

MANHATTAN ASSOCIATES INC  
Form 10-Q  
July 26, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 Q

[Mark One]

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

For the quarterly period ended June 30, 2018

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
Incorporation or Organization)	Identification No.)
2300 Windy Ridge Parkway, Tenth Floor	
Atlanta, Georgia	30339
(Address of Principal Executive Offices)	(Zip Code)

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

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

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 Regulations 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 whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company) Smaller reporting company
Emerging Growth Company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares of the Registrant's class of capital stock outstanding as of July 23, 2018, the latest practicable date, is as follows: 65,760,338 shares of common stock, \$0.01 par value per share.

MANHATTAN ASSOCIATES, INC.

FORM 10-Q

Quarter Ended June 30, 2018

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## PART I

## FINANCIAL INFORMATION

## Item 1. Financial Statements

## MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES

## Condensed Consolidated Balance Sheets

(in thousands, except share and per share data)

	June 30, 2018 (unaudited)	December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 79,034	\$ 125,522
Short-term investments	4,392	-
Accounts receivable, net of allowance of \$2,753 and \$2,692, respectively	99,112	92,231
Prepaid expenses and other current assets	22,192	10,320
Total current assets	204,730	228,073
Property and equipment, net	15,323	15,493
Goodwill, net	62,244	62,248
Deferred income taxes	606	1,877
Other assets	9,592	7,304
Total assets	\$ 292,495	\$ 314,995
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 21,192	\$ 14,028
Accrued compensation and benefits	25,393	15,826
Accrued and other liabilities	11,029	12,105
Deferred revenue	90,413	75,068
Income taxes payable	-	7,228
Total current liabilities	148,027	124,255
Other non-current liabilities	15,226	15,784
Shareholders' equity:		
Preferred stock, no par value; 20,000,000 shares authorized, no shares issued or outstanding in 2018 and 2017	-	-
Common stock, \$0.01 par value; 200,000,000 shares authorized; 65,759,735 and 67,776,138 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	658	678
Retained earnings	143,994	186,117
Accumulated other comprehensive loss	(15,410 )	(11,839 )
Total shareholders' equity	129,242	174,956
Total liabilities and shareholders' equity	\$ 292,495	\$ 314,995

See accompanying Notes to Condensed Consolidated Financial Statements.

## Item 1. Financial Statements (continued)

## MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Income

(in thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	(unaudited)(unaudited)		(unaudited)(unaudited)	
<b>Revenue:</b>				
Software license	\$ 12,973	\$ 20,064	\$ 20,528	\$ 41,341
Cloud subscriptions	5,377	2,378	9,846	3,874
Maintenance	36,993	35,959	73,390	69,335
Services	82,267	85,327	161,024	165,108
Hardware	4,261	10,413	7,652	17,972
<b>Total revenue</b>	<b>141,871</b>	<b>154,141</b>	<b>272,440</b>	<b>297,630</b>
<b>Costs and expenses:</b>				
Cost of license	2,096	1,438	3,404	2,790
Cost of cloud subscriptions, maintenance and services	56,985	53,109	113,471	108,008
Cost of hardware	-	7,766	-	13,136
Research and development	18,176	14,102	35,235	28,327
Sales and marketing	13,809	11,732	26,693	23,521
General and administrative	12,885	11,387	25,685	23,259
Depreciation and amortization	2,235	2,326	4,437	4,588
Restructuring charge	-	3,022	-	3,022
<b>Total costs and expenses</b>	<b>106,186</b>	<b>104,882</b>	<b>208,925</b>	<b>206,651</b>
Operating income	35,685	49,259	63,515	90,979
Other income (loss), net	986	(68 )	1,707	(439 )
Income before income taxes	36,671	49,191	65,222	90,540
Income tax provision	9,003	18,047	14,902	31,172
<b>Net income</b>	<b>\$ 27,668</b>	<b>\$ 31,144</b>	<b>\$ 50,320</b>	<b>\$ 59,368</b>
Basic earnings per share	\$ 0.42	\$ 0.45	\$ 0.75	\$ 0.85
Diluted earnings per share	\$ 0.42	\$ 0.45	\$ 0.75	\$ 0.85
<b>Weighted average number of shares:</b>				
Basic	66,429	69,227	66,987	69,610
Diluted	66,535	69,421	67,132	69,844

See accompanying Notes to Condensed Consolidated Financial Statements.



Item 1. Financial Statements (continued)

MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(in thousands)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net income	\$27,668	\$ 31,144	\$50,320	\$ 59,368
Foreign currency translation adjustment	(3,402 )	878	(3,571 )	2,772
Comprehensive income	\$24,266	\$ 32,022	\$46,749	\$ 62,140

See accompanying Notes to Condensed Consolidated Financial Statements.



Item 1. Financial Statements (continued)  
MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(in thousands)

	Six Months Ended June 30,	
	2018	2017
	(unaudited)	(unaudited)
<b>Operating activities:</b>		
Net income	\$50,320	\$ 59,368
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	4,437	4,588
Equity-based compensation	9,270	7,268
(Gain) loss on disposal of equipment	(37 )	9
Deferred income taxes	803	1,966
Unrealized foreign currency (gain) loss	(1,359 )	42
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable, net	(7,913 )	5,243
Other assets	(5,217 )	(2,985 )
Accounts payable, accrued and other liabilities	15,846	(2,117 )
Income taxes	(14,300 )	(9,336 )
Deferred revenue	16,244	8,549
Net cash provided by operating activities	68,094	72,595
<b>Investing activities:</b>		
Purchase of property and equipment	(4,055 )	(2,703 )
Net purchases of investments	(5,196 )	(9,457 )
Net cash used in investing activities	(9,251 )	(12,160 )
<b>Financing activities:</b>		
Purchase of common stock	(103,714)	(81,620 )
Net cash used in financing activities	(103,714)	(81,620 )
Foreign currency impact on cash	(1,617 )	2,274
Net change in cash and cash equivalents	(46,488 )	(18,911 )
Cash and cash equivalents at beginning of period	125,522	95,615
Cash and cash equivalents at end of period	\$79,034	\$ 76,704

See accompanying Notes to Condensed Consolidated Financial Statements.



## Item 1. Financial Statements (continued)

## MANHATTAN ASSOCIATES, INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Shareholders' Equity

(in thousands, except share data)

	Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive (Loss)	Total Shareholders' Equity
	Shares	Amount	Capital	Earnings	Income	Equity
Balance, December 31, 2016 (audited)	70,233,955	\$ 702	\$ -	\$ 184,558	\$ (15,894 )	\$ 169,366
Repurchase of common stock	(2,829,850 )	(28 )	(18,050 )	(113,629 )	-	(131,707 )
Restricted stock units issuance	372,033	4	(4 )	-	-	-
Equity-based compensation	-	-	16,229	-	-	16,229
Adjustment due to adoption of ASU 2016-09, Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting	-	-	1,825	(1,293 )	-	532
Foreign currency translation adjustment	-	-	-	-	4,055	4,055
Net income	-	-	-	116,481	-	116,481
Balance, December 31, 2017 (audited)	67,776,138	678	-	186,117	(11,839 )	174,956
Repurchase of common stock	(2,352,312 )	(24 )	(9,266 )	(94,424 )	-	(103,714 )
Restricted stock units issuance	335,909	4	(4 )	-	-	-
Equity-based compensation	-	-	9,270	-	-	9,270
Adjustment due to adoption of ASC 2014-09 Revenue from Contracts with Customers (Topic 606)	-	-	-	1,981	-	1,981
Foreign currency translation adjustment	-	-	-	-	(3,571 )	(3,571 )
Net income	-	-	-	50,320	-	50,320
Balance, June 30, 2018 (unaudited)	65,759,735	\$ 658	\$ -	\$ 143,994	\$ (15,410 )	\$ 129,242

See accompanying Notes to Condensed Consolidated Financial Statements.

## Notes to Condensed Consolidated Financial Statements

(Unaudited)

### 1. Basis of Presentation and Principles of Consolidation

#### Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Manhattan Associates, Inc. and its subsidiaries (the “Company,” “we,” “us,” or “our,”) have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information, with the instructions to Form 10-Q and with Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required for complete financial statements. In the opinion of management, these condensed consolidated financial statements contain all normal recurring adjustments considered necessary for a fair presentation of our financial position at June 30, 2018, the results of operations for the three and six months ended June 30, 2018 and 2017, and cash flows for the six months ended June 30, 2018 and 2017. The results for the three and six months ended June 30, 2018 are not necessarily indicative of the results to be expected for the full year. These statements should be read in conjunction with our audited consolidated financial statements and management’s discussion and analysis included in our annual report on Form 10-K for the year ended December 31, 2017.

#### Principles of Consolidation

The accompanying condensed consolidated financial statements include our accounts and the accounts of our wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

#### Reclassifications

Certain line items in prior period financial statements have been reclassified to conform to the current period presentation in the condensed consolidated statements of income due to our business transition from perpetual software license to cloud subscriptions. We believe separate disclosures of our software license, cloud subscription, maintenance and service revenue are meaningful to investors and provide important measures of our business performance. Certain line items in prior period financial statements have been reclassified to conform to the current period presentation in the condensed consolidated statements of income, including: all revenue line items; cost of license; cost of cloud subscriptions, maintenance and services; and cost of hardware. Such reclassifications did not affect total revenues, operating income or net income.

#### New Accounting Pronouncements Adopted in Fiscal Year 2018

##### Revenue Recognition

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue Recognition – Revenue from Contracts with Customers (Topic 606), which, along with its subsequent amendments, replaced substantially all revenue recognition guidance. The new standard provides accounting guidance for all revenue arising from contracts with customers and affects all entities that enter into contracts to provide goods or services to their customers unless the contracts are in the scope of other standards.



On January 1, 2018, we adopted Topic 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results of reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported under the previous revenue recognition standard (Topic 605). Historical hardware sales prior to the adoption of Accounting Standards Codification (ASC) 606 were recorded on a gross basis, as we were the principal in the transaction in accordance with ASC 605-45. Under the new standard, we are an agent in the transaction as we do not physically control the hardware which we sell; accordingly, we recognize our hardware revenue net of related cost which reduces both hardware revenue and cost of sales as compared to our accounting prior to 2018. Otherwise, the adoption of ASC 606 does not have a material impact on the measurement or recognition of revenue in any prior or current reporting periods.

However, based on expected renewals of maintenance and multi-year cloud subscriptions, we must defer a portion of our sales commission expense and amortize it over time as the corresponding services are transferred to the customer under the new standard. As a result, we recorded a net increase to opening retained earnings of \$2.0 million, net of tax, as of January 1, 2018 for commissions expense required to be deferred on contracts not completed as of that date.

Had we presented the results for the three and six months ended June 30, 2018 under Topic 605, we would have presented hardware revenue gross which would have increased hardware revenue and cost of hardware each by \$12.0 million and \$19.8 million,

respectively. We would have also expensed all sales commissions upon contract completion which would have increased sales and marketing expense by \$0.6 million and \$0.8 million for the three and six months ended June 30, 2018, respectively.

#### New Accounting Pronouncements Not Yet Adopted

##### Leases

In February 2016, the FASB issued ASU 2016-02, Leases, which established new ASC Topic 842, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP which requires only capital leases to be recognized on the balance sheet—the new standard will require both types of leases to be recognized on the balance sheet. ASC 842 also will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. Our leasing activity is primarily related to office space. For public companies, this guidance is effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods, but may be adopted earlier. We expect to adopt the standard in the first quarter of 2019 on a modified prospective basis and are currently evaluating the impact that the adoption of this standard will have on our Consolidated Financial Statements. The adoption will increase our total assets and liabilities.

#### 2. Revenue Recognition

We recognize revenue when we transfer control of the promised products or services to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those products or services. We derive our revenue from software licenses, cloud subscriptions, customer support services and software enhancements (“maintenance”), implementation and training services, and sales of hardware. We exclude sales and usage-based taxes from revenue.

##### Nature of Products and Services

Our perpetual software licenses provide the customer with a right to use the software as it exists at the time of purchase. We recognize revenue for distinct software licenses once the license period has begun and we have made the software available to the customer.

Cloud subscriptions includes software as a service (“SaaS”) and arrangements which provide customers with the right to use our software within a cloud-based environment that we provide and manage where the customer does not have the right to take possession of the software without significant penalty. SaaS and hosting revenues are recognized ratably over the contract period. For contracts that include a perpetual license and hosting services, we generally consider the arrangement as an overall service, recognized over the initial hosting term. The software license fee typically due at the outset of the arrangement is not payable again if the customer renews the hosting services, so that the customer’s option to renew the hosting services is a material right, the revenue from which, if the option is exercised, we will recognize over the applicable renewal period.

Our perpetual software licenses are typically sold with maintenance under which we provide a comprehensive 24 hours per day, 365 days per year program that provides customers with software upgrades, when and if available, which include additional or improved functionality and technological advances incorporating emerging supply chain and industry initiatives. Revenue related to maintenance is generally paid in advance and recognized ratably over the term of the agreement, typically twelve months.

Our services revenue consists of fees generated from implementation and training services, including reimbursements of out-pocket expenses in connection with our services. Services include system planning, design, configuration, testing, and other software implementation support, and are typically optional and distinct from our software. Fees for our services are separately priced and are generally billed on an hourly basis, and revenue is recognized over time as the services are performed. In certain situations, we render professional services under agreements based upon a fixed fee for portions of or all of the engagement. Revenue related to fixed-fee-based services contracts is recognized over time based on the proportion performed. The total amount of expense reimbursement included in services revenue was \$4.2 million and \$4.5 million for the three months ended June 30, 2018 and 2017, respectively, and \$7.7 million and \$8.8 million for the six months ended June 30, 2018 and 2017, respectively.

As part of a complete solution, our customers periodically purchase hardware products developed and manufactured by third parties from us for use with the software licenses purchased from us. These products include computer hardware, radio frequency

terminal networks, radio frequency identification (RFID) chip readers, bar code printers and scanners, and other peripherals. As we do not physically control the hardware that we sell, we are acting as an agent in the transaction and recognize our hardware revenue net of related cost. We recognize hardware revenue when control is transferred to the customer upon shipment.

#### Significant Judgements

Our contracts with customers typically contain promises to transfer multiple products and services to a customer. Judgement is required to determine whether each product and service is considered to be a distinct performance obligation that should be accounted for separately under the contract. We allocate the transaction price to the distinct performance obligations based on relative standalone selling price (“SSP”). We estimate SSP based on the prices charged to customers, or by using information such as market conditions and other observable inputs. However, the selling price of our software licenses is highly variable. Thus, we estimate SSP for software licenses using the residual approach, determined based on total transaction price less the SSP of other goods and services promised in the contract.

#### Contract Balances

Timing of invoicing to customers may differ from timing of revenue recognition. Payment terms for our software licenses vary. We have an established history of collecting under the terms of our software license contracts without providing refunds or concessions to our customers. Cloud subscriptions and maintenance are typically billed annually in advance. Services are typically billed monthly as performed. In instances where the timing of revenue recognition differs from the timing of invoicing, we have determined that our contracts generally do not include a significant financing component. The primary purpose of our invoicing terms is to provide customers with predictable ways to purchase our software and services, not to provide or receive financing. Additionally, we are applying the practical expedient to exclude from consideration any contracts with payment terms of one year or less as we rarely offer terms extending beyond one year.

Deferred revenue mainly represents amounts collected prior to having completed performance of maintenance, cloud subscriptions and professional services. \$21.7 million and \$53.4 million of revenue that was included in the deferred revenue balance as of December 31, 2017 was recognized during the three and six months ended June 30, 2018, respectively. \$36.2 million of revenue that was included in the deferred revenue balance as of March 31, 2018 was recognized during the three months ended June 30, 2018.

There was no revenue recognized during the three and six months ended June 30, 2018 from performance obligations that were satisfied in prior periods.

#### Remaining Performance Obligations

As of June 30, 2018, approximately \$58.4 million of revenue is expected to be recognized from remaining performance obligations for cloud subscriptions and maintenance contracts with a non-cancelable term greater than 1 year (including deferred revenue as well as amounts that will be invoiced and recognized as revenue in future periods). We expect to recognize revenue on approximately two-thirds of these remaining performance obligations over the next 24 months with the balance recognized thereafter. We have elected not to provide disclosures regarding remaining performance obligations for contracts with a term of 1 year or less.

#### Returns and Allowances

We have not experienced significant returns or warranty claims to date and, as a result, have not recorded a provision for the cost of returns and product warranty claims.

We record an allowance for doubtful accounts based on the historical experience of write-offs and a detailed assessment of accounts receivable. Additions to the allowance for doubtful accounts generally represent a sales allowance on services revenue, which are recorded to operations as a reduction to services revenue. The total amount charged to operations was \$2.6 million and \$2.8 million for the three and six months ended June 30, 2018, respectively. In estimating the allowance for doubtful accounts, we consider the age of the accounts receivable, our historical write-offs, and the creditworthiness of the customer, among other factors. Should any of these factors change, the estimates made by us will also change accordingly, which could affect the level of our future allowances. Uncollectible accounts are written off when it is determined that the specific balance is not collectible.

#### Deferred Commissions

We consider sales commissions to be incremental costs of obtaining a contract with a customer. We defer and recognize an asset for sales commissions related to performance obligations with an expected period of benefit of more than one year. We apply the practical expedient to expense sales commissions when the amortization period would have been one year or less. Deferred

commissions were \$2.5 million as of June 30, 2018. Sales commission expense is included in Sales and Marketing expense in the accompanying consolidated statement of operations. Amortization of sales commissions was \$0.2 million \$0.4 million for the three and six months ended June 30, 2018, respectively. No impairment losses were recognized during the periods.

### 3. Fair Value Measurement

We measure our investments based on a fair value hierarchy disclosure framework that prioritizes and ranks the level of market price observability used in measuring assets and liabilities at fair value. Market price observability is affected by a number of factors, including the type of asset or liability and its characteristics. This hierarchy prioritizes the inputs into three broad levels as follows:

Level 1—Quoted prices in active markets for identical instruments.

Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Investments with maturities of 90 days or less from the date of purchase are classified as cash equivalents; investments with maturities of greater than 90 days from the date of purchase but less than one year are generally classified as short-term investments; and investments with maturities of one year or greater from the date of purchase are generally classified as long-term investments. Unrealized holding gains and losses are reflected as a net amount in a separate component of shareholders' equity until realized. For the purposes of computing realized gains and losses, cost is determined on a specific identification basis.

At June 30, 2018, our cash, cash equivalents, and short-term investments were \$67.1 million, \$11.9 million, and \$4.4 million, respectively. We currently have no long-term investments. Cash equivalents consist of highly liquid money market funds and certificates of deposit. Short-term investments consist of certificates of deposit. For money market funds, we use quoted prices from active markets that are classified at Level 1, the highest level of observable input in the disclosure hierarchy framework. At June 30, 2018 and December 31, 2017, we had \$9.6 million and \$10.5 million, respectively, in money market funds, which are classified at Level 1 and are included in cash and cash equivalents on the Condensed Consolidated Balance Sheets. We have no investments classified at Level 2 or Level 3.

### 4. Equity-Based Compensation

We granted 41,481 and 23,307 restricted stock units ("RSUs") during the three months ended June 30, 2018 and 2017, respectively, and, during the six months ended June 30, 2018 and 2017, granted 509,007 and 360,991 RSUs, respectively. Equity-based compensation expense related to RSUs was \$5.0 million and \$2.8 million during the three months ended June 30, 2018 and 2017, respectively, and \$9.3 million and \$7.3 million during the six months ended June 30, 2018 and 2017, respectively.

A summary of changes in unvested shares/units for the six months ended June 30, 2018 is as follows:

	Number of shares/units
Outstanding at December 31, 2017	1,036,635
Granted	509,007
Vested	(368,764 )
Forfeited	(172,023 )
Outstanding at June 30, 2018	1,004,855

## 5. Income Taxes

Our effective tax rate was 24.6% and 36.7% for the quarters ended June 30, 2018 and 2017, respectively, and 22.8% and 34.4% for the six months ended June 30, 2018 and 2017, respectively. The decrease in the effective tax rate for the three months ended June 30, 2018 is a result of the reduction of the U.S. statutory tax rate from 35% to 21%. The decrease in the effective tax rate for the six months ended June 30, 2018 primarily relates to the reduction of the U.S. statutory tax rate from 35% to 21%, partially offset by a decrease of \$1.3 million in excess tax benefits on restricted stock vesting. We also reduced our provisional one-time estimate for the impact of tax reform discussed below by \$0.3 million.

## U.S. Tax Reform

On December 22, 2017, the United States enacted tax reform legislation pursuant to the Tax Cuts and Jobs Act (the Act). The Act reduces the U.S. federal corporate income tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings. We are applying the guidance in Staff Accounting Bulletin (SAB) 118 when accounting for the enactment-date effects of the Act. At June 30, 2018, we have made a reasonable estimate of the effects of the Act. We will continue to make and refine our calculations as we complete additional analysis. Our estimates may also be affected as we gain a more thorough understanding of the tax law, as more guidance/technical corrections are released by the Internal Revenue Service (IRS) and/or Congress. These changes could be material to income tax expense.

In December 2017, we recorded a provisional estimate of \$3.3 million for the one-time deemed repatriation transition tax on unrepatriated foreign earnings. The one-time transition tax is based on our total earnings and profits (E&P) which we deferred from the U.S. income taxes under the previous U.S. law. As we continue to refine our E&P analysis, we will refine our calculations of the one-time transition tax, which could affect the measurement of this liability. We have not provided additional income taxes for any remaining undistributed foreign earnings not subject to the transition tax, or any additional outside basis difference inherent in our foreign subsidiaries, as these amounts continue to be indefinitely reinvested in foreign operations.

In December 2017, we also recorded a provisional write-down to deferred tax assets of \$0.7 million related to changes in section 162(m), Internal Revenue Code of 1986, regarding deductions for excessive employee compensation. We continue to gather and analyze information, including the definition of an employee contract for stock grants not vested as of the enactment date of the Act. We reduced this estimate by \$0.3 million during the six months ended June 30, 2018.

The Act also subjects a U.S. shareholder to tax on global intangible low taxed income (GILTI) earned by certain foreign subsidiaries. The Staff of the FASB provided additional guidance to address the accounting for the effects of the provisions related to the taxation of GILTI, noting that an entity can make an accounting policy election to either recognize deferred taxes for temporary differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred as a period cost only. Given the complexity of the GILTI provisions, we are still evaluating the effects of the GILTI provisions and have not yet determined our accounting policy. At June 30, 2018, because we are still evaluating the GILTI provisions and our analysis of future taxable income that is subject to GILTI, we have included GILTI related to current-year operations only in our effective tax rate and have not provided additional GILTI on deferred items.

We apply the provisions for income taxes related to, among other things, accounting for uncertain tax positions and disclosure requirements in accordance with ASC 740, Income Taxes. For the three months ended June 30, 2018, there were no material changes to our uncertain tax positions. There has been no change to our policy that recognizes potential interest and penalties related to uncertain tax positions within our global operations in income tax expense.

We conduct business globally and, as a result, file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. In the normal course of business, Manhattan is subject to examination by taxing authorities throughout the world. We are no longer subject to the U.S. federal, substantially all state and local income tax examinations and substantially all non-U.S. income tax examinations for years before 2012.



6. Net Earnings Per Share

Basic net earnings per share is computed using net income divided by the weighted average number of shares of common stock outstanding (“Weighted Shares”) for each period presented. Diluted net earnings per share is computed using net income divided by the sum of Weighted Shares and common equivalent shares (CESs) outstanding for each period presented using the treasury stock method.

The following is a reconciliation of the net income and share amounts used in the computation of basic and diluted net earnings per common share for the three and six months ended June 30, 2018 and 2017 (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands, except per share data)		(in thousands, except per share data)	
Net income	\$ 27,668	\$ 31,144	\$ 50,320	\$ 59,368
Earnings per share:				
Basic	\$ 0.42	\$ 0.45	\$ 0.75	\$ 0.85
Effect of CESs	-	-	-	-
Diluted	\$ 0.42	\$ 0.45	\$ 0.75	\$ 0.85
Weighted average number of shares:				
Basic	66,429	69,227	66,987	69,610
Effect of CESs	106	194	145	234
Diluted	66,535	69,421	67,132	69,844

The number of anti-dilutive CESs during 2018 and 2017 was immaterial.

## 7. Contingencies

From time to time, we may be involved in litigation relating to claims arising out of the ordinary course of business, and occasionally legal proceedings not in the ordinary course. Many of our installations involve products that are critical to the operations of our clients' businesses. Any failure in a company's product could result in a claim for substantial damages against us, regardless of our responsibility for such failure. Although we attempt to limit contractually our liability for damages arising from product failures or negligent acts or omissions, there can be no assurance that the limitations of liability set forth in our contracts will be enforceable in all instances. We are not currently a party to any legal proceedings the result of which we believe is likely to have a material adverse impact on our business, financial position, results of operations, or cash flows. We expense legal costs associated with loss contingencies as such legal costs are incurred.

## 8. Operating Segments

We manage our business by geographic segment, and have three geographic reportable segments: North and Latin America (the "Americas"); Europe, the Middle East and Africa (EMEA); and Asia Pacific (APAC). All segments derive revenue from the sale and implementation of our supply chain commerce solutions. The individual products sold by the segments are similar in nature and are all designed to help companies manage the effectiveness and efficiency of their supply chain commerce. We use the same accounting policies for each reportable segment. The chief executive officer and chief financial officer evaluate performance based on revenue and operating results for each reportable segment.

The Americas segment charges royalty fees to the other segments based on software licenses sold by those reportable segments. The royalties, which totaled approximately \$0.6 million and \$1.8 million for the three months ended June 30, 2018 and 2017, respectively, and approximately \$1.6 million and \$4.5 million for the six months ended June 30, 2018 and 2017, respectively, are included in costs of revenue for each segment with a corresponding reduction in the Americas segment's cost of revenue. The revenues represented below are from external customers only. The geography-based costs consist of costs for professional services personnel, direct sales and marketing expenses, infrastructure costs to support the employee and customer base, billing and financial systems, management and general and administrative support. Certain corporate expenses included in the Americas segment are not charged to the other segments. Such expenses include research and development, certain marketing and general and administrative costs that support the global organization, and the amortization of acquired developed technology. Costs in the Americas segment include all research and development costs, including the costs associated with our operations in India.

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The following table presents our revenues, expenses and operating income by reportable segment for the three and six months ended June 30, 2018 and 2017 (in thousands):

	Three Months Ended June 30, 2018				2017			
	Americas	EMEA	APAC	Consolidated	Americas	EMEA	APAC	Consolidated
<b>Revenue:</b>								
Software license	\$8,652	\$2,814	\$1,507	\$ 12,973	\$12,870	\$5,701	\$1,493	\$ 20,064
Cloud subscriptions	4,870	402	105	5,377	2,378	-	-	2,378
Maintenance	29,137	5,614	2,242	36,993	29,411	4,704	1,844	35,959
Services	66,191	12,526	3,550	82,267	68,605	11,612	5,110	85,327
Hardware	4,095	-	166	4,261	10,394	11	8	10,413
Total revenue	112,945	21,356	7,570	141,871	123,658	22,028	8,455	154,141
<b>Costs and Expenses:</b>								
Cost of revenue	44,416	11,161	3,504	59,081	49,747	8,831	3,735	62,313
Operating expenses	39,980	3,742	1,148	44,870	33,143	2,956	1,122	37,221
Depreciation and amortization	1,960	201	74	2,235	2,143	132	51	2,326
Restructuring charge	-	-	-	-	2,908	114	-	3,022
Total costs and expenses	86,356	15,104	4,726	106,186	87,941	12,033	4,908	104,882
Operating income	\$26,589	\$6,252	\$2,844	\$ 35,685	\$35,717	\$9,995	\$3,547	\$ 49,259

	Six Months Ended June 30, 2018				2017			
	Americas	EMEA	APAC	Consolidated	Americas	EMEA	APAC	Consolidated
<b>Revenue:</b>								
Software license	\$12,143	\$4,614	\$3,771	\$ 20,528	\$23,494	\$15,074	\$2,773	\$ 41,341
Cloud subscriptions	8,973	768	105	9,846	3,874	-	-	3,874
Maintenance	58,579	10,630	4,181	73,390	57,040	8,728	3,567	69,335
Services	130,379	24,508	6,137	161,024	134,411	21,575	9,122	165,108
Hardware	7,486	-	166	7,652	17,954	11	7	17,972
Total revenue	217,560	40,520	14,360	272,440	236,773	45,388	15,469	297,630
<b>Costs and Expenses:</b>								
Cost of revenue	88,563	21,174	7,138	116,875	98,335	18,222	7,377	123,934
Operating expenses	78,173	7,231	2,209	87,613	66,879	6,042	2,186	75,107
Depreciation and amortization	3,917	388	132	4,437	4,221	261	106	4,588
Restructuring charge	-	-	-	-	2,908	114	-	3,022
Total costs and expenses	170,653	28,793	9,479	208,925	172,343	24,639	9,669	206,651
Operating income	\$46,907	\$11,727	\$4,881	\$ 63,515	\$64,430	\$20,749	\$5,800	\$ 90,979