard Haddrill

Sworn to and subscribed before me this ___ day of _____, _____.

Notary Public

My Commission Expires:

(NOTARIAL SEAL)

SEPARATION AGREEMENT AND GENERAL RELEASE

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YOU ARE STRONGLY ENCOURAGED TO READ THIS DOCUMENT CAREFULLY AND TO CONSULT WITH AN ATTORNEY BEFORE EXECUTING THIS DOCUMENT.

EMPLOYER:

MANHATTAN ASSOCIATES, INC.

By: _____

Title: _____

Sworn to and subscribed before me this ___ day of _____, _____.

Notary Public

My Commission Expires:

(NOTARIAL SEAL)

SEPARATION AGREEMENT AND GENERAL RELEASE

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YOU ARE STRONGLY ENCOURAGED TO READ THIS DOCUMENT CAREFULLY AND TO CONSULT WITH AN ATTORNEY BEFORE EXECUTING THIS DOCUMENT.

EXHIBIT B

AGREEMENT AND GENERAL RELEASE

THIS AGREEMENT AND GENERAL RELEASE (the "Agreement") is made and entered into as of the date noted on the last pages hereof, by and between Manhattan Associates, Inc. (the "Employer") and Richard Haddrill (the "Employee").

W I T N E S S E T H:

WHEREAS, pursuant to the terms and provisions of that certain employment agreement between the parties dated October 11, 1999, the Employee is entitled to certain Change of Control benefits if the Employee will execute this Agreement; and

WHEREAS, the Employee and the Employer desire to enter into this Agreement to resolve any disputes regarding, or relating to, the Employee's relationship with the Employer on or prior to the date of the Change of Control, and other matters as set forth herein;

NOW, THEREFORE, in consideration of the payment of such Change of Control benefits under such employment agreement, the parties hereto agree as follows:

ARTICLE I
DEFINITIONS

For all purposes of this Agreement, the following definitions shall be applicable:

- 1.1 The term "Agreement" shall mean this Agreement and General Release between the parties hereto.
- 1.2 The phrase "Change of Control" shall mean a "Change of Control" as defined in the Employment Agreement in Section 1(C).
- 1.3 The phrase "Change of Control Date" shall mean the date on which the occurs a Change of Control within the meaning of Section 1(C) of the Employment Agreement.
- 1.4 The phrase "Effective Date" shall mean the date on which this Agreement shall become effective, which shall be the date which is exactly eight (8) days following the Execution Date, unless this Agreement has been revoked by Employee prior to

such date in accordance with the provisions of this Agreement.

- 1.5 The term "Employee" shall mean Richard Haddrill.
- 1.6 The phrase "Employee's related entities and persons" shall mean and include the heirs, executors, administrators, beneficiaries, assigns, agents, representatives, and successors of Employee, and any other persons acting or purporting to act on behalf of, or in the name of, or asserting claims by, on behalf of, or through, Employee, and the successors and assigns of such persons, and the successors and assigns of Employee.
- 1.7 The term "Employer" shall mean Manhattan Associates, Inc.
- 1.8 The phrase "Employers related employers" shall mean and include any parent, subsidiaries and related corporations or entities, predecessors, successors and assigns of the Employer.
- 1.9 The phrase "the Employers related entities and persons" shall mean and include the agents, employees, servants, independent contractors, attorneys, representatives, actuaries, accountants, directors, officers, and trustees of (1) the Employer and/or any one or more of the Employers

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YOU ARE STRONGLY ENCOURAGED TO READ THIS DOCUMENT CAREFULLY AND TO CONSULT WITH AN ATTORNEY BEFORE EXECUTING THIS DOCUMENT.

related employers and (2) every person (whether natural or artificial), firm, or entity now or previously affiliated with the Employer and/or any one or more of the Employers related employers in any manner whatsoever, and every such person, firm or entity with which the Employer and/or any one or more of the Employees related employers may affiliate in any manner whatsoever in the future.

- 1.10 The term "Employment Agreement" shall mean that certain employment agreement between the parties dated October 11, 1999, to which a copy of this Agreement and General Release was attached as Exhibit B.
- 1.11 The phrase "Execution Date" shall mean the date on which this Agreement is executed (as noted in writing on the last page hereof).
- 1.12 The term "Plan(s)" shall mean, when referenced as Plan(s) of a particular entity, individual or other person, all employee benefit plans (within the meaning ERISA ss.3(3)) sponsored by, contributed to, or maintained by such entity, individual or other person.
- 1.13 The phrase "Plan's (Plans') related entities and persons," when referencing one or more Plans, shall mean and include (1) the agents, employees, servants, independent contractors, attorneys, representatives, actuaries, accountants, fiduciaries, administrators, administrative committee(s) or other committee(s), and trustees of, (2) every other person (whether natural or artificial), firm or entity now or previously affiliated in any manner whatsoever with, and (3) every such other person, firm or entity which in the future may affiliate in any manner whatsoever with, the one or more

Plan(s) so referenced.

ARTICLE II
PAYMENTS TO EMPLOYEE

In addition to the general compensation and benefits to which Employee would be entitled based upon his employment with the Employer through the Change of Control Date, Employee shall, as additional consideration which is significant and substantial, receive Change of Control benefits in accordance with the terms and provisions of Section 5(D) of his Employment Agreement. The parties agree that these additional consideration payments shall be subject to any applicable federal, state and/or local income tax withholding requirements.

ARTICLE III
RIGHT OF REVOCATION BY EMPLOYEE

From the Execution Date until the Effective Date, Employee may revoke this Agreement by sending written notice of revocation within that period to:

Manhattan Associates, Inc.
2300 Windy Ridge Parkway
7th Floor
Atlanta, Georgia 30339
Attention: Chairman of the Board

and, if he does so, this Agreement shall be null and void in its entirety, and shall be of no force or effect. If not revoked within said period, this Agreement will become effective, binding and irrevocable as of the Effective Date.

ARTICLE IV
GENERAL RELEASE BY EMPLOYEE

Except as specifically provided in the Article immediately following this Article, for and in consideration of the additional consideration to be provided to Employee by the Employer pursuant to Article II of this Agreement, the sufficiency of which is hereby acknowledged, Employee does hereby, for and on behalf of himself and

SEPARATION AGREEMENT AND GENERAL RELEASE

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YOU ARE STRONGLY ENCOURAGED TO READ THIS DOCUMENT CAREFULLY AND TO CONSULT WITH AN ATTORNEY BEFORE EXECUTING THIS DOCUMENT.

Employee's related entities and persons, fully and finally release, acquit and forever discharge the Employer, the Employer's related employers, the Employees related entities and persons, all Plans of the Employer and all Plans of any of the Employer's related employers, and such Plans' related entities and persons, of and from any and all claims, counterclaims, actions, causes of action, demands, rights, damages, costs, expenses or compensation which Employee and/or Employee's related entities and persons now have, or may have, or may hereafter claim to have had as of the Execution Date, whether developed or undeveloped, anticipated or unanticipated, based on any acts, omissions, transactions or occurrences whatsoever occurring prior to and/or up until the Execution Date, and specifically, but not by way of limitation, from those claims which are, or arise by reason of, or are in any way connected with, or which are or may be based in whole or in part on the employment relationship between Employee and the Employer (including, without limitation, (i) those claims arising under any foreign, federal, state, county or municipal fair employment practices act and/or any law, ordinance or regulation promulgated by any foreign, federal, state, county, municipality or other state subdivision; (ii) those claims for

breach of duty and/or implied covenant of good faith and fair dealing; (iii) those claims for interference with and/or breach of contract (express or implied, in fact or in law, oral or written); (iv) those claims for retaliatory or wrongful discharge of any kind; (v) those claims for intentional or negligent infliction of emotional distress or mental anguish; (vi) those claims for outrageous conduct; (vii) those claims for interference with business relationships, contractual relationships or employment relationships of any kind; (viii) those claims for breach of duty, fraud, fraudulent inducement to contract, breach of right of privacy, libel, slander, or tortious conduct of any kind; (ix) those claims arising under Title VII of the Civil Rights Act of 1964 and/or the Civil Rights Act of 1991 and/or 42 U.S.C. ss.1981; (x) those claims arising under the Age Discrimination in Employment Act of 1967, the Age Discrimination Claims Assistance Act of 1988 and/or the Older Workers' Benefit Protection Act; (xi) those claims arising under any state or federal handicap or disability discrimination law or act, including but not limited to the Rehabilitation Act of 1973 and the Americans with Disabilities Act; (xii) those claims arising from any damages suffered at any time by reason of the effects or continued effects of any alleged or actual discriminatory or wrongful acts; (xiii) those claims arising under or in reliance upon any statute, regulation, rule or ordinance (local, state or federal); (xiv) those claims arising under ERISA or the Family and Medical Leave Act; (xv) those claims arising under the workers' compensation laws of any state or other jurisdiction; and (xvi) any and all other claims arising under law or in equity in the United States of America or in any foreign jurisdiction).

ARTICLE V
LIMITATION OF RELEASE BY EMPLOYEE

Notwithstanding the previous Article, it is understood and agreed that the waiver of benefits and claims contained in the previous Article does not include a waiver of the right to payment of any vested, nonforfeitable benefits to which Employee or a beneficiary of Employee may be entitled under the terms and provisions of any Plan of the Employer which have accrued as of the Change of Control Date, and/or under the terms and provisions of any stock options or stock appreciation rights previously granted to the Employee and vested as of the Execution Date, and does not include a waiver of the right to the consideration to be paid to Employee under Article II of this Agreement. Employee acknowledges that he is only entitled to the additional consideration set forth in Article II of this Agreement, and that all other claims for any other benefits or compensation are hereby waived, except those expressly stated in the preceding sentence. It is also expressly understood and agreed that the waiver of benefits and claims contained in the previous Article does not include a waiver of any rights accruing after the Execution Date of this Agreement. Nothing in this Agreement shall be construed to limit the Executive's entitled rights to director and/or officer indemnification and related director and/or officer liability insurance.

ARTICLE VI
NON-SOLICITATION, NON-COMPETITION, TRADE SECRETS & CONFIDENTIAL INFORMATION

For and in consideration of the additional consideration to be provided to Employee by the Employer pursuant to Article II of this Agreement, the Employee agrees that he will continue to comply with the provisions set forth in Sections 7, 8 and 9 of the Employment Agreement for the terms set forth therein.

SEPARATION AGREEMENT AND GENERAL RELEASE

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YOU ARE STRONGLY ENCOURAGED TO READ THIS DOCUMENT CAREFULLY AND TO CONSULT
WITH AN ATTORNEY BEFORE EXECUTING THIS DOCUMENT.

ARTICLE VII

KNOWING AND VOLUNTARY WAIVER OF RIGHTS BY EMPLOYEE

Employee agrees and acknowledges that he has carefully reviewed, studied and thought over the terms of this Agreement, and that all questions concerning this Agreement have been answered to his satisfaction. Employee does further acknowledge and agree that he has had the opportunity to keep this Agreement in his possession for at least thirty (30) days, and that he has had the opportunity to consider and reflect upon the terms of this Agreement before signing it, that he knowingly and voluntarily entered into and signed this Agreement after deliberate consideration and review of all of its terms and provisions, that he was not coerced, pressured or forced in any way by the Employer or anyone else to accept the terms of this Agreement, that the decision to accept the terms of this Agreement was entirely his own, that HE WAS ADVISED IN WRITING TO CONSULT WITH AN ATTORNEY PRIOR TO EXECUTING THIS AGREEMENT AND PRIOR TO THE EXECUTION DATE OF THIS AGREEMENT, AND THAT HE HAS HAD THE OPPORTUNITY TO CONSULT WITH AN ATTORNEY THROUGHOUT THE NEGOTIATIONS CONCERNING THIS AGREEMENT, during which time proposals and counter proposals were or could have been presented, discussed and made a part of the final version of this Agreement. Employee also acknowledges that no promises or inducements to enter into and execute this Agreement have been offered or made except those which are specifically set out in this Agreement, and that he was not coerced or forced to enter into and execute this Agreement.

ARTICLE VIII

ENTIRE AGREEMENT BETWEEN PARTIES AND NO INDICATION OF FAULT

This Agreement constitutes the entire agreement between Employee and the Employer pertaining to the subjects contained in it and supersedes any and all prior and/or contemporaneous agreements, representations, or understandings, written or oral. It is expressly understood and agreed that this Agreement may not be altered, amended, modified or otherwise changed in any respect or particular whatsoever except in writing duly executed by Employee and an authorized representative of the Employer acting on behalf of the Employer. This Agreement is intended to fully, completely, and forever resolve all disputes or potential disputes based upon events, omissions or acts occurring on or prior to the Change of Control Date as well as all other issues or claims in any way arising out of or connected with the employment of Employee with the Employer through and including the Change of Control Date. It is expressly understood and agreed that the provisions contained in this document are intended to resolve any doubtful and/or disputed issues, prevent future disputes, controversies and/or litigation, and provide both the Employer and Employee with significant benefits and that the signing of this document is not to be construed as an admission of any liability and/or fault by the Employer or by Employee.

ARTICLE IX

BINDING NATURE OF AGREEMENT

This Agreement shall be binding upon both Employee and Employee's related entities and individuals, and upon the Employer and the Employer's related employers.

ARTICLE X

NO PRIOR ASSIGNMENTS OF INTERESTS OR EXERCISE OF RIGHTS

All signatories to this Agreement hereby warrant, covenant, and represent that prior to the Execution Date, they have not conveyed, transferred, pledged, hypothecated, or in any manner whatsoever assigned or encumbered any of the rights, demands, claims, suits, actions, or causes of action released herein, and all signatories to this Agreement also hereby warrant, covenant and represent that, prior to the Execution Date, they have not filed a lawsuit or asked the assistance of any governmental agency or collective bargaining agent to enforce rights or to seek remedies for any claim which is waived pursuant to the terms and provisions of this Agreement.

SEPARATION AGREEMENT AND GENERAL RELEASE

YOU ARE STRONGLY ENCOURAGED TO READ THIS DOCUMENT CAREFULLY AND TO CONSULT WITH AN ATTORNEY BEFORE EXECUTING THIS DOCUMENT.

ARTICLE XI
WARRANTY OF EXPRESS AUTHORITY AND CAPACITY TO CONTRACT

The undersigned parties, acting through their duly authorized officers or individually, as the case may be, do hereby warrant that the signatories hereto have express authority and have the legal capacity to enter into this Agreement.

ARTICLE XII
CHOICE OF LAW

This Agreement is to be construed in accordance with the laws of the State of Georgia.

ARTICLE XIII
NEGOTIATED AGREEMENT

The parties agree that this Agreement was negotiated between them. As a result, the parties agree that, in the event of a dispute about the meaning, construction or interpretation of this Agreement, no presumption shall apply to construe the language of this Agreement either for or against any party.

ARTICLE XIV
PRESS RELEASES REGARDING AGREEMENT

The parties agree that no press releases will be issued concerning this Agreement, or the termination of Employee's employment with the Employer, without the mutual approval of Employee and Employer, subject to any disclosure requirements imposed by applicable law based on the reasonable opinion of counsel for the Company.

IN WITNESS WHEREOF, the undersigned has executed this Agreement and General Release on this ___ day of _____, _____.

EMPLOYEE:

Richard Haddrill

Sworn to and subscribed before me this __ day of _____, _____.

Notary Public

My Commission Expires:

(NOTARIAL SEAL)

SEPARATION AGREEMENT AND GENERAL RELEASE

YOU ARE STRONGLY ENCOURAGED TO READ THIS DOCUMENT CAREFULLY AND TO CONSULT WITH AN ATTORNEY BEFORE EXECUTING THIS DOCUMENT.

EMPLOYER:

MANHATTAN ASSOCIATES, INC.

By: _____

Title: _____

Sworn to and subscribed before me this __ day of _____, _____.

Notary Public

My Commission Expires:

(NOTARIAL SEAL)

SEPARATION AGREEMENT AND GENERAL RELEASE

YOU ARE STRONGLY ENCOURAGED TO READ THIS DOCUMENT CAREFULLY AND TO CONSULT WITH AN ATTORNEY BEFORE EXECUTING THIS DOCUMENT.

EXECUTIVE EMPLOYMENT AGREEMENT

THIS EXECUTIVE EMPLOYMENT AGREEMENT (the "Agreement") by and between Manhattan Associates, Inc, a Georgia corporation (the "Company"), and Richard Hadrill (the "Executive") is hereby entered into as of the 11th day of October, 1999.

WHEREAS, Company desires to employ executive as President and Chief Executive Officer and Executive desires to accept said employment by Company; and

WHEREAS, Company and Executive have agreed upon the terms and conditions of Executive's employment with Company and the parties desire to express the terms and conditions in this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth herein, it is hereby agreed as follows:

1. Definitions. For purposes of this Agreement, the following terms and phrases shall have the following definitions:

A. Board shall mean the Board of Directors of the Company.

B. Cause shall include but not be limited to an act or acts or an omission to act by the Executive involving (i) willful and continual failure to substantially perform his duties with the Company (other than a failure resulting from the Executive's Disability) and such failure continues after written notice to the Executive providing a reasonable description of the basis for the determination that the Executive has failed to perform his duties, (ii) indictment for a criminal offense other than misdemeanors not disclosable under the federal securities laws, (iii) breach of this Agreement in any material respect and such breach is not susceptible to remedy or cure or has not already materially damaged the Company, or is susceptible to remedy or cure and no such damage has occurred, is not cured or remedied reasonably promptly after written notice to the Executive providing a reasonable description of the breach, or (iv) conduct that the Board of Directors of the Company has determined, in good faith, to be dishonest, fraudulent, unlawful or grossly negligent or which is not in compliance with the Company's Code of Conduct or similar applicable set of standards or conduct and business practices set forth in writing and provided to the Executive prior to such conduct.

C. Change of Control shall be deemed to have occurred upon the earliest to occur of the following events: (i) the date the stockholders of the Company (or the Board, if stockholder action is not required) approve a plan or other arrangement pursuant to which the Company will be dissolved or liquidated; (ii) the date the stockholders of the Company (or the Board, if stockholder action is not required) approve a definitive agreement to sell or otherwise dispose of all or substantially all of the assets of the Company; (iii) the date the stockholders of the Company (or the Board, if stockholder action is not required) and the stockholders of the other constituent corporations (or their respective boards of directors, if and to the extent that stockholder action is not required) have approved a definitive agreement to merge or consolidate the Company

with or into another corporation, other than, in either case, a merger or consolidation of the Company in which holders of shares of the Company's voting capital stock immediately prior to the merger or consolidation will have at least fifty percent (50%) (unless in the event that forty-five percent (45%) of the ownership of the voting capital stock of the surviving corporation immediately after the merger or consolidation (on a fully diluted basis) is held by a single individual other than Alan Dabbiere) of the ownership of voting capital stock of the surviving corporation immediately after the merger or consolidation (on a fully diluted basis), which voting capital stock is to be held by each such holder in the same or substantially similar proportion (on a fully diluted basis) as such holder's ownership of voting capital stock of the Company immediately before the merger or consolidation; or (iv) the individuals who, as of the date of this Agreement were members of the Board (the "Incumbent Board"), cease for any reason to constitute at least a majority of the Board; provided, however, that if either the election of any new director or the nomination for election of any new director by the

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YOU ARE STRONGLY ENCOURAGED TO READ THIS DOCUMENT CAREFULLY AND TO CONSULT WITH AN ATTORNEY BEFORE EXECUTING THIS DOCUMENT.

constitute "parachute payments" (as defined in Code ss.280G) (hereinafter referred to as "Parachute Payments") would be subject to the Code ss.4999 excise tax. If the ITC determines that the Parachute Payments to the Executive would be subject to the Code ss.4999 excise tax, then the Executive shall receive an additional lump sum cash payment (the "Gross-Up Payment") in an amount such that after payment by the Executive of all taxes (including any Code ss.4999 excise tax) imposed upon the Gross-Up Payment and any interest or penalties imposed with respect to such taxes, the Executive shall retain from the Gross-Up Payment an amount equal to the Code ss.4999 excise tax imposed upon the Parachute Payments, but in no event shall such Gross-Up Payment exceed one million two hundred thousand dollars (\$1,200,000.00). If the ITC shall determine that no Code ss.4999 excise tax is payable by the Executive, the ITC shall furnish the Executive with a written opinion that the Executive has substantial authority not to report any Code ss.4999 excise tax due on the Executive's income tax returns.

(d) The Executive shall notify the Company in writing within 15 days of any claim by the Internal Revenue Service ("IRS") that, if successful, would require the payment by the Company of Code ss.4999 excise tax on behalf of the Executive. If the Executive is subsequently required to make a payment of any Code ss.4999 excise tax by the IRS, then the Company shall make a payment to the Executive equal to the difference between the proper Gross-Up Payment which should have been made to the Executive originally assuming that the IRS assessment is correct and the actual initial Gross-Up Payment (the "Gross-Up Underpayment"), as determined by the ITC; provided, however, the Company may, in lieu of making such Gross-Up Underpayment to the Executive, notify the Executive in writing that it desires that the Executive contest the IRS' claim, in which case the Executive and the Company shall cooperate, and the Company shall bear all costs and expenses (including payment of any resulting Gross-Up Underpayment ultimately determined to be due, additional interest and penalties) incurred in connection with contesting such claim.

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/ Alan J. Dabbiere

Name: Alan J. Dabbiere

Title: Chairman

Date:

EXECUTIVE:

/s/ Richard Haddrill

Richard Haddrill

Date: 10/11/99

SEPARATION AGREEMENT AND GENERAL RELEASE

DATED 21ST OCTOBER 1999

TEKTRONIX UK LIMITED

AND

MANHATTAN ASSOCIATES LIMITED

AND

MANHATTAN ASSOCIATES INC.

LEASE
OF
PART FIRST FLOOR BLOCK A THE ARENA
DOWNSHIRE WAY BRACKNELL BERKSHIRE

GEOFFREY LEAVER
251 UPPER THIRD STREET
CENTRAL MILTON KEYNES
MK9 1 DR

REF: REW.PW.TEKTRONIX.17784.40

1. PARTICULARS

- (1) Date 21st October 1999
- (2) Landlord: TEKTRONIX UK LIMITED (Company number 513537) whose registered office is at The Arena Downshire Way Bracknell Berkshire RG12 1PU
- (3) Tenant: MANHATTAN ASSOCIATES Limited (Company number 3562638) whose registered office is at The Arena Forum, Stockley Park, Uxbridge, Middlesex, UB11 1AA
- (4) Guarantor MANHATTAN ASSOCIATES INC. of 2300

Windy Ridge Park Way, 7th Floor, Atlanta, Georgia
30339, USA

- (5) Demised Premises ALL THAT part of the first floor premises known as part of Block A The Arena Downshire Way Bracknell more particularly described in Part of the First Schedule
- (6) Building The Building known as Block A The Arena Downshire Way Bracknell Berkshire comprised within the Superior Lease
- (7) Contractual Term: Commencing on the date hereof and continuing five years thereafter
- (8) Rent Commencement Date 18th January 2000

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- (9) Basic Rent: (pound) 241,558.00 per annum exclusive of VAT thereon
- (10) Permitted Use: High Class offices
- (11) Estate Shall have the same meaning as afforded to it in the Superior Lease
- (12) The Prescribed Rate: The yearly rate of four per cent per annum above the base lending rate for the time being of the Specified Bank PROVIDED THAT if such base lending rate shall cease to exist or otherwise be unascertainable there shall be substituted for such base lending rate such rate of interest as the Specified Bank shall state in writing to be the current market rate of interest charged in respect of short term loans of amounts of money similar to those outstanding due hereunder (in respect of which interest is payable) at minimum risk
- (14) Superior Lease Means the Lease short particulars of are contained in the Second Schedule hereto
- (15) Superior Landlord Means the Landlord under the Superior Lease and its successors in title

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2. DEFINITIONS AND INTERPRETATION

- (1) In this Lease the following expressions have the following meaning:-
- (a) "the Landlord" includes its respective successors in title and the person from time to time entitled to the reversion immediately expectant on the termination of the Term
- (b) "the Tenant" includes the Tenant's successors in title and those deriving title under it
- (c) "the Insurance Rent" means the rent secondly reserved by this Lease
- (d) "the Term" means the Contractual Term
- (e) "the Perpetuity Period" means the period of Eighty years from the date hereof which shall be the perpetuity period applicable to this Lease

- (f) "the Insured Risks" means the risks against which the Demised Premises and the Building are insured under the Superior Lease
- (g) "the Landlord's Surveyor" means the properly qualified and suitably experienced Surveyor from time to time appointed by the Landlord for the purposes of this Lease
- (h) "the 1954 Act" means the Landlord and Tenant Act 1954
- (i) "the Planning Acts" means the Town and Country Planning Act 1990. The Planning (Listed Building and Conservation Areas) Act 1990 The Planning (Hazardous Substances) Act 1990 The Planning (Consequential Provisions) Act 1990 The Planning and Compensation Act 1991 and any further legislation of a similar nature and any statutory modification or re-enactment of such legislation

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for the time being in force and any order regulation permission consent and direction made or issued under any such legislation

- (j) "the Specified Bank" means such one of the following banks National Westminster Bank Plc Barclays Bank Plc Lloyds Bank Plc and Midland Bank Plc or their respective successors in business as the Landlord shall stipulate (so that until further notice the Specified Bank shall be National Westminster Bank Plc)
- (k) "Value Added Tax" means Value Added Tax as provided for in the Value Added Tax Act 1994 and legislation (delegated or otherwise) supplemental thereto and any similar tax replacing supplementing or introduced in addition to the same
- (l) "Plan" means the plan annexed hereto
- (m) "Use Classes Order" means the Town and Country Planning (Use Classes) Order 1987 as originally enacted
- (n) "LTCA 1995" means the Landlord and Tenant (Covenants) Act 1995
- (o) "Authorised Guarantee Agreement" means an authorised guarantee agreement as defined in Section 16 of LTCA 1995
- (2) Where the Tenant for the time being is two or more persons obligations expressed or implied to be made or undertaken by such party are deemed to be made or undertaken by such persons jointly and severally
- (3) Words importing one gender include all other genders and words importing the singular include the plural and vice versa

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- (4) References to "the last year of the Term" include the last year of the Term if the Term shall determine otherwise than by effluxion of time and references to "the expiration of the Term" include such other determination of the Term
- (5) References to any right of the Landlord to have access to the Demised Premises shall be construed as extending to any superior landlord under a Superior Lease which includes the Demised Premises and to all persons authorised in writing by the Landlord (including agents professional advisers contractors workmen and others) which authority shall be

produced to the Tenant before such access is made

- (6) Any covenant by the Tenant not to do an act or thing shall be deemed to include an obligation to use all reasonable endeavours not to permit or suffer such act or thing to be done
- (7) Any provisions in this Lease referring to the consent or approval of the Landlord shall be construed as also requiring the consent or approval of any superior landlord under a superior lease where such consent shall be required under any superior lease (which the Landlord shall use its reasonable endeavours to obtain at the cost of the Tenant) but nothing in this Lease shall be construed as implying that any obligation is imposed upon any such superior landlord not unreasonably to refuse any such consent or approval unless the superior lease so provides
- (8) Reference to "consent of the Landlord" or words to similar effect means a consent in writing signed by or on behalf of the Landlord and to "be approved"

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and "authorised" or words to similar effect mean (as the case may be) approved or authorised in writing by or on behalf of the Landlord

- (9) Any references (including references in this Clause 2) to a specific statute include any statutory extension or modification amendment or re-enactment of such statute and any regulations or orders made under such statute and any general reference to "statute" or "statutes" includes any regulations or orders made under such statute or statutes
- (10) References in this Lease to any clause sub-clause or schedule without further designation shall be construed as a reference to the clause sub-clause or schedule to this Lease as numbered
- (11) The clause paragraph and schedule headings and the table of contents shall not be taken into account in the construction or interpretation of this Lease
- (12) Expressions defined or given meanings in the Particulars (Clause 1 of this Lease) shall have those meanings where used in the Lease

3. DEMISE

In consideration of the rents and the covenants on the part of the Tenant the Landlord DEMISES the Demised Premises to the Tenant TOGETHER WITH the rights mentioned in Part II of the First Schedule SUBJECT TO all rights easements privileges restrictions covenants and stipulations of whatever nature affecting the Demised Premises but EXCEPTING AND RESERVING the rights mentioned in Part III of the First Schedule TO HOLD to the Tenant for the Contractual Term YIELDING AND PAYING to the Landlord therefor the following rents NAMELY:-

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- (1) FIRSTLY from and including the Rent Commencement Date the Basic Rent by equal quarterly instalments without any deduction or set off in advance on the usual quarter days by Banker's Standing Order to such Bank as the Landlord shall determine the first payment being a duly apportioned part of it calculated from the Rent Commencement Date until the next quarter day thereafter to be paid on the Rent Commencement Date
- (2) SECONDLY by way of further rent all interest and other amounts payable to

the Landlord as referred to in clause 4(25) hereof

(3) THIRDLY any Value Added Tax which is or may be chargeable in respect of the rents reserved by this lease provided that the Landlord shall provide to the Tenant a valid VAT invoice in relation thereto

4. TENANT'S COVENANTS

The Tenant COVENANTS with the Landlord as follows:-

TO PAY RENT

(1) to pay the said rents as aforesaid, whether formally demanded or not, without any deduction or set-off whatsoever

TO PAY OUTGOINGS

(2) from time to time and at all times during the Term to pay within 7 days of demand all rates taxes charges duties assessments and outgoings of whatsoever nature (including those of a capital or non-recurring nature) which are now or which may at any time during (or in respect of any part of) the Term be levied assessed imposed or payable in respect of the Demised Premises or the occupation or ownership thereof

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(except such as are payable on a disposal of the Landlord's reversion hereto and income or corporation tax charged on the Landlord)

TO PAY SUPPLIERS

(3) to pay the suppliers and to indemnify the Landlord within 7 days of demand against all charges for gas electricity and other services consumed or used at or in relation to the Demised Premises (including standing charges and meter rents)

TO PAY VAT

(4) where by virtue of any of the provisions of this Lease the Tenant is required to pay repay or reimburse to the Landlord or any person or persons any rent premium cost fee charge insurance premium expense or other sum or amount whatsoever in respect of the supply of any goods and/or services by the Landlord or any other person or persons the Tenant shall also be required in addition to pay within 7 days of demand or (as the case may be) keep the Landlord indemnified against:-

- (i) the amount of any Value Added Tax which may be chargeable in respect of such supply (whether by reason of statute or the election or decision of the Landlord or otherwise) and/or
- (ii) a sum or sums equal to the amount of Value Added Tax charged (for whatsoever reason and whether directly or indirectly) to the Landlord or such other person or persons in connection with such supply

TO PAY INTEREST

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(5) if the Basic Rent is not paid in full on the due dates for payment thereof or if any other sum (including the Insurance Rent) is not paid in full on the due date for payment the Tenant shall pay interest at

the Prescribed Rate which shall accrue from day to day with three monthly rests on the Rent days from the due date for payment until actual payment in full

TO EXECUTE WORKS AND COMPLY WITH STATUTES

- (6) (a) to execute at the Tenant's own expense all works required in pursuance of any Act of Parliament or required by any local public or other competent authority or court of competent jurisdiction to be done in or in respect of the Demised Premises whether by the Tenant or the Landlord or by any other person (however described) but only insofar as any such works relate to the Tenant's use and occupation of the Demised Premises
- (b) if the Tenant fails to commence with any work required as aforesaid within the time stipulated by the Act of Parliament or authority in question then the Landlord may enter the Demised Premises with workmen and others and carry out such works and all its expenses incurred in so doing (plus a reasonable fee for supervising the same) shall on completion of the works be due as a debt payable on demand by the Tenant to the Landlord
- (c) to comply in all respects with the provisions of any statutes and any other obligations imposed by law applicable to the Tenant's use and occupation of the Demised Premises including but not limited to the Office Shops and Railways

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Premises Act 1963 the Fire Precautions Act 1971 and the Health and Safety at Work etc Act 1974

- (d) to keep at the Tenant's expense the Demised Premises supplied and equipped with adequate fire fighting apparatus and appliances and to maintain such apparatus and appliances in good working order and not to obstruct the access to or means of working of such apparatus and appliances
- (e) to indemnify the Landlord against all loss damage claims costs and demands resulting from any such requirement as aforesaid or the Tenant's failure to comply with the same

TO REPAIR ETC

- (7) (a) to keep the Demised Premises and each and every part thereof in good and substantial repair and condition fair wear and tear excepted (excepting damage caused by any of the Insured Risks (but the Tenant shall pay to the Landlord within 7 working days of written demand any excess on the Landlord's policy thereof) unless the insurance is vitiated or payment of insurance monies refused in whole or part as the result of some act or default by the Tenant or any permitted undertenant or their respective servants agents or licensees) provided that the Tenant's liability is limited to the extent that the Landlord does not effect any recovery under clause 5(4) hereof
- (b) to decorate the Demised Premises in a good and workmanlike manner and with appropriate materials of good quality (in colours approved by the Landlord) in the last year of the Term however determined

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- (c) to keep the Demised Premises clean and tidy and to clean the interior

surfaces of all glass within windows or doors of the Demised Premises at least once in every quarter

- (d) to permit the Landlord and its agents with or without workmen and others at reasonable times and upon reasonable notice, except in the case of emergency, to enter the Demised Premises and to inspect its condition and state of repair or to inspect for any other purpose and to take inventories of any fixtures plant and machinery therein to be yielded upon the termination of the term
- (e) within two months after the service of a schedule of dilapidations to carry out and complete all works thereby required which are the Tenant's responsibility under the provisions of this Lease
- (f) if the Tenant shall not within two months after the service of a schedule of dilapidations have begun or be proceeding expeditiously to comply with the same the Landlord may (without prejudice to its right of re-entry) enter the Demised Premises with workmen and others and carry out such works as may be necessary to comply with the schedule and the cost thereof (including all professional fees and a reasonable fee for the Landlord for supervising the works) shall on completion of the works be due as a debt payable on demand by the Tenant to the Landlord
- (g) at the expiration of the Term to yield up the Demised Premises (Tenant's or trade fixtures only excepted) to the Landlord repaired cleaned and decorated as aforesaid with all Tenant's fixtures and fittings having been removed and all

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damage occasioned by such removal made good to the reasonable satisfaction of the Landlord's Surveyor and to pay such Surveyor's fees in relation thereto

ALTERATIONS

- (8) (a) not to cut maim or remove any wall timber beam column stanchion ceiling floor or foundation or wall beam floor slab column or foundation or any other structural or load bearing part of the Demised Premises (save for the purpose of making good any defect therein) or make any external alteration or addition to the Demised Premises
- (b) not to alter or remove any of the items specified in sub-clause 4(7)(d) hereof (save for the purpose of making good any defect therein)
- (c) not without the previous consent in writing of the Landlord (such consent not to be unreasonably withheld or delayed) to make any alterations to the Demised Premises provided that the Tenant may install alter or remove internal demountable partitioning which does not affect the structure of the Building or affect the air conditioning fire protection or other building systems without consent of the Landlord provided that the Tenant supplies 2 copies of as built drawings to the Landlord forthwith upon completion of any such works
- (d) if so required in writing by the Landlord not less than three calendar months prior to the end or sooner determination of this Lease at the cost of the Tenant to reinstate and make good the Demised Premises as if any alterations made by the Tenant (whether or not requiring consent of the Landlord) had not been made such reinstatement and making good to be to the reasonable satisfaction of the

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Landlord's Surveyor and to pay such Surveyor's proper and reasonable fees in relation thereto

- (e) upon each application for such consent to supply the Landlord (at the expense of the Tenant) with four sets of drawings and specifications of each proposed alteration or installation for approval by it (such approval not to be unreasonably withheld or delayed)
- (f) not to carry out any works to which the Landlord has consented save in accordance with drawings and specifications approved as aforesaid
- (g) on completion of the installation of anything which shall become part of the Demised Premises within 21 days to give to the Landlord written notice of the same stating the full cost of reinstatement thereof

PLANNING

- (9) (a) not to commit any breach of the Planning Acts
- (b) not without the consent in writing of the Landlord (such consent not to be unreasonably withheld or delayed) to apply for planning permission to carry out any development in or upon the Demised Premises and in any event at the expense of the Tenant to supply the Landlord with a copy of any application for planning permission together with such plans and other documents as the Landlord may reasonably require and a copy of any planning permission granted to the Tenant
- (c) notwithstanding any consent which may be granted by the Landlord hereunder the Tenant will not carry out any alteration to the Demised Premises nor make

any change of use thereof (being an alteration or addition or change of use which is prohibited by or for which the Landlord's consent is required to be obtained hereunder and for which a planning permission needs to be obtained) before any requisite planning permission therefor has been produced to the Landlord and acknowledged by the Landlord in writing as satisfactory to the Landlord (such acknowledgement not to be unreasonably withheld or delayed) but so that the Landlord may only refuse so to express its satisfaction with any such planning permission on the ground that the period thereof or anything contained therein or omitted therefrom would in the reasonable opinion of the Landlord or might be or become prejudicial to the interest of the Landlord in the Demised Premises whether during the Term or thereafter

- (d) to pay and satisfy any charge that may be imposed upon any breach by the Tenant of planning control or otherwise under the Planning Acts
- (e) unless the Landlord shall otherwise direct to carry out before the expiry or sooner determination of this Lease any works required to be carried out to or in the Demised Premises as a condition of any planning permission which may have been granted during the Term on the application of the Tenant irrespective of the date before which such other works were thereby required to be carried out
- (f) expressions used in this sub-clause shall be construed in accordance with the Planning Acts

COMPLIANCE WITH NOTICES

- (10) at the expense of the Tenant:-
- (a) upon receipt by the Tenant of any notice order requisition direction or other thing affecting or likely to affect the Demised Premises forthwith to supply a copy thereof to the Landlord
- (b) to take at the cost of the Tenant such steps (whether by legal proceedings or otherwise) as the Landlord may reasonably require in response to any such notice order requisition direction or other thing as aforesaid provided that the Landlord may only request compliance by the Tenant with any such notice order requisition direction or other thing insofar as it relates to the Tenant's use and occupation of the Demised Premises

PERMITTED USE ETC

- (11) (a) not to use the Demised Premises or suffer it to be used for any purpose other than the Permitted Use
- (b) not to hold or permit to be held any sale by auction public exhibition political meeting show or spectacle in the Demised Premises
- (c) not to use or permit or suffer to be used the Demised Premises
- (i) for any illegal or immoral purpose
- (ii) for any noisy noxious offensive or dangerous trade art manufacture business or occupation or for the sale of second hand goods or for gambling
- (iii) in such a way as causes nuisance disturbance inconvenience or annoyance to the owners or occupiers of any neighbouring property

- (d) not to bring to or keep in the Demised Premises any vibrating machinery or any inflammable substance
- (e) not without the previous consent in writing of the Landlord to affix or install or permit or suffer to be affixed or installed any machinery in the Demised Premises other than machinery and equipment required in relation to the Permitted Use
- (f) not to overload the Demised Premises or any part of it
- (g) not to permit or suffer any person to sleep or reside in the Demised Premises

ENCROACHMENT

- (12) (a) not to stop up darken or obstruct any window or other aperture in the Demised Premises or any adjoining premises belonging to the Landlord
- (b) not to permit or suffer any easement to be acquired or encroachment made against or upon the Demised Premises and promptly to give notice to the Landlord of any attempt to acquire or make the same and at the cost of the Landlord to take such steps (whether by legal proceedings or otherwise) as are necessary to prevent the same from being acquired or made

SIGNS

(13) not without obtaining the prior written consent of the Landlord (such consent not to be unreasonably withheld or delayed) to affix to or display on or to permit to be affixed to or displayed on the Demised premises any sign hoarding poster placard blind or advertisement whatsoever which shall be visible from the outside of the Demised Premises except such means of identification and other

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notices as shall be reasonably necessary in connection with the use and occupation of the Demised Premises

ALIENATION

(14) (a) not to assign or transfer part only of the Demised Premises and not to charge the whole or any part of the Demised Premises

(b) not to share or part with possession of the whole or any part of the Demised Premises (except as expressly permitted by this Lease and by clause 27.18 of the fourth Schedule of the Superior Lease)

(c) not to assign the whole of the Demised Premises other than in accordance with the following terms and conditions precedent

(i) On and before completion of an assignment there is delivered to the Landlord a Deed:-

(a) executed by the intended assignee containing covenants (jointly and severally if more than one) with the Landlord to pay the rents and to perform and observe the Tenant's covenants herein contained during the period expiring on completion of an assignment by such intended assignee of this Lease which is not an excluded assignment for the purposes of Section 11 of LTCA 1995;

(b) containing an Authorised Guarantee Agreement by the intended assignor (jointly and severally if more than one) with the Landlord in the form contained in Clause 7 hereto mutatis mutandis with "the Assignor" substituted for "Guarantor" and the name of the intended assignee substituted for "Tenant"

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(ii) if the Landlord reasonably requires the intended assignee shall provide a guarantor or guarantors reasonably acceptable to the Landlord who shall covenant (jointly and severally if more than one) with the Landlord in the terms contained in Clause 7 hereof mutatis mutandis with the name of the intended assignee substituted for "Tenant"

(d) The Tenant may not assign the whole of the Demised Premises:-

(i) except to an assignee whose character status covenant and financial standing would be regarded by a prudent Landlord as acceptable

(ii) without the prior satisfaction of each of the conditions precedent detailed in sub-clause (c) above and without the prior written consent of the Landlord which consent shall not (subject to the prior satisfaction of each of the conditions precedent specified in sub-clause (c) above) otherwise be

unreasonably withheld or delayed

- (e) not to underlet the whole or part only of the Demised Premises PROVIDED THAT so long as each of the conditions precedent set out in this sub-clause are first satisfied the Tenant may underlet the whole of the Demised Premises

The conditions precedent are:-

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- (i) no such underletting shall be for a term of years which extends beyond the Contractual Term (less seven days)
- (ii) any such underletting shall be excluded from the provisions of Sections 24 to 28 of the 1954 Act by an Order of the relevant court being obtained pursuant to Section 38(4) of the 1954 Act and any underlease shall contain an agreement to exclude those sections
- (iii) the initial rent under any such underletting shall be the full open market rental value of the premises then underlet then obtainable without taking a fine or premium
- (iv) the provisions of every underlease must fully reflect the provisions requirements exceptions and reservations stipulations covenants on the part of the Tenant and declarations of this Lease (apart from the duration of the sub-term to be granted and the actual amount of the rent to be reserved) and every underlease must otherwise be granted on open market rack rent terms at the full open market rent reasonably obtainable without any fine or premium and must include provisions for the recovery by the Tenant of the whole or proper proportion of any service charges from the undertenant payable by the Tenant under this Lease and the Tenant must agree with the Landlord to enforce every such provision and term

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- (f) provided that each of the conditions precedent are first satisfied the Tenant may grant the relevant underlease with the prior written consent of the Landlord (which consent shall not be unreasonably withheld or delayed)
- (g) not to underlet the whole or any part of the Demised Premises unless the undertenant has first entered into direct covenants with the Landlord to perform and observe throughout the term of the underletting the provisions required by sub-clauses 4(14)(h)(i) to (v) be contained in the underlease
- (h) any underlease shall include provisions (in a form first approved by the Landlord such approval not to be unreasonably withheld or delayed):-
- (i) prohibiting the undertenant from doing or allowing on or in relation to the underlet premises any act or thing inconsistent with or in breach of the terms of this Lease
- (ii) prohibiting the undertenant from sub-underletting or charging the whole or any part of the underlet premises or (save

pursuant to an assignment of the whole of the underlet premises) from holding on trust for another or parting with the possession of the whole or any part of the underlet premises or permitting another to occupy the whole or any part thereof

- (iii) prohibiting the undertenant from assigning any part (as opposed to the whole) of the underlet premises
- (iv) prohibiting the undertenant from assigning the whole of the underlet premises without the prior written consent of the

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Landlord under this Lease (such consent not to be unreasonably withheld)

- (v) imposing on the undertenant in relation to any permitted assignment transfer or other transmission or devolution affecting the undertenant's interest in the underlet premises the same obligations as are imposed on the Tenant by this Sub-Clause 4(14)(h)
- (i) in relation to every permitted underletting:-
- (i) to use reasonable endeavors including the expenditure of money to enforce the performance and observance by the undertenant of the terms of the underlease
 - (ii) not at any time expressly to waive any breach of the covenants or conditions on the part of the undertenant or of any assignee of the underlease
 - (iii) not without the prior consent of the Landlord (such consent not to be unreasonably withheld or delayed) to vary the terms of the underlease
- (j) within one month after any assignment underletting devolution or disposition of the Demised Premises to give notice thereof to the Landlord and at the Tenant's expense to supply the Landlord with a copy (certified by a solicitor to be true) of the instrument which effects or evidences the same and to pay to the Landlord any reasonable fee (plus VAT) for registering the same

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COSTS

- (15) to pay within seven days of written demand therefor all reasonable and proper costs and expenses properly incurred by the Landlord (including but not limited to the fees and disbursements to the Landlord's Surveyor or managing agent, whether employed by a company associated with the Landlord or not) and the Landlord's solicitors in connection with:-
- (i) any application or request or proposed application or request by the Tenant in connection with the Demised Premises or any of the provisions hereof and whether or not the same shall be proceeded with by the Tenant or shall be granted or reasonably and lawfully refused or granted subject to reasonable conditions
 - (ii) any breach of any of the covenants on the part of the Tenant hereunder and any steps taken in reasonable contemplation of or in connection with the preparation and service of a notice

under Section 146 or 147 of the Law of Property Act 1925 or any other Act requiring the Tenant to remedy a breach of any of the covenants herein contained (even if forfeiture is avoided otherwise than by relief granted by the Court)

- (iii) the preparation and service of a schedule of dilapidations during or within 3 months after the expiry or determination of the Contractual Term but relating to the Contractual Term
- (iv) the recovery of arrears of rent or any other sums payable hereunder and any proceedings in connection therewith

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INDEMNITY

- (16) to indemnify the Landlord against all loss damage claims proceedings and demands arising out of:-
- (i) (save for use in accordance with the Permitted Use) the use or misuse by the Tenant or their respective servants or agents of the Demised Premises or any part thereof
 - (ii) any liability imposed on the Landlord at common law or by Act of Parliament in relation to the condition or state of repair of the Demised Premises and will display in such position as may be reasonably designated by the Landlord such notice as the Landlord may reasonably require disclaiming liability as aforesaid
 - (iii) any sum payable in respect of any excess in relation to any claim on any insurance policy affecting or in relation to the Demised Premises
 - (iv) any breach of covenant on the part of the Tenant contained in this Lease
 - (v) anything now or during the Term installed by the Tenant attached to or projecting from the Demised Premises
 - (vi) any act neglect or default by the Tenant any subtenant or their respective servants agents licensees or persons on the Demised Premises with the actual or implied authority of any of them

PERMIT ENTRY

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- (17) to permit the Landlord and all persons authorized by it to enter the Demised Premises with or without workmen and others for any or all of the following purposes:-
- (a) during the last six months of the Contractual Term (whether determined by effluxion of time or by the exercise of any right of determination contained in this Lease) and thereafter to affix and maintain on a conspicuous part of the Demised Premises but not so as to materially interfere with the access of light or air to the Demised Premises a signboard of a reasonable size advertising the same for reletting and to permit the Landlord and all persons authorized by it at all

reasonable times during normal business hours and by appointment to enter and view with prospective new tenants the Demised Premises

- (b) at any time during the Term to affix and maintain on a conspicuous part of the Demised Premises a signboard of a reasonable size for the disposition of its interest in the Demised Premises or part thereof and to permit the Landlord and all persons authorized by it at all reasonable times during normal business hours and by appointment to enter and view the Demised Premises without interruption
- (c) to repair renew inspect or connect any pipe wire drain conduits or other conducting media within the Demised Premises
- (d) to carry out any works (whether or repair or otherwise) for which the Landlord or the Tenant is liable under this Lease

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- (e) to carry out any works (whether of repair or otherwise) to the Demised Premises or to any neighboring or property adjoining the Demised Premises or to any party structure sewer or drain
- (f) for any purpose mentioned in the Superior Lease

PROVIDED THAT the Landlord shall make good any damage forthwith which may be caused in exercising the right of entry contained in this clause 4(17)

TO GIVE NOTICE OF DEFECTS

- (18) to give notice to the Landlord of any defect in the Demised Premises which might give rise to an obligation on the Landlord to do or refrain from doing any act or thing in order to comply with the provisions of this Lease or the duty of care imposed on the landlord pursuant to the Defective Premises Act 1972 or otherwise and at all times to display and maintain all notices which the Landlord may from time to time reasonably require to be displayed at the Demised Premises

RATING VALUATION

- (19) to co-operate with the Landlord and at the Landlord's cost in seeking to procure that any rateable value assessed for the Demised Premises is as low as possible

NOT TO OBSTRUCT

- (20) not to obstruct (or park any vehicles upon) any roadways or footpaths or car park spaces at or near the Demised Premises

NOT TO EFFECT INSURANCE - NOTICE OF DESTRUCTION OR DAMAGE

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- (21) not to effect any insurance on or in respect of the Demised Premises or any part thereof (save in respect of glass and public and employer's liability) and in the event of the Demised Premises or any part thereof being destroyed or damaged the Tenant will give to the Landlord immediate notice in writing of such damage or destruction

NOT TO AVOID INSURANCE

- (22) (a) not to do on the Demised Premises or any neighboring premises any act or thing which makes void or voidable or renders any increased or extra premium payable in respect of any policy of such insurance effected by the Landlord hereunder and to reimburse to the Landlord forthwith on demand all increased or extra premiums which may be payable in respect of the Demised Premises or any neighboring premises by reason of any such act or thing and in addition and without prejudice to the rights and remedies of the Landlord forthwith on written demand from the Landlord or its insurers cease from doing that act or thing which has caused any policy of such insurance to be void or voidable
- (b) to comply at its own expense with all such requirements in respect of the Demised Premises as may from time to time be made by the insurers as a condition of the continuation or renewal of any relevant insurance effected by the Landlord hereunder

FISCAL IMPOSITION

- (23) not by the carrying out of any works on the Demised Premises or any part thereof or by any change in the use made of the Demised Premises or any part

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thereof do anything whereby the Landlord may be required to pay any tax or other fiscal imposition at any time during or after the Term

NO NOXIOUS DISCHARGES

- (24) (a) not to discharge into any sewers or drains on or serving the Demised Premises any oil grease or other deleterious or obstructive matter or substance which may be or become a source of damage to the said drains or sewers and in the event of any obstruction or injury forthwith to remedy the same and make good all damage to the entire satisfaction of the Landlord
- (b) not to keep or permit to suffer to be kept on the Demised Premises any substance of a dangerous corrosive combustible explosive radio-active volatile unstable or offensive nature or which might in any way injure the Demised Premises or the sewers and drains serving the same or the keeping or use of which may contravene any statute order regulation or bye-law

ITEMS OF COMMON USE AND BENEFIT

- (25) (1) The Tenant shall pay in respect of service charge for the Property to the Landlord pursuant to the provisions of paragraph 36 of the Fourth Schedule to the Superior Lease save insofar as the payments relate in any way whatsoever to any works to the roof of the Building by equal quarterly payments in advance on the usual quarter days (the first proportionate payment being in respect of the period from the Rent Commencement Date to the quarter day next following the Rent Commencement Date such payment to be made on the Rent

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Commencement Date) a sum to equate to (pound) 29,662 per annum ("the initial contribution")

- (2) After the expenditure for each relevant year shall have been ascertained and certified by the Landlord's surveyor or agent the Tenant shall pay to the Landlord within fourteen days of demand or the Landlord shall allow the Tenant (as the case may require) the difference between the initial contribution paid by the Tenant for the relevant year and a percentage of the actual amount of the service charge payable in respect of the Building such percentage being 13.65% for that relevant year
- (3) Every certificate of the Landlord's surveyor or agent as to the expenditure or any sum payable by the Tenant hereunder shall be in writing and save in the case of manifest error be final and binding on the Landlord and Tenant. The Landlord shall if so required by the Tenant and within one month of the date on which the certificate is given make available for inspection by the Tenant at the offices of the Landlord or its surveyor or during business hours copies of all available vouchers receipts invoices or other documentary evidence sufficient to enable the Tenant to verify the accuracy of the certificate
- (4) The expenditure shall be ascertained and certified by the Landlord's surveyor for each successive period of 12 months expiring on such date as the Landlord may from time to time select and as notified to the Tenant

EXCLUSION OF SECURITY OF TENURE

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- (26) having been authorized to do so by an order of the Reading County Court dated September 15th, 1999 the Landlord and the Tenant agree to exclude the provisions of Section 24 to 28 of the Landlord and tenant Act 1954 in relation to the tenancy created by this lease

OPTION TO DETERMINE

- (27) The Tenant may determine this lease at the end of the third year of the Term by giving to the Landlord not less than six months previous notice in writing to that effect provided that the Tenant shall have paid all the rents to be paid up to the date of such determination and shall on such determination give vacant possession of the whole of the Demised Premises to the Landlord then and in such event this lease and everything contained shall cease and be void but without prejudice to any right of action or remedy of either party in respect of any antecedent breach or non performance of any of the covenants on the part of the other hereinbefore contained

SUPERIOR LEASE

- (28) to observe and perform the covenants and Regulations on the part of the lessee contained in the Superior Lease except for the covenant for payment of rent and service charge in so far as the same relate to or affect the Demised Premises (except for the covenant for the payment of the rent(s) reserved thereby) and not to do or omit to be done any act or thing in relation to the Demised Premises which would or might cause the Landlord to be in breach of the covenants on the part of the lessee or the conditions or other things contained in the Superior

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Lease save insofar as the covenants and regulations contained in the Superior Lease conflict with the covenants and regulations contained in this Lease whereupon the covenants and regulations contained in this Lease shall prevail

- (29) to inform the Landlord forthwith of any intention to leave the Demised Premises vacant for a period of fourteen days or more
- (30) to advise the Landlord and thereafter keep the same fully informed as to the progress of any dispute or potential dispute between the Tenant and any superior landlord and to give details of the nature of the dispute together with all other relevant facts and information

5. LANDLORDS COVENANTS

The Landlord COVENANTS with the Tenant as follows:-

TO INSURE

- (1) (a) to use its best endeavors to keep or to procure the keeping of the Building (but not Tenant's fixtures) insured against loss or damage by the Insured Risks subject to such limitations conditions and exclusions as the insurers may impose in an amount sufficient to cover the cost of rebuilding or fully reinstating the same (including the cost of all professional fees debris removal demolition and site clearance costs and the cost of any works which may be required by or by virtue of any Act of Parliament and all VAT in connection therewith)
- (b) upon request by the Tenant to produce at the Tenant's expense (but not more often than once in any year) sufficient details of any policy of insurance effected

by the Landlord pursuant to sub-clause 5(1) (a) above or the Superior Landlord under the Superior Lease

- (c) in the event of the Building being destroyed or damaged by any of the Insured Risks and the policy of insurance not being vitiated by some act or default of the Tenant any permitted undertenant or any one at the Demised Premises under the control of the Tenant or any permitted undertenant or their respective servants agents licensees and invitees to procure that all insurance monies received by the Superior Landlord (other than in respect of loss of rent) are paid out with all reasonable speed in rebuilding and reinstating the Building or such part of it as shall have been so destroyed or damaged
- (d) If at the expiration of the period for which the Landlord has insured loss of rent from the Demised Premises (or such longer period as shall be agreed in writing between the Landlord and the Tenant before the expiry of such period) calculated from the date upon which the Demised Premises shall have been destroyed or so damaged by any of the Insured Risks as to render them unfit for occupation and use and:
 - (a) the insurance of the Demised Premises effected pursuant to the covenant by the Landlord in that behalf contained in this Lease has not been vitiated or prejudiced by or payment of the policy moneys refused in whole or in part as a consequence of any act or default of the Tenant or any undertenant or their respective servants agents or visitors and

- (b) the Landlord shall have been unable to obtain all necessary consents and approvals for the rebuilding replacement and/or reinstatement of the Demised Premises

then and in such case (unless otherwise agreed in writing between the Landlord and the Tenant prior to the expiration of such period as aforesaid) this Lease shall absolutely determine provided always that such determination will take place without prejudice to any and all rights then subsisting between the parties to this Lease

QUIET ENJOYMENT

- (2) That on condition that the Tenant pays the rent and performs and observes all its covenants and obligations under this Lease and all its conditions it shall have quiet enjoyment of the Demised Premises without interruption by the Landlord or any person claiming under or in trust for it

SUPERIOR LEASE

- (3) To pay the rents and service charge reserved by the Superior Lease and observe and perform the covenants on the part of the lessee and conditions and other things contained therein insofar as the same are not the responsibility of the Tenant hereunder and to use all reasonable endeavors at the request and cost of the Tenant to procure the performance by the superior landlord of the covenants on its part contained in the Superior Lease

WARRANTIES

- (4)a) The Landlord will use all reasonable endeavors to enforce the rights it has pursuant to the warranties details of which are contained in the Third Schedule ("The Warranties") insofar as there is any defect in the Demised Premises which is due to any breach of the obligations owed to the Landlord pursuant to the Warranties
- (4)b) The Tenant shall notify the Landlord in writing of any such defect as described above and the Landlord shall forthwith use its reasonable endeavours to enforce the rights it has pursuant to the Warranties and shall supply to the Tenant copies of all correspondence relating thereto and shall keep the Tenant fully informed of the progress of any claims

5.5 COMPETITION

- (i) The Landlord shall not grant a lease of any part or of the whole of the Building to any party whom the parties hereto agree to be a competitor of the Tenant. The Landlord shall notify the Tenant in writing before granting any such lease with full details of the intended new tenant ("the New Tenant") whereupon the Tenant (acting reasonably) shall within 5 working days of receipt of such notice inform the Landlord of whether or not it considers the New Tenant to be a competitor of the Tenant
- (ii) If there is any dispute as to whether the New Tenant is a competitor of the Tenant the matter shall be referred to a chartered accountant qualified for at least ten years and experienced in the provision of warehouse management software

solutions such accountant to be appointed by agreement of the parties hereto and in the event that the parties are unable to agree such appointment shall be made by the President (or other acting chief officer) for the time being of the Institute and Chartered Accountants of England and Wales whose decision to be made within ten working days of referral shall be final and binding on the parties

6. PROVISOS

PROVIDED ALWAYS and it is hereby agreed as follows:-

RE-ENTRY

- (1) If:
- (a) the Basic Rent and/or the Insurance Rent or any other sums due to the Landlord shall be in arrears for twenty one days next after becoming payable (whether formally demanded or not) or
 - (b) there shall be any breach non-performance or non-observance of any of the Tenant's covenants herein or
 - (c)
 - (i) a bankruptcy order is made in respect of the Tenant; or
 - (ii) any application is made in respect of the Tenant for an interim order under Section 253 Insolvency Act 1986; or
 - (iii) a person is appointed by the Court to prepare a report in respect of the Tenant under Section 273 Insolvency Act 1986; or
 - (iv) an interim receiver is appointed of the property of the Tenant under Section 286 Insolvency Act 1986; or
 - (d) (where the Tenant is a company):-

- (i) an order is made or a resolution passed for the winding up of the Tenant otherwise than for the purposes of amalgamation or reconstruction of a solvent company not involving a realisation of assets; or
- (ii) a provisional liquidator is appointed in respect of the Tenant otherwise than for the purposes of amalgamation or reconstruction of a solvent company not involving a realisation of assets; or
- (iii) a petition is presented or a meeting convened for the purposes of winding up the Tenant otherwise than for the purposes aforesaid; or
- (iv) An administration order is made or a petition for such order presented in respect of the Tenant; or
- (v) a receiver (including an administrative receiver) is appointed in respect of the Tenant or any of its assets; or
- (vi) any voluntary arrangement is proposed pursuant to Part I of

the Insolvency Act 1986 in respect of the Tenant; or

- (e) the Tenant shall enter into any arrangement or composition for the benefit of the Tenant's creditors or shall suffer any distress or execution to be levied on the Tenant's goods
- (f) the Tenant shall take the benefit of any Act for the relief of debtors then it shall be lawful for the Landlord or its agents at any time thereafter and notwithstanding the waiver or implied waiver of any previous right of re-entry under this Lease to re-enter the Demised Premises or any part thereof in the name of the whole and thereupon the Term shall absolutely determine but

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without prejudice to any right of action of the Landlord in respect of any antecedent breach by the Tenant of any of the obligations herein

SUSPENSION OF BASIC RENT

- (2) If the Building is destroyed or damaged by any of the Insured Risks so as to render the Demised Premises wholly or partly unfit for use and occupation and if none of the policies of insurance effected by the Superior Landlord are vitiated by some act or omission of the Tenant or any permitted undertenant or any one at the Demised Premises under the control of the Tenant or of any permitted undertenant or their respective servants agents licensees and invitees then the Basic Rent and service charge as referred to in clause 4(25) hereof or a fair proportion of it shall be suspended and cease to be payable from the date of the destruction or damage until the Demised Premises is again fit for use and occupation PROVIDED THAT if there is any dispute as to the fair and reasonable proportion of the Basic Rent and service charge as referred to above that is to be suspended pursuant to this clause the matter shall be determined by a single arbitrator to be appointed by the Landlord and the Tenant or (if they cannot agree on such appointment) by the President or the acting chief officer for the time being of the Royal Institution of Chartered Surveyors in accordance with the Arbitration Act 1996 or any statutory modification or re-enactment thereof

EXCLUSION OF USE WARRANTY

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- (3) Nothing in this Lease or in any consent granted by the Landlord under this Lease shall imply or warrant that the Demised Premises may lawfully be used under the Planning Acts for the Permitted Use (or any purpose subsequently authorised)

ENTIRE UNDERSTANDING

- (4) This Lease embodies the entire understanding of the parties relating to the Demised Premises and to all the matters dealt with by any of the provisions of this Lease

LICENCES ETC UNDER HAND

- (5) Whilst the Landlord is a limited company or other corporation all licences consents approvals and notices required to be given by the Landlord shall be sufficiently given if given under the hand of a

director the secretary or other duly authorised officer of the Landlord

TENANT'S PROPERTY

(6) If after the Tenant has vacated the Demised Premises at the end or sooner termination of the Term any property of the Tenant remains in or on the Demised Premises and the Tenant fails to remove it within 14 days after being requested in writing by the Landlord to do so:-

(a) the Landlord may as the agent of the Tenant sell such property and the Tenant will indemnify the Landlord against any liability incurred by it to any third party whose property shall have been sold by the Landlord in the mistaken

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belief held in good faith (which shall be presumed unless the contrary be proved) that such property belonged to the Tenant

(b) if the Landlord having made reasonable efforts is unable to locate the Tenant the Landlord shall be entitled to retain such proceeds of sale absolutely unless the Tenant shall claim them within 6 months of the date upon which the Tenant vacated the Demised Premises and

(c) the Tenant shall indemnify the Landlord against any damage occasioned to the Demised Premises and any actions claims proceedings costs expenses and demands made against the Landlord caused by or related to the presence of the property in or on the Demised Premises

COVENANTS REAL AND PERSONAL

(7) That the covenants herein contained are considered and intended to be not only personal covenants but also real covenants affecting and running with the Demised Premises and every part thereof

NOTICES

(8) The provisions of Section 196 of the Law of Property Act 1925 as amended shall apply to all notices or schedules required or permitted to be served hereunder

AGREEMENT FOR LEASE

(9) The parties hereby certify that there is no agreement for Lease (or tack) to which this Lease gives effect

COSTS

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(10) Each party shall pay its own costs in connection with the preparation and completion of this lease except for the costs of the Superior Landlord's Solicitors and Surveyors which shall be shared equally between the Landlord and the Tenant

JURISDICTION

(11) The High Court of Justice in England shall have non-exclusive jurisdiction to entertain any action or proceedings whatsoever in

respect of this lease or any provision thereof of any matter or thing arising under or by virtue or consequent upon this lease

(12) SERVICE OF PROCESS

- a) In connection with this lease the Guarantor shall at all times maintain an agent for service of process and any other documents in proceedings in England
- b) Such agent shall be Simmons & Simmons of 21 Wilson Street London EC2M 2TX and any writ judgment or other notice of legal process shall be sufficiently served on the Guarantor if delivered to such agent at its address for the time being
- c) The Guarantor irrevocably undertakes not to revoke the authority of the above agent and if for any reason the Landlord requests the Guarantor to do so the Guarantor shall promptly appoint another such agent with an address in England and advise the Landlord

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- d) If following such a request the Guarantor fails to appoint another agent then the Landlord shall be entitled to appoint one on behalf of the Guarantor

7. THE GUARANTOR COVENANTS with the Landlord as follows:-

(1) that the Tenant until released under Section 5 of LTCA 1995 will punctually pay the rents and will observe and perform all the Tenant's covenants in this Lease and that the Tenant will during the subsistence of any Authorised Guarantee Agreement entered into by the Tenant observe and perform all covenants given by the Tenant therein and that in case of any default by the Tenant in the payment of the rents or the observance or performance of the Tenant's covenants the Guarantor will make good to the Landlord on demand without set-off or counterclaim all loss damage costs and expenses arising out of such default and suffered by the Landlord PROVIDED THAT:-

(i) no neglect or forbearance of the Landlord in enforcing the payment of the rents or the observance or performance of the Tenant's covenants nor any refusal by the Landlord to accept rent tendered by or on behalf of the Tenant during the period in which the Landlord is entitled or would after service of a notice under Section 146 of the Law of Property Act 1925 be entitled to re-enter the Demised Premises and any time which may be given by the Landlord to the Tenant and any variation of this Lease shall discharge the Guarantor either in whole or in part or in any way affect his liability under this covenant

(ii) in the event that the Tenant surrenders part of the Demised Premises the liability of the Guarantor shall continue in respect of the part of the Demised

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Premises not so surrendered after making any necessary apportionments under Section 140 of the Law of Property Act 1925

(iii) the fact that the terms of this Lease may have been varied by agreement between the Landlord and the Tenant shall not discharge the

Guarantor in whole or in part or in any way affect the Guarantor's liability under this covenant

(iv) should the Tenant (here meaning Manhattan Associates Limited) or any assignee of that party cease to exist such event shall not discharge the Guarantor either in whole or in part or in any way affect his liability under this covenant

(2) That if this Lease is disclaimed or forfeited and if the Landlord by notice in writing within three months of receiving notice of such disclaimer or forfeiture so requires the Guarantor will take from the Landlord a Lease of the Demised Premises for a term commensurate with the residue of the term granted by this Lease which would have remained had there been no disclaimer or forfeiture at the same rent and subject to the same covenants and conditions as are reserved by and contained in this Lease with the exception of this clause to take effect from the date of such disclaimer or forfeiture and in such case the Guarantor will pay the costs and stamp duties of such new Lease and execute and deliver to the Landlord a counterpart of it

(3) That if the Landlord shall not require the Guarantor to take a Lease of the Demised Premises pursuant to sub-clause (2) above the Guarantor shall

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nevertheless upon demand pay to the Landlord a sum equal to the rent and other payments that would have been payable under this Lease but for the disclaimer or forfeiture until the expiration of three months from such event or until the Demised Premises shall have been relet by the Landlord whichever shall first occur

(4) The Guarantor waives any rights the Guarantor may have of first requiring the Landlord to proceed against or claim payment from the Tenant and the Guarantor agrees to subordinate and does hereby subordinate any and all claims the Guarantor may have against the Tenant existing now or arising later (whether in respect of payment made under this covenant or otherwise) to any and all claims by the Landlord under this Lease

(5) Any sums which may not otherwise be recoverable by the Landlord from the Tenant under this Lease by reason of any legal limitation immunity disability or incapacity or other circumstances relating to the Tenant (and whether or not known to the Landlord) shall nevertheless be recoverable from the Guarantor as principal debtor in respect thereof and this guarantee shall not be discharged nor the Guarantors liability under it be affected by the fact that any dealings with the Landlord by the Tenant may be outside or in excess of the powers of the Tenant

(6) The Guarantor shall not be entitled to participate in any security held by the Landlord in respect of the Tenant's obligations to the Landlord under this Deed or to stand in the place of the Landlord in respect of any such security until

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all the obligations on the part of the Tenant or the Guarantor to the

Landlord under the Lease shall have been performed or discharged

(7) No assured security or payment which may be avoided under any enactment relating to insolvency or bankruptcy and no release settlement or discharge which may have been given or made on the faith of any such assurance security or payment shall prejudice or affect the right of the Landlord to recover from the Guarantor to the full extent of this guarantee

(8) This guarantee shall enure to the benefit of the successors and assigns of the Landlord under this Lease and each of them

(9) This guarantee shall not be determined or affected by the insolvency or liquidation of either of the Guarantor or the Tenant or by any change in the constitution structure or powers of either the Guarantor the Tenant or the Landlord

(10) For the avoidance of doubt all references in this covenant to "this Lease" are references to this Lease and all deeds and documents additional or supplemental to it or to any of them

IN WITNESS whereof this document has been executed as a Deed by the parties hereto and is intended to be and is hereby delivered on the date first before written

THE FIRST SCHEDULE

PART I

THE DEMISED PREMISES

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ALL THAT first floor premises situate in the North Wing of the Building shown for the purpose of identification only edged red on the Plan including;

1. the decorative finishes on the inside of the exterior walls of the Building but not any of the other parts of the exterior walls; and
2. the floor finishes with the lower limit of the Demised Premises including the finishes but not extending to anything below them; and
3. the ceiling finishes with the upper limit of the Demised Premises including the finishes but not extending to anything above them; and
4. the whole of any non-load bearing walls within the Demised Premises; and
5. all replacement additions and improvements to the Demised Premises effected by the Tenant; and
6. all ducts shafts system tanks radiators water gas electricity and telephone supply pipes wires and cables sewers and drains soil pipes waste water pipes soakaways meters and any other pipes wires and cables other than those belonging to the relevant supply authorities exclusively serving the Demised Premises

PART II

RIGHTS INCLUDED IN THE DEMISE

1. The right in common with the Landlord and all others authorised by it or entitled to the like right to the free passage and running of water soil gas electricity telephone and other services or supplies through and along the pipes wires drains conduits and other conducting media

which now are or may within the Perpetuity Period be in the Building and the Estate

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2. The right of access to and egress from the Demised premises over along and upon the access ways staircases entrance halls and lifts serving the Demised Premises within the Building
3. The right in common with the Landlord and the owners and occupiers of adjoining premises and all others having the like right and those now or hereafter authorised by the Landlord in case of fire or other emergency of access and egress to and from the Demised Premises over other parts of the Building and the Estate
4. The right to park 35 motor vehicles in the car parking spaces shown coloured blue on the Plan marked "B" or in such alternative temporary spaces as may be reasonably agreed by the Landlord and the Tenant from time to time together also with the right to park 3 cars in the visitor car spaces shown coloured yellow on the Plan
5. The rights granted to the lessee in the Superior Lease so far as they relate to and affect the Demised Premises

PART III

EXCEPTIONS AND RESERVATIONS

1. The right to have any adjoining land or buildings now or during the Perpetuity Period belonging to the Landlord supported and sheltered by the Demised Premises

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2. The right for the Landlord and all person authorised by it at all reasonable times and on reasonable notice in writing (except in emergency) to enter the Demised Premises with or without workmen and others for any or all of the following purposes:-
 - (1) repairing renewing inspecting or connecting any pipe wire drain conduits or other conducting media within the Demised Premises
 - (2) carrying out any works (whether or repair or otherwise) for which the Landlord or the Tenant is liable under this Lease
 - (3) carrying out any works (whether of repair or otherwise) to the Demised Premises or to any property adjoining the Demised Premises or to any party structure sewer drain or pavement light
 - (4) any other purpose mentioned in this lease and the Superior Lease
3. The right to the free passage and running of water soil gas electricity telephone telecommunications and other services or supplies through and along the pipes wires drains conduits and other conducting media which now are or may within the Perpetuity Period be installed by the Landlord in the Demised Premises
4. The right for the owners and occupiers of the Building and persons authorised by the Landlord in case of fire and other emergency of

access and egress to and from the Building over the Demised Premises

5. The exceptions and reservations contained in the Superior Lease so far as they relate to and affect the Demised Premises

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PROVIDED ALWAYS that the Landlord will make good forthwith any damages caused in the exercise of the rights contained in this Part III of the first Schedule

THE SECOND SCHEDULE

SUPERIOR LEASE

A lease dated 18 January 1999 and made between Scottish Widows' Fund and Life Assurance Society (1) Tektronix UK Limited (2) and Tektronix Inc (3)

THE THIRD SCHEDULE

WARRANTIES

| Date ---- | Document ----- | Parties ----- |
|--------------|--------------------------|--|
| 04.02.1999 | Sub-Contractors Warranty | (1) South Down Construction Limited (2) Tektronix (UK) Limited (3) Bryant Construction Southern Limited (4) Helical Bar Developments (South East) Limited |
| 04.02.1999 | Sub-Contractors Warranty | (1) Schindler Limited (2) Tektronix Limited (3) Bryant Construction Southern Limited (4) Helical Bar Developments (South East) Limited |
| 04.02.1999 | Sub-Contractors Warranty | (1) Roger Wilde Limited (2) Tektronix (UK) Limited (3) Bryant Construction Southern Limited (4) Helical Bar Developments (South East) Limited |
| 04.02.1999 | Sub-Contractors Warranty | (1) Kvaerner Rashleigh Weatherfoil Limited (2) Tektronix (UK) Limited (3) Bryant Construction Southern Limited (4) Helical Bar Developments (South |

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East) Limited

| | | |
|------------|--------------------------|---|
| 04.02.1999 | Sub-Contractors Warranty | (1) James Gibbons Limited (2) Tektronix (UK) Limited (3) Bryant Construction Southern Limited |
|------------|--------------------------|---|

| | | |
|------------|------------------------------------|---|
| | | (4) Helical Bar Developments (South East) Limited |
| 04.02.1999 | Sub-Contractors Warranty | (1) Composite Structures Limited (2) Tektronix (UK) Limited (3) Bryant Construction Southern Limited (4) Helical Bar Developments (South East) Limited |
| 04.02.1999 | Specialist Supply Warranty | (1) Bison Concrete Products Limited (2) Tektronix (UK) Limited (3) Bryant Construction Southern Limited (4) Helical Bar Developments (South East) Limited |
| 04.02.1999 | Sub-Contractors Warranty | (1) Airteck Limited (2) Tektronix (UK) Limited (3) Bryant Construction Southern Limited (4) Helical Bar Developments (South East) Limited |
| 05.03.1999 | Sub-Contractors Warranty | (1) Construction Elements and Contracting (Trading as Pollards Fyrespan) (2) Tektronix (UK) Limited (3) Bryant Construction Southern Limited (4) Helical Bar Developments (South East) Limited |
| 08.01.1999 | Environmental Consultants Warranty | (1) Mott Macdonald Limited (2) Tektronix (UK) Limited (3) Helical Bar Developments (South East) Limited (4) Scottish Widows Fund and Life Assurance Society |

| | | |
|------------|-------------------------------|---|
| 04.02.1999 | Sub-Contractors Warranty | (1) Sky Roofing Limited (2) Tektronix (UK) Limited (3) Bryant Construction Southern Limited (4) Helical Bar Developments (South East) Limited |
| 18.01.1999 | Sub-Contractors Warranty | (1) Bryant Construction Limited (2) Bryant Construction Group Plc (3) Tektronix (UK) Limited (3) Helical Bar Developments (South East) Limited |
| 18.01.1999 | Contractors Warranty | (1) Bryant Construction Limited (2) Bryant Construction Group Plc (3) Tektronix (UK) Limited (3) Helical Bar Developments (South East) Limited |
| 18.01.1999 | Planning Supervisors Warranty | (1) Bucknall Austin Plc (2) Tektronix (UK) Limited (3) Helical Bar Developments (South East) Limited |
| 18.01.1999 | Quantity Surveyors Warranty | (1) Bucknall Austin Plc (2) Tektronix (UK) Limited (3) Helical Bar Developments (South East) Limited |

| | | |
|------------|--|---|
| 18.01.1999 | Architects Warranty | (1) Hamilton Associates Architects Limited (2) Tektronix (UK) Limited (3) Helical Bar Developments (South East) Limited |
| 18.01.1999 | Mechanical and Electrical Engineers Warranty | (1) Hilson Moran Partnership Limited (2) Tektronix (UK) Limited (3) Helical Bar Developments (South East) Limited |
| 18.01.1999 | Structural Engineers Warranty | (1) Mott Macdonald Limited (2) Tektronix (UK) Limited (3) Helical Bar Developments (South East) Limited |

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EXECUTED as a Deed by)
 TEKTRONIX UK LIMITED)
 acting by two directors or a)
 director and the secretary:-)

Director /s/ [Illegible]

Director/Secretary /s/ [Illegible]

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[Floor Plan of First Floor--Building A--The Arena]

[TEKTRONIX LOGO]

[GL HEARN FMS]

[10/3/99]

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports included in this Form 10-K, into Manhattan Associates, Inc.'s previously filed Registration Statement File No. 333-60635.

ARTHUR ANDERSEN LLP

Atlanta, Georgia
March 30, 2000

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF MANHATTAN ASSOCIATES, INC. FOR THE YEAR ENDED DECEMBER 31, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH CONSOLIDATED FINANCIAL STATEMENTS.

</LEGEND>

<MULTIPLIER> 1,000

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|------------------------------|-------------|---------|
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| <PERIOD-END> | DEC-31-1999 | |
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| <PP&E> | | 14,207 |
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| <TOTAL-REVENUES> | | 81,292 |
| <CGS> | | 42,640 |
| <TOTAL-COSTS> | | 0 |
| <OTHER-EXPENSES> | | 38,215 |
| <LOSS-PROVISION> | | 0 |
| <INTEREST-EXPENSE> | | 0 |
| <INCOME-PRETAX> | | 1,655 |
| <INCOME-TAX> | | 554 |
| <INCOME-CONTINUING> | | 1,101 |
| <DISCONTINUED> | | 0 |
| <EXTRAORDINARY> | | 0 |
| <CHANGES> | | 0 |
| <NET-INCOME> | | 1,101 |
| <EPS-BASIC> | | 0.05 |
| <EPS-DILUTED> | | 0.04 |

SAFE HARBOR COMPLIANCE STATEMENT FOR FORWARD-LOOKING STATEMENTS

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

OUR FAILURE TO MANAGE GROWTH OF OPERATIONS MAY ADVERSELY AFFECT US

We continue to increase the scope of our operations domestically and internationally and have increased our number of employees substantially. For example, at December 31, 1997, 1998 and 1999 we had a total of 191, 517 and 557 employees, respectively. This growth will continue to place a significant strain on our management systems and resources. If we are unable to manage our growth effectively, our business, financial condition and results of operations will be adversely affected. We may further expand domestically or internationally through internal growth or through acquisitions of related companies and technologies. Since November 1997, we have implemented new accounting, timekeeping and customer service systems. Our ability to manage any growth will depend in large part on the performance of these new systems.

For us to effectively manage our growth, we must continue to:

- improve our operational, financial and management controls;
- improve our reporting systems and procedures;
- enhance management and information control systems;
- develop the management skills of our managers and supervisors;
and
- train and motivate our employees.

Several of our executive officers joined our company since October 1999:

| NAME ---- | TITLE ----- | START DATE ----- |
|---------------------|--|---------------------|
| Richard M. Haddrill | Chief Executive Officer and President | October 1999 |
| Michael Croxton | Vice President, Marketing and Product Management | December 1999 |
| Ken Shipp | Vice President, Product Development | December 1999 |
| Thomas Williams | Senior Vice President, Chief Financial Officer and Treasurer | February 2000 |

Our ability to manage any growth will depend in large part on the performance of these new managers. Each of these individuals has been involved only with our most recent operating activity. These executive officers must integrate themselves into daily operations, gain the trust and confidence of the other employees and work effectively as a team if we are to be successful.

OUR FLUCTUATING OPERATING RESULTS COULD CAUSE OUR STOCK PRICE TO FALL

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

- the market for distribution center management and supply chain execution software is in an early stage of development, and it is therefore difficult to accurately predict customer demand; and
- the sales cycle for our products and services varies substantially from customer to customer. As a result, we have difficulty determining whether and when we will receive revenue from a particular customer.

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

Other factors, many of which are outside our control, could also cause variations in our quarterly revenue and operating results. Some of these other factors are:

- demand for our products;
- introductions of new products by our competitors;
- the level of price competition by our competitors;
- customers' budgeting and purchasing cycles;
- delays in our implementations at customer sites;
- timing of hiring new services employees and the rate at which these employees become productive;
- development and performance of our distribution channels;
- timing of any acquisitions and related costs; and
- identification of software quality problems.

Most of our expenses, including employee compensation and rent, are relatively fixed. In addition, our expense levels are based, in part, on our expectations regarding future revenue increases. As a result, any shortfall in revenue in relation to our expectations could cause significant changes in our operating results from quarter to quarter and could result in quarterly losses. As a result of these factors, we believe that period-to-period comparisons of our revenue levels and operating results are not necessarily meaningful. You should not rely on our historical quarterly revenue and operating results to predict our future performance.

OUR OPERATING RESULTS ARE SUBSTANTIALLY DEPENDENT ON ONE PRODUCT

Substantially all of our revenue comes from the sale of our PkMS software and related services and hardware, and we expect this pattern to continue. Accordingly, our future operating results will depend on the demand for PkMS and related services and hardware by future customers, including new and enhanced releases that are subsequently introduced. We cannot assure that the market will continue to demand our current products or that we will be successful in marketing any new or enhanced products. If our competitors release new products that are superior to PkMS in performance or price, demand for our products may decline. A decline in demand for PkMS as a result of competition, technological change or other factors would have a material adverse effect on our business, financial condition and results of operations.

OUR LENGTHY SALES CYCLE AND DELAYS IN IMPLEMENTATIONS OF OUR PRODUCTS COULD ADVERSELY IMPACT US

Delays in, or cancellations of, sales or implementations of our products and services could have a material adverse effect on our business, financial condition and results of operations. The length of time between our initial contact with a customer and the agreement by the customer to buy our products typically ranges from three to six months, and is subject to delays over which we may have little or no control. Our sales cycle is long because:

- we often must educate our customers regarding the use and benefits of our products before they decide to purchase;
- our products are often used by our customers in mission critical operations of their business, and they want to evaluate completely a proposed implementation before purchasing; and
- our customers must commit significant resources to the integration of our products with their existing systems, and they want to evaluate completely the cost of making this commitment before undertaking it.

As the average dollar size of each sale of our products and services increases, the sales cycle may lengthen because our customers may take longer to approve spending the larger amount of money. The time it takes us to implement our products for a customer can also be longer when the implementation is larger and more complex.

WE HAVE A SHORT OPERATING HISTORY

We commenced operations and shipped our first version of PkMS in 1990. Accordingly, we have only a limited operating history on which you can base your evaluation of our business and prospects. In addition, our prospects must be considered in light of the risks and uncertainties encountered by companies in an early stage of development in new and rapidly evolving markets. Although we have grown significantly during the past five years, we do not believe that our prior growth rates are sustainable or a good predictor of future operating results.

OUR INABILITY TO ATTRACT AND RETAIN MANAGEMENT AND OTHER PERSONNEL MAY ADVERSELY AFFECT US

Our success greatly depends on the continued service of our executives as well as our other key senior management, technical and sales personnel. The loss of any of our senior management or other key research, development, sales and marketing personnel, particularly if lost to competitors, could have a material adverse effect on our future operating results. We do not maintain key man life insurance on any of our executive officers. Our future success will depend in large part upon our ability to attract, retain and motivate highly skilled employees. We face significant competition for individuals with the skills required to perform the services we offer. We cannot assure that we will be able to attract and retain sufficient numbers of these highly skilled employees or to motivate them. Because of the complexity of the distribution center management

software market, we may experience a significant time lag between the date on which technical and sales personnel are hired and the time at which such persons become fully productive.

FLUCTUATIONS IN HARDWARE SALES MAY ADVERSELY AFFECT US

A significant portion of our revenue in any period is comprised of the resale of a variety of third party hardware products to purchasers of our software. Our customers may choose to purchase this hardware directly from manufacturers or distributors of such products. Revenue from hardware sales as a percentage of total revenue decreased in 1997, 1998 and 1999, and may continue to decrease in the future. If we are not able to increase our revenue from software licenses and services or maintain our hardware revenue, our business, financial condition and results of operations may be adversely affected.

IMMIGRATION RESTRICTIONS MAY HINDER OUR EMPLOYEE RETENTION AND HIRING

A number of our employees are Indian nationals employed pursuant to non-immigrant work-permitted visas issued by the United States Immigration and Naturalization Service, or INS. There is a limit on the number of new visas issued by the INS each year. In years in which this limit is reached, we may be unable to retain or hire additional foreign employees. The federal government may in the future further restrict the issuance of new visas. If we are unable to retain or hire additional foreign employees, we may incur additional labor costs and expenses or not have sufficient qualified personnel to carry on our business, which could have a material adverse effect on our business, financial condition and results of operations.

WE MAY NOT BE ABLE TO CONTINUE TO COMPETE SUCCESSFULLY WITH OTHER COMPANIES

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

- other distribution center management software, SCM, ERP and e-commerce vendors;
- the corporate information technology departments of potential customers capable of internally developing solutions; and
- smaller independent companies that have developed or are attempting to develop distribution center management software.

We may face competition in the future from business application software vendors that may broaden their product offerings by developing or acquiring distribution center management software, in addition to Enterprise Resource Planning, or ERP, Supply Chain Management, or SCM, and e-commerce applications vendors. These ERP and SCM vendors have a large number of strong customer relationships which could provide a significant competitive advantage. New competitors or alliances among current and new competitors may emerge and rapidly gain significant market share. Many of our current or potential future competitors have longer operating histories, greater financial, technical, marketing and other resources, greater name recognition, and a larger installed base of customers than we do. To be successful, we must continue to produce products based on the leading technology in our market. If we cannot maintain our technological leadership or assemble the development, marketing, sales and customer service resources to meet any competitive threat, we may lose market share and suffer reductions in sales prices and gross margins. These developments could materially and adversely affect our business, financial condition and results of operations.

IF WE CANNOT INTEGRATE ACQUIRED COMPANIES WITH OUR BUSINESS, OUR PROFITABILITY MAY BE ADVERSELY AFFECTED

We acquired Performance Analysis Corporation, or PAC, in February 1998 and the Distribution Center Management Systems software product and related assets of Kurt Salmon Associates in October 1998. We may from time to time acquire companies with complementary products and services. These acquisitions will continue to expose us to increased risks and costs, including the following:

- difficulties in assimilating new operations and personnel;
- diverting financial and management resources from existing operations; and
- difficulties in integrating acquired technologies.

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

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

- risks associated with the diversion of resources;
- the inability to generate sufficient revenue;
- the management of relationships with third parties; and
- potential additional expenses.

Many business acquisitions must be accounted for using the purchase method of accounting. Many acquisition candidates have significant intangible assets, and an acquisition of these businesses, if accounted for as a purchase, would result in substantial goodwill amortization charges to us, reducing future earnings. In addition, these acquisitions could involve acquisition-related charges, such as one-time acquired research and development charges. For example, we recorded an acquired research and development expense of approximately \$1.6 million in the first quarter of 1998 in connection with the acquisition of PAC.

We accounted for the \$1.6 million expense in the PAC acquisition using a cost-based approach. This cost-based approach is not a widely used methodology to value acquired research and development in a technology acquisition. Many software companies account for acquisitions using an income-based approach to value acquired research and development. Although we believe that an income-based approach often provides a more precise valuation, because there was not then a market for PAC's Windows NT product, which prevented us from preparing meaningful projections of future cash flow, we elected to use the cost-based approach.

OUR GROWTH IS DEPENDENT UPON THE SUCCESSFUL DEVELOPMENT OF OUR DIRECT AND INDIRECT SALES CHANNELS

We sell our products primarily through our direct sales force and we support our customers with our internal technical and customer support staff. Our ability to achieve significant revenue growth in the future will greatly depend on our ability to recruit and train sufficient technical, customer and direct sales personnel, particularly additional sales personnel focusing on the new vertical market segments that we target. We have in the past and may in the future experience difficulty in recruiting qualified sales, technical and support personnel. Our inability to rapidly and effectively expand our direct sales force and our technical and support staff could materially adversely affect our business.

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

Our strategy of marketing our products directly to customers and indirectly through systems integrators and third party software application providers may result in distribution channel conflicts. Our direct sales efforts may compete with those of our indirect channels and, to the extent different systems integrators target the same customers, systems integrators may also come into conflict with each other. Any channel conflicts which develop may have a material adverse effect on our relationships with systems integrators or hurt our ability to attract new systems integrators.

THERE ARE MANY RISKS ASSOCIATED WITH INTERNATIONAL OPERATIONS

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

We have committed resources to the opening and integration of additional international sales offices and the expansion of international sales and support channels. Our efforts to develop and expand international sales and support channels may not be successful. International sales are subject to many risks, including the following:

- difficulties in staffing and managing foreign operations;
- difficulties in managing international systems integrators;
- difficulties and expenses associated with complying with a variety of foreign laws;
- difficulties in producing localized versions of our products;

- import and export restrictions and tariffs;

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- difficulties in collecting accounts receivable;
- unexpected changes in regulatory requirements;
- currency fluctuations; and
- political and economic instability abroad.

International sales can also be affected to a greater extent by seasonal fluctuations resulting from the lower sales that typically occur during the summer months in Europe and other parts of the world.

WE MUST CONTINUE TO ADVANCE OUR TECHNOLOGY TO REMAIN COMPETITIVE

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

WE MAY FACE LIABILITY TO CLIENTS IF OUR SYSTEMS FAIL

Our products are often critical to the operations of our customers' businesses and provide benefits that may be difficult to quantify. We have guaranteed that our products will comply with certain labeling requirements of the top 100 consumer goods retailers as ranked by Stores Magazine. If our products fail to function as required, we may be subject to claims for substantial damages. Courts may not enforce provisions in our contracts which would limit our liability or otherwise protect us from liability for damages. Although we maintain general liability insurance coverage, including coverage for errors or omissions, this coverage may not continue to be available on reasonable terms or in sufficient amounts to cover claims against us. In addition, our insurer may disclaim coverage as to any future claim. If claims exceeding the available insurance coverage are successfully asserted against us, or our insurer imposes premium increases, large deductibles or co-insurance requirements on us, our business, financial condition and results of operations could be adversely affected.

OUR FAILURE TO ADEQUATELY PROTECT OUR PROPRIETARY RIGHTS MAY ADVERSELY AFFECT US

Our success and ability to compete is dependent in part upon our proprietary technology. There can be no assurance that we will be able to protect our proprietary rights against unauthorized third-party copying or use. We rely on a combination of copyright, trademark and trade secret laws, as well as confidentiality agreements and licensing arrangements, to establish and protect our proprietary rights. Despite our efforts to protect our proprietary rights, existing copyright, trademark and trade secret laws afford only limited protection. In addition, the laws of certain foreign countries do not protect our rights to the same extent as do the laws of the United States. Attempts may be made to copy or reverse engineer aspects of our products or to obtain and use information that we regard as proprietary. Any infringement of our proprietary rights could materially adversely affect our future operating results. Furthermore, policing the unauthorized use of our products is difficult and

litigation may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. Such litigation could result in substantial costs and diversion of resources and could have a material adverse effect on our future operating results.

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INTELLECTUAL PROPERTY CLAIMS CAN BE COSTLY AND RESULT IN THE LOSS OF SIGNIFICANT RIGHTS

It is possible that third parties will claim that we have infringed their current or future products. We expect that distribution center management software developers like us will increasingly be subject to infringement claims as the number of products grow. Any claims, with or without merit, could be time-consuming, result in costly litigation, cause product shipment delays, or require us to enter into royalty or licensing agreements, any of which could have a material adverse effect upon our operating results. We cannot assure that these royalty or licensing agreements, if required, would be available on terms acceptable to us, if at all. We cannot assure that legal action claiming patent infringement will not be commenced against us, or that we would prevail in such litigation given the complex technical issues and inherent uncertainties in patent litigation. If a patent claim against us were successful and we could not obtain a license on acceptable terms or license a substitute technology or redesign to avoid infringement, our business, financial condition and results of operations would be materially adversely affected.

IMPACT OF YEAR 2000 ISSUE

The term "year 2000 issue" is a general term used to describe the various problems that may result from the improper processing of dates and date-sensitive calculations by computers and other machinery as the year 2000 was approached and reached. Our failure to appropriately address a material year 2000 issue, or the failure by any third parties who provide goods or services that are critical to our business activities to appropriately address their year 2000 issues, could have a material adverse effect on our financial condition, liquidity or results of operations.

Since entering the year 2000, we have not experienced any significant disruptions related to the year 2000 issue, nor are we aware of any significant year 2000-related disruptions impacting our customers and suppliers. While we will continue to monitor our business critical information technology assets, we do not anticipate that we will experience any significant year 2000-related disruptions to our internal systems, nor to those of our customers or suppliers.

EXISTING SHAREHOLDERS WILL CONTINUE TO CONTROL MANHATTAN AND MAY INFLUENCE OUR AFFAIRS

Our directors, executive officers and key employees together control approximately 80% of our outstanding common stock. In particular, Alan J. Dabbiere, the Chairman of the Board controls approximately 45% of our common stock. As a result, these shareholders, if they act together, are able to influence the management and affairs of our company and all matters requiring shareholder approval, including the election of directors and approval of significant corporate transactions. This concentration of ownership may have the effect of delaying or preventing a change in control of our company and might affect the market price of the common stock.

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WE MAY REQUIRE ADDITIONAL CAPITAL

We may require additional capital to finance our growth or to fund acquisitions or investments in complementary businesses, technologies or product lines. Our capital requirements will depend on many factors, including:

- demand for our products;
- the timing of and extent to which we invest in new technology;
- the level and timing of revenue;
- the expenses of sales and marketing and new product development;
- the success and related expense of increasing our brand awareness;
- the extent to which competitors are successful in developing new products and increasing their market share; and
- the costs involved in maintaining and enforcing intellectual property rights.

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

OUR ARTICLES OF INCORPORATION AND BYLAWS AND GEORGIA LAW MAY INHIBIT A TAKEOVER OF OUR COMPANY

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

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OUR STOCK PRICE HAS BEEN HIGHLY VOLATILE

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

- quarterly variations in operating results;
- announcements of technological innovations or new products by us or our competitors;
- developments with respect to patents or proprietary rights; and
- changes in financial estimates by securities analysts.

In addition, the stock market has experienced volatility that has particularly affected the market prices of equity securities of many technology

companies and that often has been unrelated or disproportionate to the operating performance of these companies. These broad market fluctuations may adversely affect the market price of our common stock.