

MANHATTAN ASSOCIATES INC

Form 10-K

February 19, 2010

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2009

OR

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

For the transition period from _____ to _____

Commission File Number: 000-23999

Manhattan Associates, Inc.

(Exact Name of Registrant As Specified in Its Charter)

Georgia

(State or Other Jurisdiction of
Incorporation or Organization)

58-2373424

(I.R.S. Employer Identification No.)

2300 Windy Ridge Parkway, Suite 1000

Atlanta, Georgia

(Address of Principal Executive Offices)

30339

(Zip Code)

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

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

Title of Each Class

Name of Each Exchange on Which Registered

Common Stock, \$.01 par value per share

The Nasdaq Stock Market LLC

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

None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements

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incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

(Do not check if a smaller reporting company)

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant as of June 30, 2009 was \$409,955,193, which was calculated based upon a closing sales price of \$18.22 per share of the Common Stock as reported by the Nasdaq Global Select Market on the same day. As of February 17, 2010, the Registrant had outstanding 22,612,924 shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

The Registrant's definitive Proxy Statement for the Annual Meeting of Shareholders to be held May 28, 2010 is incorporated by reference in Part III of this Form 10-K to the extent stated herein.

MANHATTAN ASSOCIATES, INC.
Annual Report on Form 10-K
For the Fiscal Year Ended December 31, 2009
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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. 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, the impact of acquisitions, availability of technical personnel, changes in customer requirements and general economic conditions. Additional factors are set forth in the *Risk Factors* in Part I, Item 1A of this Annual Report. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes in future operating results. Our Annual Report on Form 10-K is available through our Website at www.manh.com.

PART I

Item 1. Business

Overview

We develop, sell, deploy, service and maintain supply chain software solutions that help organizations optimize business advantages gained through those solutions while effectively managing the long-term costs of operating them. Supply chain solutions help organizations ensure that the right products are available to the right customers at the right time and at the right cost, so that organizations can build customer loyalty, differentiate their brands, and calibrate costs and revenues to align with organizational goals. Some key benefits of implementing our solutions include:

Mastering channel proliferation by being able to forecast and manage inventory, sales and returns through multiple channels (stores, web sites, catalogs, call centers) independently, yet execute customer interactions as a united entity to deliver consistent brand experiences, optimize revenue, and mitigate unnecessary and duplicative costs.

Coordinating workflows and communication with other participants in a supply chain ecosystem, including suppliers, customers and transportation providers;

Increase visibility across the supply network to improve sales and customer order fill rates while reducing network inventory;

Balancing transportation and inventory costs with desired service levels by channel;

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

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

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

Figure 1: Manhattan MORE™ depicts Manhattan's Optimized Roadmap to Excellence, our comprehensive methodology for delivering customer value through supply-chain-centered people, principles, products, protocols and processes. We build long-term customer relationships through our Customer Excellence Lifecycle, which leverages our software, expertise and enriched services in a high-touch cycle of engagement, deployment and adoption for continuous supply chain advancement.

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Our point of view is that a platform-based approach is the best way to optimize supply chains and supply chain ecosystems, meaning all of the interdependent elements both within and external to an organization that interact to impact how effectively, efficiently and economically that organization's supply chain operates. Supply chain ecosystems encompass disparate functions within an organization that affect its supply chain (such as distribution, transportation, order lifecycle management, inventory optimization, and planning and forecasting) as well as interactions with entities outside the organization but integral to its supply chain, including manufacturers, suppliers, distributors, trading partners, transportation providers, channels (such as catalogers, store retailers, call centers and Web outlets) and consumers.

Platform Thinking is the term we use to describe the intelligence that infuses the way we design our software, consult with our customers and deliver our solutions. Our rationale is built on this premise: Making decisions about inventory, orders, transportation, and distribution in isolation without considering data, workflows and inputs from each discipline in the supply chain and from its ecosystem can lead to more costly and suboptimal decisions. This is because each of these areas generates cost and service-level consequences that impact the others directly or indirectly. Platform Thinking gives organizations a unified view of their supply chains by replacing silo thinking with Whole Chain Awareness, a blend of insight and execution capabilities across supply chains and supply chain ecosystems that delivers advanced levels of visibility, agility, responsiveness and economy for organizations that depend on their supply chains for uncommon and strategic advantage.

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

We are a Georgia corporation formed in February 1998 to acquire all of the assets and liabilities of Manhattan Associates Software, LLC, our predecessor. References in this filing to the Company, Manhattan, Manhattan Associates, we, our, and us refer to Manhattan Associates, Inc., our predecessors, and our wholly-owned and consolidated subsidiaries. Our principal executive offices are located at 2300 Windy Ridge Parkway, Suite 1000, Atlanta, Georgia 30339, and our telephone number is 770-955-7070.

Industry Background

Globalization and technological advances have radically altered competition, service expectations and business operating imperatives for modern organizations. Pressures such as outsourcing, sales and distribution channel proliferation and convergence, growing item diversity and volume to satisfy evolving global consumer demands, fluctuating fuel costs, global labor sourcing, and regulatory and security requirements motivate organizations to closely examine not only their supply chain operations, but also how they interact in supply chain ecosystems that interlink suppliers, trading partners, manufacturers, sellers, distributors, transporters, channels and customers. We believe this is because mastering supply chains and ecosystems in unique ways is necessary to create sustainable competitive advantages in today's globally interacting commerce environment.

Profitable operations, brand leadership and customer loyalty depend not only on product mix, but also on the blends of services including availability, channel choice, pricing options, return policies, ease of buying, ease of delivery and technical or operational support that uniquely surround those products to satisfy targeted customer desires in competitively differentiating ways. Supply chain solutions not only help organizations manage logistics operations, but also enable them to coalesce data, workflows, events and tasks from across the web of suppliers, trading partners, customers and other participants in a supply chain ecosystem to make optimal business decisions.

Organizations apply supply chain technology, software and services to solve identified operational inefficiencies or create operational advantages in ways that can scale as their businesses grow. They also look to easily integrate supply chain solutions with other technology, such as enterprise resource planning (ERP) systems, customer relationship management (CRM) systems, e-business systems, material handling equipment (MHE) and other solutions involved in creating efficient, competitive and profitable operations.

Manhattan Associates Software Solution Portfolios

Our platform-based supply chain software solution portfolios – Manhattan SCOPE[®] and Manhattan SCALE[™] are designed with our Platform Thinking approach to deliver both business agility and total cost of ownership advantages to customers. Manhattan SCOPE (Supply Chain Optimization, Planning through Execution, depicted in Figure 2) leverages our Supply Chain Process Platform (SCPP, depicted in Figure 3) to unify the full breadth of the supply chain, while Manhattan SCALE (Supply Chain Architected for Logistics Execution, depicted in Figure 4) leverages Microsoft's .NET[®] platform to unify logistics functions.

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Our solutions operate across Unix, IBM System I, Linux and Microsoft.NET computing platforms, as well as on multiple hardware platforms and systems. Because supply chain solutions necessarily interact with other business operation systems, our solutions are designed to interoperate with software from other providers as well as with a company's existing legacy systems. This interfacing and open system capability enables customers to continue using existing computer resources and to choose among a wide variety of existing and emerging computer hardware and peripheral technologies. We provide adapters for many ERP systems to enhance system communication and reduce implementation costs, including (but not limited to) Oracle, SAP and Microsoft Dynamics AX. We also offer certain of our solutions in both premise software and hosted Software-as-a-Service (SaaS) models so that customers can select the option that best meets their requirements for control, flexibility, cost of ownership, and time-to-deployment.

Manhattan SCOPE[®]

SCOPE is ideally suited for companies that consider supply chain software, processes and technology strategic to market leadership. Predictive and algorithmic technology embedded in SCOPE helps organizations refine decisions dynamically as market or operational conditions change. Advantages derived from coordinated real-time visibility, event management, ecosystem collaboration and intelligence across supply chain operational departments and functions avert having decisions in one supply chain area unexpectedly affect another unfavorably. By organizing supply chain optimization holistically, Manhattan enables customers to fine-tune costs, profitability and service levels as their business objectives and market conditions evolve.

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Figure 2: Manhattan SCOPE[®] Supply Chain Optimization, Planning through Execution, is a portfolio of supply chain solution suites that leverage our Supply Chain Process Platform to enable high degrees of operational insight, performance, agility and optimization at a tightly-managed and overall lower total cost of ownership. This platform-based architecture also enables combining different elements of different solution suites into X-Suite solutions to address specific supply chain challenges.

Supply Chain Platform Applications

SCOPE Platform Applications span the entire portfolio to provide key visibility, intelligence and adaptive functionality across the enterprise. These solutions offer the broad supply chain insight and analytics that are critical to an executive's ability to proactively manage the holistic supply chain. Whether deployed with our Solution Suite applications or integrated with other enterprise systems, our Platform Applications provide a comprehensive range of event and schedule tracking; alerts and notifications; inventory, order and shipment visibility; cost monitoring and tracking; leading-edge analytics, and reporting with graphical depictions of critical supply chain performance metrics.

Supply Chain Solution Suites

Each Solution Suite is designed to enable users to proactively plan, monitor and execute against supply chain objectives.

Planning and Forecasting enables organizations to sense and respond to demand, and to support all levels of enterprise merchandise planning, from strategic level planning down to assortment and key item planning. Our Demand Forecasting solution leverages a unique Unified Forecasting Method[™](UFM) to enable organizations to optimally forecast and manage by specific channel challenging planning and forecasting situations, including forecasting buying patterns for seasonal items, intermittently sold items, and items that sell in different patterns and at different paces in different channels.

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

Order Lifecycle Management is designed to optimize order fulfillment across a distributed supply chain. By managing orders across all channels from inception to sourcing physical fulfillment and ultimately through physical returns when applicable Order Lifecycle Management helps to optimize inventory deployment while reducing overall fulfillment costs.

Transportation Lifecycle Management optimizes all aspects of transporting product through supply chains by improving multiple product delivery dimensions, such as speed, accuracy and cost.

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

X-Suite Solutions

X-Suite Solutions leverage Manhattan's SCPP to synthesize capabilities of two or more solutions or solution components to solve a specific supply chain problem. *Flow Management* and *Extended Enterprise Management* are X-Suite Solutions. Flow Management synthesizes Demand Forecasting, Replenishment, Supply Chain Visibility, Distributed Order Management and Warehouse Management, while Extended Enterprise Management synthesizes Supplier Enablement, Hub Management, Transportation Enablement, Store / Consumer Gateway, Collaborative Gateway, Supply Chain Visibility and Supply Chain Event Management.

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Flow Management improves the agility of the supply chain while reducing the volume of inventory required to deliver defined customer service levels. In a flow-through distribution model, goods literally flow directly from arriving at a distribution center to being shipped to their destination, without being put away in the interim. Businesses achieve the greatest benefit from a flow-through distribution model only by synchronizing demand management, inventory optimization, purchase order allocations, and the physical distribution of inventory. Flow Management enables organizations to evolve from a facilities-based distribution model to a more holistic, network-based model. Organizations leverage Flow Management to free inventory to drive maximum profitability and customer service across channels; redirect inbound supply directly to customers, alternate stores or distribution centers based on real-time demand signals; and optimize cross-channel inventory by using the same enterprise-wide supply planning and inventory management process

Extended Enterprise Management connects organizations with supply chain ecosystem participants to create insight to supply chain events and improve how goods are ordered and move through supply chains. The solution facilitates quick and fluid interactions with trading partners, optimizes order management, creates compliant case labels and advanced shipment notifications upstream, assures quality inventory and shipments, and senses and responds efficiently to supply chain events to increase on-time delivery rates, improve inventory control and meet demand expectations.

Supply Chain Process Platform

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

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

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Figure 3: Manhattan's Supply Chain Process Platform provides the foundation for Manhattan SCOPE Solution Suites, Platform Applications, and X-Suite Solutions. This common architecture provides agility and business differentiation advantages to operations executives while also simplifying maintenance and upgrade paths and lowering the total cost of ownership over time for information technology and financial executives.

Manhattan SCALE™

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

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

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Figure 4: Manhattan's Supply Chain Architected for Logistics Execution is a portfolio of logistics solutions that leverages the Microsoft® .NET platform and is designed for organizations that want to improve their logistics operations quickly with limited technical resources. SCALE also is a popular solution choice for organizations operating in countries with emerging supply chain ecosystems.

Professional Services

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

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

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We believe our Professional Services team delivers unique supply chain expertise to our customers through industry-specific best-practices protocols and processes developed through the collective knowledge we have gained in more than 3,300 installations worldwide. We also extensively train our consulting personnel on supply chain operations and on our solutions.

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

Customer Support Services and Software Enhancements

We offer a comprehensive program that provides our customers with software upgrades for additional or improved functionality, and technological advances incorporating emerging supply chain and industry initiatives. Over the past three years, our annual renewal rate of customers subscribing to comprehensive support and enhancements has been greater than 90%. We are able to remotely access customer systems to perform diagnostics, provide on-line assistance, and facilitate software upgrades. We offer 24 hour customer support every day of the year, plus software upgrades for an annual fee that is paid in advance and is based on the solutions the customer has and the service level required. Software upgrades are provided under this program on a when-and-if- available basis.

Training

We offer training in a structured environment for new and existing users. Training programs are provided at fixed fees per-person, per-class, and cover topics such as (but not limited to) solution use, configuration, implementation and system administration. Several computer-based training programs can be purchased for a fixed fee for use at client sites.

Hardware Sales

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

Strategy

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

Develop and Enhance Software Solutions. We intend to continue to focus our research and development resources on enhancing our supply chain solutions. We offer what we believe to be the broadest and most richly-featured software portfolio in the supply chain solutions marketplace. To continuously expand functionality and value, we plan to continue to provide enhancements to existing solutions and to introduce new solutions to address evolving industry standards and market needs. We identify these opportunities through our Product Management, Professional Services, Customer Support and Account Management organizations, through interactions such as ongoing customer consulting engagements and implementations; sessions with our solution user groups; association

with leading industry analyst and market research firms; and participation on industry standards and research committees.

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Our solutions address needs in various vertical markets, including retail, consumer goods, food and grocery, logistics service providers, industrial and wholesale, high technology and electronics, life sciences and government. We intend to continue to enhance our solutions to meet the dynamic requirements of these and new vertical markets as business opportunities dictate.

Expand International Presence. We believe that our solutions offer significant benefits to customers in markets outside the United States, and for organizations with global operations. Approximately 930 Manhattan employees work outside the United States to build international sales, service our international clients, and further develop our solutions. We have offices in Australia, China, France, India, the Netherlands, Shanghai, Singapore and the United Kingdom, as well as representatives in Mexico and Japan, and reseller partnerships in Latin America, Eastern Europe, the Middle East, South Africa and Asia. Our Europe, Middle East, and Africa (EMEA) operations support sales, implementation services and customer support functions for a number of customers across the Middle East, concentrated in countries we consider politically and economically stable, such as Saudi Arabia, United Arab Emirates, Kuwait, Turkey, Israel, and Oman. Our Asia Pacific (APAC) operations service emerging opportunities in China, Southeast Asia and India, as well as more established markets in Australia and New Zealand. Our international strategy includes leveraging the strength of our relationships with current U.S.-based customers that also have significant overseas operations, and pursuing strategic marketing partnerships with international systems integrators and third-party solution providers.

Expand Our Strategic Alliances and Indirect Sales Channels. We currently sell our products primarily through our direct sales personnel, and through partnership agreements with a select number of organizations in emerging markets where we do not currently have a direct sales presence. We have worked on joint projects and joint sales initiatives with industry-leading consultants and software systems implementers, including most of the large consulting firms and other systems consulting firms specializing in our targeted industries, to supplement our direct sales force and professional services organization. We have been expanding our indirect sales channels through reseller agreements, marketing agreements, and agreements with third-party logistics providers. These alliances extend our market coverage and provide us with new business leads and access to trained implementation personnel.

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

Sales and Marketing

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

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

In addition to new customer sales, we plan to continue to leverage our existing customer base to drive revenue from system upgrades, sales of additional licenses of purchased solutions, and sales of new or add-on solutions. To

efficiently penetrate emerging global markets, we leverage indirect sales channels, including sales through reseller agreements, marketing agreements and agreements with third-party logistics providers. To extend our market coverage, generate new business leads and provide access to trained implementation personnel, we leverage strategic alliances with systems integrators skilled at implementing our solutions. Business referrals and leads are positively influenced by systems integrators, which include most of the large consulting firms and other systems consulting firms specializing in our targeted industries.

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

Customers

To date, our customers have been suppliers, manufacturers, distributors, retailers and logistics providers in a variety of industries. The following table sets forth a representative list of customers that contracted to purchase solutions and services from us in 2009.

ACCO Brands Benelux
 ACH Food Companies Inc.
 American Clubs
 American Textile Company, Inc.
 Amerisource Bergen
 APL Co.
 Archbrook Laguna
 Avon Products, Inc.
 Better Life Commercial Chain Share Co.
 Brinkmann Corporation
 BUT International SAS
 Carolina Logistics Services LLC
 CEVA Logistics Singapore
 CEVA Logistics U.S., Inc.
 Chanel (Australia)
 CJSC Proconsim
 Complete Entertainment Services LTD
 Costa Group Pty
 Daqing Qingkelong Chain Commerce & Trade Co.
 DHL Logistics Singapore
 Dongguan Jiarong Supermarket Co.
 ERC LLC
 Excell Home Fashions, Inc.
 Express Scripts, Inc.
 Famous Footwear
 Farmacias de Similares
 Fasteners for Retail
 Fitness Quest, Inc.
 Freight Mark Sdn Bhd
 Fruit of the Loom
 Geba
 Genco Distribution Systems, Inc.
 Genuine Parts Company
 Goya Foods, Inc.

Groveport LLC
Guess?, Inc
Guru Denim, Inc.
Half Price Books
Hayneedle
HoMedics
Houghton Mifflin Company
J&P Cycles, Inc.
J. Knipper and Company, Inc.
Jasco Products Company LLC
Jefferson Smurfit Corporation
Jones Apparel Group
Kem Krest Corporation
Kuehne & Nagel
Kwik Trip, Inc.
Lerentang Medicine Group
LeSaint Logistics
MAN
Marketing Services by Vectra
MARR Russia
Milan Express, Inc.
Mirror Show Management, Inc.
Movianto UK
MTI LLC
Mulberry Group Plc
Nalsani S.A.
New Balance Athletic Shoe, Inc.
Noppies
Orchard Brands, Inc.
O Reilly Automotive, Inc.
Panalpina Management AG
PepsiCo, Inc.
Perfect 10 Satellite Distribution, Inc.
Performance Team Freight Systems
Performance, Inc.
Propak Development, Inc.
PT Multitrend Indo
Republic National Distributing Company
ResMed Corp.
RGH Enterprises, Inc.
Richline Group, Inc.
River Island Clothing Company
SamsonOpt
Shandong JiaJiaYue Group Co.
Shanghai TingTong Logistics
Sigma-Aldrich
Simplehuman LLC
Southern Wine & Spirits of America, Inc.
SpeedFC, Inc.
Sturm Foods, Inc.
Sulyn Industries, Inc.

Teva Phamaceutical USA
The Bear Factory Limited
The Beistle Company
The Orvis Company
The Travis Association for the Blind
Thermwell Products Co., Inc.
Tractor Supply Company
True Religion
United Natural Foods, Inc.
Vanity Fair Brands Europe
Vie Cosmetics Group
Weldom
Wirtz Corporation
WWRD United Kingdom
Yarrows Family Bakers

Our top five customers in aggregate accounted for 11% of total revenue for each of the years ended December 31, 2009 and 2008 and 13% of total revenue for the year ended December 31, 2007, respectively. No single customer accounted for more than 10% of revenue in 2009, 2008 or 2007.

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Product Development

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

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

We conduct most development internally in order to retain development knowledge and promote programming standards continuity. However, we may periodically outsource some projects that can be performed separately and/or that require special skills. We also use third-party research and development companies to localize our products into Chinese, French, Japanese, and Spanish. Since 2002 we have operated a development center in Bangalore, India, which houses approximately 450 research and development professionals.

Our research and development expenses for the years ended December 31, 2009, 2008 and 2007 were \$36.7 million, \$48.4 million and \$46.6 million, respectively. We intend to continue to invest significantly in product development.

Competition

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

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

Enterprise Resource Planning (ERP) vendors, including Oracle, SAP, and Infor, among others;

Supply chain execution vendors, including RedPrairie Holding, Inc., HighJump Software Inc., CDC Software Corporation and Sterling Commerce, Inc. (an AT&T company), among others;

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

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

We anticipate facing increased competition from ERP and Supply Chain Management (SCM) applications vendors and business application software vendors that may broaden their solution offerings by internally developing or by acquiring or partnering

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

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

International Operations: Segments

We have three reporting segments, based on geographic location: the Americas; Europe, Middle East and Africa (EMEA); and Asia Pacific (APAC). For further information on our segments, see Note 8 to our consolidated financial statements. Our international revenue was approximately \$58.0 million, \$81.5 million and \$68.7 million for the years ended December 31, 2009, 2008 and 2007, respectively, which represents approximately 24%, 24% and 20% of our total revenue for the years ended December 31, 2009, 2008 and 2007, respectively. International revenue includes all revenue derived from sales to customers outside the United States. We now have approximately 930 employees outside the United States.

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 registered trademarks for Manhattan Associates and the Manhattan Associates logo, as well as Manhattan SCOPE, SCOPE and a number of solutions and features. We also have trademark applications submitted for Manhattan SCALE, SCALE, Manhattan MORE, Transportation Lifecycle Management, Order Lifecycle Management, Distributed Order Management, Extended Enterprise Management and Flow Management. We generally enter into confidentiality and assignment-of-rights agreements with our employees, consultants, clients and potential clients and limit access to, and distribution of, our proprietary information. We license our solutions to our customers and restrict the customer's use for internal purposes and do not give customers the right to sublicense the solutions. 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 ensure that we will successfully deter misappropriation or independent third-party development of our technology, or that we can prevent an unauthorized third party from copying or obtaining and using our products or technology. In addition, policing unauthorized use of our solutions is difficult, and while we are unable to determine the extent to which piracy of our software solutions exists, as is the case with any software company, piracy could become a problem.

As the number of supply chain management solutions increases and solution functionality continues to overlap, 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

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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 litigation outcome. 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 we take in this regard will adequately deter misappropriation or independent third party development of our technology, or effectively 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, 2009, we employed 1,819 full time people, including 146 in sales and marketing, 873 in services, 641 in research and development (R&D) and 159 in general and administration. By geography, we have 889 employees based in the Americas, 143 employees in EMEA, and 787 employees in APAC and India.

Available Information

We file annual, quarterly and current reports and other information with the Securities and Exchange Commission (the SEC or the Commission). These materials can be inspected and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Copies of these materials may also be obtained by mail at prescribed rates from the SEC's Public Reference Room at the above address. Information about the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of the SEC's Internet site is www.sec.gov.

On our website, www.manh.com, we provide free of charge our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and any amendments thereto, as soon as reasonably practicable after they have been electronically filed or furnished to the SEC. Information contained on our website is not part of this Form 10-K or our other filings with the SEC.

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

Item 1A. Risk Factors

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

Our performance can be negatively impacted by global macroeconomic or other external influences which could have a material adverse effect on our business, results of operations, cash flow and financial condition. We are a technology company selling technology-based solutions with total pricing, including software and services, in many cases, exceeding \$1.0 million. Reductions in the capital budgets of our customers and prospective customers could have an adverse impact on our ability to sell our solutions. We believe that the deterioration in the current business climate within the United States and/or other geographic regions in which we operate, continued delays in capital spending, or the timing of deals closed could have a material adverse impact on our business and our ability to compete, and is likely to further intensify in our already intensely competitive markets.

Disruptions in the financial and credit markets and economic downturns may adversely affect our business, results of operations, cash flow and financial condition. Demand for our products depends in large part upon the level of capital and maintenance expenditures by many of our customers. Decreased capital and maintenance spending could have a material adverse effect on the demand for our products and our business, results of operations and financial condition. Disruptions in the financial markets, including the bankruptcy or restructuring of certain financial institutions, such as the events that began in the second half of 2008 and are continuing to some extent presently, may adversely impact the availability of credit already arranged and the availability and cost of credit in the future, which could result in the delay or cancellation of projects or capital programs on which our business depends. Our revenue declined from \$337.2 million for the year ended December 31, 2008 to \$246.7 million for the year ended December 31, 2009, which we believe was due in large part to disruptions in the financial and credit markets and economic downturns

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

We may not be able to continue to successfully compete with other companies. We compete in markets that are intensely competitive and are expected to become more competitive as current competitors expand their product offerings. Our current competitors come from many segments of the software industry and offer a variety of solutions directed at various aspects of the extended supply chain, as well as the enterprise as a whole. We face competition for product sales from:

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

Enterprise Resource Planning (ERP) vendors, including Oracle, SAP, and Infor, among others;

supply chain execution vendors, including RedPrairie Holding, Inc., HighJump Software Inc., CDC Software Corporation and Sterling Commerce, Inc. (an AT&T company), among others;

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

smaller independent companies that have developed or are attempting to develop supply chain execution solutions and/or supply chain planning solutions that competes with our Supply Chain Solutions.

We anticipate facing increased competition in the future from ERP and SCM applications vendors and business application software vendors that may broaden their solution offerings by internally developing or by acquiring or partnering with independent developers of supply chain planning and execution software. For instance, both Oracle and SAP have entered the market for supply chain management applications. These companies, and many of our other competitors and potential competitors, have longer operating histories, significantly greater financial, technical, marketing and other resources, greater name recognition, a broader offering of products and a larger installed base of customers than we do. To the extent such ERP and SCM vendors or other large competitors develop or acquire systems with functionality comparable or superior to our solutions, their significant installed customer bases, long-standing customer relationships and ability to offer a broad solution could provide them a significant competitive advantage over our solutions. 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 earnings and margins and loss of market share. In turn, this could have a material adverse effect on our business, results of operations, cash flow and financial condition.

We believe that the domain expertise required to continually innovate targeted supply chain technology, effectively and efficiently implement solutions, identify and attracting sales opportunities, and compete successfully in the sales cycle provides us with a competitive advantage and is a significant barrier to market entry. However, in order to be successful in the future, we must continue to respond promptly and effectively to technological change and competitors innovations, and consequently we cannot assure you that we will not be required to make substantial additional investments in connection with our research, development, marketing, sales and customer service efforts in order to meet any competitive threat, or that we will be able to compete successfully in the future. Some of our competitors have significant resources at their disposal, and the degree to which we will compete with these new products in the marketplace is still undetermined.

Our operating results are substantially dependent on one line of business. We continue to derive our revenues from sales of our SCM solutions software and related services and hardware. Any factor adversely affecting the markets for SCM solutions could have an adverse effect on our business, results of operations, cash flow and

financial condition. Accordingly, our future operating results will depend on the demand for our SCM products and related services and hardware by our customers, including new and enhanced releases that we subsequently introduce. We cannot assure you 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 our products in performance or price, demand for our products may decline. A decline in demand for our products as a result of competition, technological change or other factors would reduce our total revenues and harm our ability to maintain profitability.

Our operating results are difficult to predict and could cause our stock price to fall. Our quarterly revenue and operating results are difficult to predict and 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

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revenue is difficult to forecast for several reasons, including the following: the varying sales cycle for our products and services from customer to customer, including multiple levels of authorization required by some customers; the varying demand for our products; customers' budgeting and purchasing cycles; potential deferral of license revenue well after entering into a license agreement due to extended payment terms, significant software modifications, future software functionality deliverables or other negotiated terms that preclude software revenue recognition under U.S. general accepted accounting principles; delays in our implementations at customer sites; timing of hiring new services employees and the rate at which these employees become productive; timing of introduction of new products; development and performance of our distribution channels; market and economic disruptions; and timing of any acquisitions and related costs.

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

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

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

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

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

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

Delays in implementations of our products could adversely impact us. Due to the size of most of our software implementations, our implementation cycle can be lengthy and may result in delays. Our products may require modification or

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customization and must integrate with many existing computer systems and software programs of our customers. This can be time-consuming and expensive for customers and can result in implementation and deployment delays of our products. Additional delays could result if we fail to attract, train and retain services personnel, or if our alliance companies fail to commit sufficient resources towards implementing our software. These delays and resulting customer dissatisfaction could limit our future sales opportunities, impact revenue and harm our reputation.

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

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

Our failure to manage the growth of our operations may adversely affect our business, results of operations, cash flow and financial condition. We plan to continue to increase the scope of our operations domestically and internationally. This growth may place a significant strain on our management systems and resources. We may further expand domestically or internationally through internal growth or through acquisitions of related companies and technologies. For us to effectively manage our growth, we must continue to: maintain continuity in our executive officers; develop the management skills of our managers and supervisors; attract, retain, train and motivate our employees; improve our operational, financial and management controls; improve our reporting systems and procedures; and enhance management and information control systems.

Our international operations have many associated risks. 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 our business in these markets at the same rate as in North America. Because of the complex nature of this expansion, it may adversely affect our business, results of operations, cash flow and financial condition.

In the last several years, we opened new international offices in China, France, Australia, India, Japan and Singapore. These openings constituted a substantial expansion of our international presence, which, prior to 2002, consisted principally of offices in the United Kingdom and the Netherlands. We have committed resources to the opening and integration of 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 and difficulties, including those arising from the following: building and maintaining a competitive presence in new markets; staffing and managing foreign operations; managing international systems integrators; complying with a variety of foreign laws; producing localized versions of our products; import and export restrictions and tariffs; enforcing contracts and collecting accounts receivable; unexpected changes in regulatory requirements; reduced protection for intellectual property rights in some countries; potential adverse tax treatment; less stringent adherence to ethical and legal standards by prospective customers in some countries; language and cultural barriers; currency fluctuations; political and economic instability abroad; and seasonal fluctuations may arise from the lower sales that typically occur during the summer months in Europe and other parts of the world.

Our operating results may include foreign currency gains and losses. Due to our international operations, we conduct a portion of our business in currencies other than the United States dollar. Our revenues, expenses, operating profit and net income are affected when the dollar weakens or strengthens in relation to other currencies. In addition,

we have a large development center in Bangalore, India that does not have a natural in market revenue hedge to mitigate currency risk to our operating expense in India. Fluctuations in the value of other currencies, particularly the Indian rupee on expenses, can significantly affect our revenues, expenses, operating profit and net income.

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Fluctuations in our hardware sales may adversely affect us. A 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 these products. We view sales of hardware as non-strategic. We perform this service to our customers seeking a single source for their supply chain execution needs. Hardware sales are difficult to forecast and fluctuate from quarter to quarter, leading to unusual comparisons of total revenue and fluctuations in profits. If we are not able to increase our revenue from software licenses and services or maintain our hardware revenue, our business, results of operations, cash flow and financial condition may be adversely affected.

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

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

Our liability to clients may be substantial if our systems fail. Our products are often critical to the operations of our customers' businesses and provide benefits that may be difficult to quantify. If our products fail to function as required, we may be subject to claims for substantial damages. Courts may not enforce provisions in our contracts that would limit our liability or otherwise protect us from liability for damages. Defending a lawsuit, regardless of its merit, could be costly and divert management's time and attention. Although we maintain general liability insurance 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, results of operations, cash flow and financial condition could be adversely affected.

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

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

The use of open source software in our products may expose us to additional risks and harm our intellectual property. Some of our products use or incorporate software that is subject to one or more open source licenses. Open source software is typically freely accessible, usable and modifiable. Certain open source software

licenses require a user who intends to distribute the open source software as a component of the user's software to disclose publicly part or all of the source code to the user's software. In addition, certain open source software licenses require the user of such software to make any derivative works of the open source code available to others on unfavorable terms or at no cost. This can subject previously proprietary software to open source license terms.

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

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

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

Our software may contain undetected errors or bugs, resulting in harm to our reputation and operating results. Software products as complex as those offered by us might contain undetected errors or failures when first introduced or when new versions are released. We cannot assure you, despite testing by us and by current and prospective customers that errors will not be found in new products or product enhancements after commercial release. Any errors found could cause substantial harm to our reputation, result in additional unplanned expenses to remedy any defects, delay the introduction of new products, result in the loss of existing or potential customers and/or cause a loss in revenue. Further, such errors could subject us to claims from our customers for significant damages, and we cannot assure you that courts would enforce the provisions in our customer agreements that limit our liability for damages. In turn, our business, results of operations, cash flow and financial condition could be materially adversely affected.

Our business may require additional capital. We may require additional capital to finance our growth or to fund acquisitions or investments in complementary businesses, technologies or product lines. Our capital requirements may be impacted by many factors, including: demand for our products; the timing of and extent to which we invest in new technology; the timing of and extent to which we acquire other companies; the level and timing of revenue; the expenses of sales and marketing and new product development; the success and related expense of increasing our brand awareness; the cost of facilities to accommodate a growing workforce; the extent to which competitors are successful in developing new products and increasing their market share; and the costs involved in maintaining and enforcing intellectual property