MANHATTAN ASSOCIATES INC
Form 10-Q
April 24, 2017

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 March 31, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____________ to ____________

Commission File Number: 0-23999

MANHATTAN ASSOCIATES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Georgia	58-2373424
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
2300 Windy Ridge Parkway, 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 April 19, 2017, the latest practicable date, is as follows: 69,443,980 shares of common stock, $0.01 par value per share.

MANHATTAN ASSOCIATES, INC.

FORM 10-Q

Quarter Ended March 31, 2017

TABLE OF CONTENTS

PART I

Financial Information

Item 1. Financial Statements.

Condensed Consolidated Balance Sheets as of March 31, 2017 (unaudited) and December 31, 2016 3

Condensed Consolidated Statements of Income for the three months ended March 31, 2017 and 2016 (unaudited) 4

Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2017 and 2016 (unaudited) 5

Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2017 and 2016 (unaudited) 6

Condensed Consolidated Statements of Stockholders' Equity for the three months ended March 31, 2017 (unaudited) and for the twelve months ended December 31, 2016 7

Notes to Condensed Consolidated Financial Statements (unaudited) 8

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. 14

Item 3. Quantitative and Qualitative Disclosures About Market Risk. 22

Item 4. Controls and Procedures. 23

PART II

OTHER INFORMATION

Item 1. Legal Proceedings. 23

Item 1A. Risk Factors. 23

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds. 24

Item 3. Defaults Upon Senior Securities. 24

Item 4. Mine Safety Disclosures. 24

Item 5.	Other Information.	24
Item 6.	Exhibits.	24
Signatures.		25

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)

	March 31, 2017 (unaudited)	December 31, 2016
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 89,208	$ 95,615
Short-term investments	12,051	-
Accounts receivable, net of allowance of $3,900 and $3,595, respectively	84,076	100,285
Prepaid expenses and other current assets	14,759	11,118
Total current assets	200,094	207,018
Property and equipment, net	16,525	17,424
Goodwill, net	62,230	62,228
Deferred income taxes	898	2,867
Other assets	7,595	7,603
Total assets	$ 287,342	$ 297,140
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 11,213	$ 12,052
Accrued compensation and benefits	18,866	20,700
Accrued and other liabilities	11,929	12,510
Deferred revenue	70,751	63,457
Income taxes payable	17,057	8,924
Total current liabilities	129,816	117,643
Other non-current liabilities	9,658	10,131
Shareholders' equity:		
Preferred stock, no par value; 20,000,000 shares authorized, no shares issued or outstanding in 2017 and 2016	-	-
Common stock, $0.01 par value; 200,000,000 shares authorized; 69,443,299 and 70,233,955 shares issued and outstanding at March 31, 2017 and December 31, 2016, respectively	694	702
Retained earnings	161,175	184,558
Accumulated other comprehensive loss	(14,001)	(15,894)
Total shareholders' equity	147,868	169,366
Total liabilities and shareholders' equity	$ 287,342	$ 297,140

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 March 31,	
	2017 (unaudited)	2016 (unaudited)
Revenue:		
Software license	$22,773	$ 20,607
Services	108,833	116,263
Hardware and other	11,883	12,990
Total revenue	143,489	149,860
Costs and expenses:		
Cost of license	2,240	3,152
Cost of services	49,743	51,904
Cost of hardware and other	9,638	9,757
Research and development	14,225	14,706
Sales and marketing	11,789	12,588
General and administrative	11,872	12,448
Depreciation and amortization	2,262	2,206
Total costs and expenses	101,769	106,761
Operating income	41,720	43,099
Other (loss) income, net	(371)	520
Income before income taxes	41,349	43,619
Income tax provision	13,125	16,139
Net income	$28,224	$ 27,480
Basic earnings per share	$0.40	$ 0.38
Diluted earnings per share	$0.40	$ 0.38
Weighted average number of shares:		
Basic	69,973	72,630
Diluted	70,247	73,020

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 March 31,	
	2017 (unaudited)	2016 (unaudited)
Net income	$28,224	$ 27,480
Foreign currency translation adjustment	1,893	55
Comprehensive income	$30,117	$ 27,535

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)

	Three Months Ended March 31,	
	2017 (unaudited)	2016 (unaudited)
Operating activities:		
Net income	$28,224	$ 27,480
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,262	2,206
Equity-based compensation	4,472	4,688
Loss on disposal of equipment	20	3
Tax benefit of stock awards exercised/vested	-	5,023
Excess tax benefits from equity-based compensation	-	(5,023)
Deferred income taxes	2,531	1,747
Unrealized foreign currency loss (gain)	104	(61)
Changes in operating assets and liabilities:		
Accounts receivable, net	16,553	13,554
Other assets	(3,939)	(228)
Accounts payable, accrued and other liabilities	(4,063)	(12,186)
Income taxes	8,172	2,044
Deferred revenue	6,940	1,179
Net cash provided by operating activities	61,276	40,426
Investing activities:		
Purchase of property and equipment	(789)	(1,906)
Net (purchases) maturities of investments	(11,630)	1,418
Net cash used in investing activities	(12,419)	(488)
Financing activities:		
Purchase of common stock	(56,619)	(57,791)
Proceeds from issuance of common stock from options exercised	-	18
Excess tax benefits from equity-based compensation	-	5,023
Net cash used in financing activities	(56,619)	(52,750)
Foreign currency impact on cash	1,355	208
Net change in cash and cash equivalents	(6,407)	(12,604)
Cash and cash equivalents at beginning of period	95,615	118,416
Cash and cash equivalents at end of period	$89,208	$ 105,812

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'
	Shares	Amount	Capital	Earnings	Income	Equity
Balance, December 31, 2015 (audited)	72,766,383	$ 728	$ -	$ 207,070	$ (12,306)	$ 195,492
Repurchase of common stock	(2,988,627)	(30)	(21,157)	(146,746)	-	(167,933)
Stock option exercises	3,610	-	18	-	-	18
Restricted stock units issuance	452,589	4	(4)	-	-	-
Equity-based compensation	-	-	15,934	-	-	15,934
Tax effects of equity-based compensation	-	-	5,209	-	-	5,209
Foreign currency translation adjustment	-	-	-	-	(3,588)	(3,588)
Net income	-	-	.	124,234	-	124,234
Balance, December 31, 2016 (audited)	70,233,955	702	-	184,558	(15,894)	169,366
Repurchase of common stock	(1,134,924)	(11)	(6,294)	(50,314)	-	(56,619)
Restricted stock units issuance	344,268	3	(3)	-	-	-
Equity-based compensation	-	-	4,472	-	-	4,472
Adjustment due to adoption of ASC 2016-09, Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting	-	-	1,825	(1,293)	-	532
Foreign currency translation adjustment	-	-	-	-	1,893	1,893
Net income	-	-	-	28,224	-	28,224
Balance, March 31, 2017 (unaudited)	69,443,299	$ 694	$ -	$ 161,175	$ (14,001)	$ 147,868

See accompanying Notes to Condensed Consolidated Financial Statements.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Basis of Presentation, Principles of Consolidation and New Accounting Pronouncements

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Manhattan Associates, Inc. and its subsidiaries (the "Company") 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 the Company's financial position at March 31, 2017, the results of operations for the three months ended March 31, 2017 and 2016, and cash flows for the three months ended March 31, 2017 and 2016. The results for the three months ended March 31, 2017 are not necessarily indicative of the results to be expected for the full year. These statements should be read in conjunction with the Company's audited consolidated financial statements and management's discussion and analysis included in the Company's annual report on Form 10-K for the year ended December 31, 2016.

Principles of Consolidation

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

New Accounting Pronouncements Adopted in Fiscal Year 2017

Stock Compensation

During the three months ended March 31, 2017, we adopted Accounting Standards Update (ASU) 2016-09, Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting, to improve the accounting for employee share-based payments. Under the new guidance, all excess tax benefits and certain tax deficiencies are recorded as income tax expense or benefit in the income statement rather than recorded in additional paid-in capital. The additional paid-in capital pools are eliminated. This new guidance must be applied on a prospective basis. As a result, the excess tax benefits of $2.0 million for the three months ended March 31, 2017 are recorded in our provision for income taxes rather than additional paid-in capital. As required by the ASU, excess tax benefits recognized on share-based compensation expense are classified as an operating activity on the statement of cash flows rather than as a financing activity, and we have applied this provision on a prospective basis.

The ASU also allows the Company to repurchase more of an employee's shares than it previously could for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. We have elected to account for forfeitures as they occur, rather than estimate expected forfeitures over the course of a vesting period. As a result, the net cumulative-effect of this election was recognized as a $1.8 million increase to additional paid-in capital, a $0.5 million increase to deferred tax assets and a $1.3 million decrease to retained earnings as of January 1, 2017.

Goodwill Impairment

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350) that simplifies the test for goodwill impairment, which eliminates step two from the goodwill impairment test. Under the new guidance, an entity should recognize an impairment charge for the amount based on the excess of a reporting unit's carrying amount over its fair value. The impairment charge will be limited to the amount of goodwill allocated to that reporting unit. For public companies, the guidance is effective for annual and interim impairment tests performed in periods beginning after December 15, 2019 on a prospective basis, and earlier adoption is permitted for goodwill impairment tests performed on testing dates after January 1, 2017. We early adopted this guidance during the three months ended March 2017, and the adoption did not impact our financial statements.

New Accounting Pronouncements Not Yet Adopted

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, Revenue Recognition – Revenue from Contracts with Customers (Topic 606), which will replace substantially all current revenue recognition guidance once it becomes effective. 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. The new standard is less prescriptive and may require software entities to use more judgment and estimates in the revenue recognition process than are required under existing revenue guidance.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606) – Principal versus Agent Considerations, which clarifies the implementation guidance for principal versus agent considerations in ASU 2014-09. In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606) – Identifying Performance Obligations and Licensing, which amends the guidance in ASU 2014-09 related to identifying performance obligations and accounting for licenses of intellectual property. In May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers (Topic 606) – Narrow-Scope Improvements and Practical Expedients, which clarifies the following aspects in ASU 2014-09: collectability, presentation of sales taxes and other similar taxes collected from customers, noncash considerations, contract modifications at transition, completed contracts at transition, and technical correction. In December 2016, the FASB issued ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers, which provides thirteen technical corrections and improvements to the new revenue standard. We must adopt ASU 2016-08, ASU 2016-10, ASU 2016-12, and ASU 2016-20 with ASU 2014-09, which is effective for annual and interim periods beginning after December 15, 2017.

The new revenue standard may be applied using either of the following transition methods: (1) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (2) a modified retrospective approach with the cumulative effect of initially adopting the standard recognized at the date of adoption (which includes additional footnote disclosures). We will adopt the standard in the first quarter of 2018 and expect to use the modified retrospective method. Currently, we are in the process of reviewing our historical contracts to quantify the impact that the adoption of the standard will have on specific performance obligations. We are also continuing to evaluate the impact of the standard on our recognition of costs related to obtaining customer contracts (namely sales commissions).

Leases

In February 2016, the FASB issued ASU 2016-02, Leases (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 ASU will require both types of leases to be recognized on the balance sheet. The ASU 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. 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 are currently evaluating the impact that the adoption of this standard will have on our Consolidated Financial Statements.

2. Revenue Recognition

The Company's revenue consists of fees from the licensing and hosting of software (collectively included in "Software license" revenue in the Condensed Consolidated Statements of Income), fees from implementation and training services (collectively, "professional services") and customer support services and software enhancements (collectively with professional services revenue included in "Services" revenue in the Condensed Consolidated Statements of Income), and sales of hardware and other revenue, which consists of reimbursements of out-of-pocket expenses incurred in connection with our professional services (collectively included in "Hardware and other" revenue in the Condensed Consolidated Statements of Income). All revenue is recognized net of any related sales taxes.

The Company recognizes license revenue when the following criteria are met: (1) a signed contract is obtained covering all elements of the arrangement, (2) delivery of the product has occurred, (3) the license fee is fixed or determinable, and (4) collection is probable. Revenue recognition for software with multiple-element arrangements requires recognition of revenue using the "residual method" when (a) there is vendor-specific objective evidence (VSOE) of the fair values of all undelivered elements in a multiple-element arrangement that is not accounted for using long-term contract accounting, (b) VSOE of fair value does not exist for one or more of the delivered elements in the arrangement, and (c) all other applicable revenue-recognition criteria for software revenue recognition are satisfied. For those contracts that contain significant customization or modifications, license revenue is recognized using contract accounting.

The Company allocates revenue to customer support services and software enhancements and any other undelivered elements of the arrangement based on VSOE of fair value of each element, and such amounts are deferred until the applicable delivery criteria and other revenue recognition criteria have been met. The balance of the revenue, net of any discounts inherent in the arrangement, is recognized at the outset of the arrangement using the residual method as the product licenses are delivered. If the Company cannot objectively determine the fair value of each undelivered element based on the VSOE of fair value, the Company defers revenue recognition until all elements are delivered, all services have been performed, or until fair value can be objectively determined. The Company must apply judgment in determining all elements of the arrangement and in determining the VSOE of fair value for each

element, considering the price charged for each product on a stand-alone basis or applicable renewal rates. For arrangements that include future software functionality deliverables, the Company accounts for these deliverables as a separate element of the arrangement. Because the Company does not sell these deliverables on a standalone basis, the Company is not able to establish VSOE of fair value of these deliverables. As a result, the Company defers all revenue under the arrangement until the future functionality has been delivered to the customer.

Payment terms for the Company's software licenses vary. Each contract is evaluated individually to determine whether the fees in the contract are fixed or determinable and whether collectability is probable. Judgment is required in assessing the probability of collection, which is generally based on evaluation of customer-specific information, historical collection experience, and economic market conditions. If market conditions decline, or if the financial conditions of customers deteriorate, the Company may be unable to determine that collectability is probable, and the Company could be required to defer the recognition of revenue until the Company receives customer payments. The Company has an established history of collecting under the terms of its software license contracts without providing refunds or concessions to its customers. Therefore, the Company has determined that the presence of payment terms that extend beyond contract execution in a particular contract do not preclude the conclusion that the fees in the contract are fixed or determinable. Although infrequent, when payment terms in a contract extend beyond twelve months, the Company has determined that such fees are not fixed or determinable and recognizes revenue as payments become due provided that all other conditions for revenue recognition have been met.

The Company's services revenue consists of fees generated from professional services and customer support and software enhancements related to the Company's software products. Professional services include system planning, design, configuration, testing, and other software implementation support, and are not typically essential to the functionality of the software. Fees from professional services performed by the Company are separately priced and are generally billed on an hourly basis, and revenue is recognized as the services are performed. In certain situations, professional services are rendered under agreements in which billings are limited to contractual maximums or based upon a fixed fee for portions of or all of the engagement. Revenue related to fixed-fee-based contracts is recognized on a proportional performance basis based on the hours incurred on discrete projects within an overall services arrangement. The Company has determined that output measures, or services delivered, approximate the input measures associated with fixed-fee services arrangements. Project losses are provided for in their entirety in the period in which they become known. Revenue related to customer support services and software enhancements is generally paid in advance and recognized ratably over the term of the agreement, typically twelve months.

Hardware and other revenue is generated from the resale of a variety of hardware products, developed and manufactured by third parties, that are integrated with and complementary to the Company's software solutions. As part of a complete solution, the Company's customers periodically purchase hardware from the Company for use with the software licenses purchased from the Company. These products include computer hardware, radio frequency terminal networks, radio frequency identification (RFID) chip readers, bar code printers and scanners, and other peripherals. Hardware revenue is recognized upon shipment to the customer when title passes. The Company generally purchases hardware from the Company's vendors only after receiving an order from a customer. As a result, the Company generally does not maintain hardware inventory.

In accordance with the other presentation matters within the Revenue Recognition Topic of the FASB Accounting Standards Codification (ASC), the Company recognizes amounts associated with reimbursements from customers for out-of-pocket expenses as revenue. Such amounts have been included in "Hardware and other" revenue in the Condensed Consolidated Statements of Income. The total amount of expense reimbursement recorded to revenue was $4.3 million and $4.2 million for the three months ended March 31, 2017 and 2016, respectively.

3. Fair Value Measurement

The Company measures its 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 March 31, 2017, the Company's cash, cash equivalents, and short-term investments balances were $47.6 million, $41.6 million, and $12.1 million, respectively. The Company currently has 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, the Company uses quoted prices from active markets that are classified at Level 1 as a highest level observable input in the disclosure hierarchy framework. At March 31, 2017 and December 31, 2016, the Company had $30.4 million in money market funds, which are classified as Level 1 and are included in cash and cash equivalents on the Condensed Consolidated Balance Sheets. The Company has no investments classified as Level 2 or Level 3.

4. Equity-Based Compensation

The Company granted 337,684 and 328,572 restricted stock units ("RSUs") during the three months ended March 31, 2017 and 2016, respectively. The Company recorded equity-based compensation expense related to restricted stock awards of $4.5 million and $4.7 million during the three months ended March 31, 2017 and 2016, respectively.

A summary of changes in unvested shares/units for the three months ended March 31, 2017 is as follows:

	Number of shares/units
Outstanding at December 31, 2016	1,029,230
Granted	337,684
Vested	(368,913)
Forfeited	(19,614)
Outstanding at March 31, 2017	978,387

5. Income Taxes

The Company's effective tax rate was 31.7% and 37.0% for the three months ended March 31, 2017 and 2016, respectively. The decrease in the effective tax rate for the three months ended March 31, 2017 is primarily due to the implementation of ASU 2016-09, Improvements to Employee Share-Based Payment Accounting for the quarter ended March 31, 2017. The income tax provision for the quarter ended March 31, 2017 includes excess tax benefits of $2.0 million on restricted stock vestings which would have been recorded in additional paid-in-capital under the previous guidance.

The Company applies the provisions for income taxes related to, among other things, accounting for uncertain tax positions and disclosure requirements in accordance with the Income Taxes Topic of FASB ASC 740. For the three months ended March 31, 2017, there were no material changes to the Company's uncertain tax positions. There has been no change to the Company's policy that recognizes potential interest and penalties related to uncertain tax positions within its global operations in income tax expense.

The Company currently plans to permanently reinvest all of its remaining undistributed foreign earnings. Accordingly, no provision for U.S. federal and state income taxes has been provided thereon. Upon repatriation of those earnings, in the form of dividends or otherwise, the Company would be subject to both U.S. income taxes (subject to adjustment for foreign tax credits) and withholding taxes payable to various foreign countries for such distributions. It is impractical to calculate the tax impact until such repatriation occurs.

The Company conducts business globally and, as a result, files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities throughout the world. The Company is no longer subject to U.S. federal income tax examinations, 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 months ended March 31, 2017 and 2016 (in thousands, except per share data):

	Three Months Ended March 31,	
	2017	2016
	(in thousands, except per share data)	
Net income	$ 28,224	$ 27,480
Earnings per share:		
Basic	$ 0.40	$ 0.38
Effect of CESs	-	-
Diluted	$ 0.40	$ 0.38
Weighted average number of shares:		
Basic	69,973	72,630
Effect of CESs	274	390
Diluted	70,247	73,020

The number of anti-dilutive CESs during 2017 and 2016 was immaterial.

7. Contingencies

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

8. Operating Segments

The Company manages its business by geographic segment. The Company has three geographic reportable segments: North America and Latin America (the "Americas"); Europe, Middle East and Africa (EMEA); and Asia Pacific (APAC). All segments derive revenue from the sale and implementation of the Company's 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. The Company uses 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 $2.7 million and $0.4 million for the three months ended March 31, 2017 and 2016, respectively, are included in cost of revenue for each segment with a corresponding reduction in the Americas' segment cost of revenue. The revenues represented below are from external customers only. The geographical-based costs consist of costs of professional services personnel, direct sales and marketing expenses, cost of infrastructure to support the employees and customer base, billing and financial systems, management and general and administrative support. There are certain corporate expenses included in the Americas segment that are not charged to the other segments, including research and development, certain marketing and general and administrative costs that support the global organization, and the amortization of acquired developed technology. Included in the Americas' segment costs are all research and development costs, including the costs associated with the Company's India operations.

The following table presents the revenues, expenses and operating income by reportable segment for the three months ended March 31, 2017 and 2016 (in thousands):

	Three Months Ended March 31,							
	2017				2016			
	Americas	EMEA	APAC	Consolidated	Americas	EMEA	APAC	Consolidated
Revenue:								
Software license	$12,121	$9,373	$1,279	$ 22,773	$19,032	$736	$839	$ 20,607
Services	89,712	13,547	5,574	108,833	97,378	14,469	4,416	116,263
Hardware and other	11,282	440	161	11,883	12,397	481	112	12,990
Total revenue	113,115	23,360	7,014	143,489	128,807	15,686	5,367	149,860
Costs and Expenses:								
Cost of revenue	48,588	9,391	3,642	61,621	54,239	7,685	2,889	64,813
Operating expenses	33,736	3,086	1,064	37,886	35,112	3,424	1,206	39,742
Depreciation and amortization	2,078	129	55	2,262	2,002	138	66	2,206
Total costs and expenses	84,402	12,606	4,761	101,769	91,353	11,247	4,161	106,761
Operating income	$28,713	$10,754	$2,253	$ 41,720	$37,454	$4,439	$1,206	$ 43,099

License revenues related to the Company’s warehouse and non-warehouse product groups for the three months ended March 31, 2017 and 2016 are as follows (in thousands):

	Three Months Ended March 31,	
	2017	2016
Warehouse	$14,812	$13,451
Non-Warehouse	7,961	7,156
Total software license revenue	$22,773	$20,607

The Company’s services revenues, which consist of fees generated from professional services and customer support and software enhancements related to its software products, for the three months ended March 31, 2017 and 2016 are as follows (in thousands):

	Three Months Ended March 31,	
	2017	2016
Professional services	$75,457	$84,506
Customer support and software enhancements	33,376	31,757
Total services revenue	$108,833	$116,263

13

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

The following discussion should be read in conjunction with the condensed consolidated financial statements for the three months ended March 31, 2017 and 2016, including the notes to those statements, included elsewhere in this quarterly report. We also recommend the following discussion be read in conjunction with management's discussion and analysis and consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2016. Statements in the following discussion that are not statements of historical fact are "forward-looking statements." Actual results may differ materially from the results predicted in such forward-looking statements, for a variety of factors. See "Forward-Looking Statements" below.

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.

Business Overview

We develop, sell, deploy, service and maintain software solutions designed to manage supply chains, inventory and omni-channel operations for retailers, wholesalers, manufacturers, logistics providers and other organizations. Our customers include many of the world's premier and most profitable brands.

Our business model is singularly focused on the development and implementation of complex commerce enablement software solutions that are designed to optimize supply chains, and retail store operations including point of sale effectiveness and efficiency for our customers. We have three principal sources of revenue:

- licenses of our software;
- professional services, including solutions planning and implementation, related consulting, customer training, and customer support services and software enhancements (collectively, "services"); and
- hardware sales and other revenue.

In the three months ended March 31, 2017, we generated $143.5 million in total revenue with a revenue mix of: license revenue 16%; services revenue 76%; and hardware and other revenue 8%.

The Company has three geographic reportable segments: North America and Latin America (the "Americas"), Europe, the Middle East and Africa (EMEA), and Asia-Pacific (APAC). Geographic revenue is based on the location of the sale. Our international revenue was approximately $41.3 million for the three months ended March 31, 2017, which represents approximately 29% of our total revenue. International revenue includes all revenue derived from sales to customers outside the United States. At March 31, 2017, we employed approximately 3,020 employees worldwide, of which 1,490 employees are based in the Americas, 200 in EMEA, and 1,330 in APAC (including India). We have offices in Australia, Chile, China, France, India, Japan, the Netherlands, Singapore, the United Kingdom, and the United States, as well as representatives in Mexico and reseller partnerships in Latin America, Eastern Europe, the Middle East, South Africa, and Asia.

Global Economic Trends and Industry Factors

Global macro-economic trends, technology spending, and supply chain management market growth are important barometers for our business. In the three months ended March 31, 2017, approximately 71% of our total revenue was generated in the United States, 16% in EMEA, and the remaining balance in APAC, Canada, and Latin America. In addition, Gartner Inc. ("Gartner"), an information technology research and advisory company, estimates that nearly 80%

of every supply chain software solutions dollar invested is spent in the United States and Western Europe; consequently, the health of the U.S. and Western European economies has a meaningful impact on our financial results.

We sell technology-based solutions with total pricing, including software and services, in many cases exceeding $1.0 million. Our software often is a part of our customers’ and prospects’ much larger capital commitment associated with facilities expansion and business improvement. We believe that, given the lingering uncertainty in the global macro environment, the current sales cycles for large license deals of $1.0 million or greater in our target markets have been extended. The current business climate within the United States and the other geographic regions in which we operate continues to affect customers’ and prospects’ decisions regarding timing of strategic capital expenditures. Delays with respect to such decisions can have a material adverse impact on our business, and may further intensify competition in our already highly competitive markets.

In April 2017, the International Monetary Fund (IMF) provided a World Economic Outlook (WEO) update increasing its 2017 and 2018 world economic growth forecast to 3.5 percent and 3.6 percent, respectively. The WEO update noted that:

With buoyant financial markets and a long-awaited cyclical recovery in manufacturing and trade under way, world growth is projected to rise from 3.1 percent in 2016 to 3.5 percent in 2017 and 3.6 percent in 2018, slightly above the October 2016 World Economic Outlook (WEO) forecast. But binding structural impediments continue to hold back a stronger recovery, and the balance of risks remains tilted to the downside, especially over the medium term. With persistent structural problems—such as low productivity growth and high income inequality—pressures for inward-looking policies are increasing in advanced economies. These threaten global economic integration and the cooperative global economic order that has served the world economy, especially emerging market and developing economies, well.

The WEO update projected that advanced economies, which represent our primary revenue markets, would grow at about 2.0 percent in 2017 and 2018, while the emerging and developing economies would grow at about 4.5 percent in 2017 and 4.8 percent in 2018.

During 2016 and continuing into 2017, the overall trend has been steady for our large license deals, with recognized license revenue of $1.0 million or greater on eighteen new contracts during 2016 as well as four new contracts in the three months ended March 31, 2017. While we are encouraged by our results, we, along with many of our customers, still remain cautious regarding the pace of global economic growth. We believe global economic volatility likely will continue to shape customers’ and prospects’ enterprise software buying decisions, making it challenging to forecast sales cycles for our products and the timing of large enterprise software license deals.

Revenue

License revenue. License revenue, a leading indicator of our business performance, is primarily derived from software license fees customers pay for supply chain solutions. License revenue totaled $22.8 million, or 16% of total revenue, with gross margins of 90.2% for the three months ended March 31, 2017. For the three months ended March 31, 2017, the percentage mix of new to existing customers was approximately 60/40.

License revenue growth is influenced by the strength of general economic and business conditions and the competitive position of our software products. Our license revenue generally has long sales cycles and the timing of the closing of a few large license transactions can have a material impact on our quarterly license revenues, operating profit, operating margins, and earnings per share. For example, $1.0 million of license revenue in the first quarter of 2017 equates to approximately one cent of diluted earnings per share impact.

Our software solutions are focused on core supply chain commerce operations (Warehouse Management, Transportation Management, Labor Management), Inventory optimization and Omni-channel operations (e-commerce, retail store operations and point of sale), which are intensely competitive markets characterized by rapid technological change. We are a market leader in the supply chain management software solutions market as defined by industry analysts such as ARC Advisory Group and Gartner. Our goal is to extend our position as a leading global supply chain solutions provider by growing our license revenues faster than our competitors through investment in innovation. We expect to continue to face increased competition from Enterprise Resource Planning (ERP) and Supply Chain Management 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. Increased competition could result in price reductions, fewer customer orders, reduced gross margins, and loss of market share.

Services revenue. Our services business consists of professional services (consulting and customer training) and customer support services and software enhancements (CSSE). Services revenue totaled $108.8 million, or 76% of total revenue, with gross margins of 54.3% for the three months ended March 31, 2017. Professional services accounted for approximately 69% of total services revenue in the three months ended March 31, 2017, respectively. While we believe our services margins are very strong, our consolidated operating margin profile may be lower than those of various other technology companies due to our large services revenue mix as a percentage of total revenue as services margins are inherently lower than license revenue margins.

At March 31, 2017, our professional services organization totaled approximately 2,010 employees, accounting for 67% of our total employees worldwide. Our professional services organization provides our customers with expertise and assistance in planning and implementing our solutions. To ensure a successful product implementation, consultants assist customers with the initial installation of a system, the conversion and transfer of the customer's historical data onto our system, and ongoing training, education, and system upgrades. We believe our professional services enable customers to implement our software rapidly, ensure the customer's success with our solution, strengthen our customer relationships, and add to our industry-specific knowledge base for use in future implementations and product innovations.

Although our professional services are optional, the majority of our customers use at least some portion of these services for their planning, implementation, or related needs. Professional services are typically rendered under time and materials-based contracts with services typically billed on an hourly basis. Professional services are sometimes rendered under fixed-fee based contracts with payments due on specific dates or milestones.

Services revenue growth is contingent upon license revenue and customer upgrade cycles, which are influenced by the strength of general economic and business conditions and the competitive position of our software products. In addition, our professional services business has competitive exposure to offshore providers and other consulting companies. All these factors potentially create the risk of pricing pressure, fewer customer orders, reduced gross margins, and loss of market share.

For CSSE, we offer a comprehensive 24 hours per day, 365 days per year program that provides our customers with software upgrades, when and if available, which includes additional or improved functionality and technological advances incorporating emerging supply chain and industry initiatives. Our CSSE revenues totaled $33.4 million for the three months ended March 31, 2017, representing approximately 31% of services revenue, respectively, and approximately 23% of total revenue, respectively. The growth of CSSE revenues is influenced by: (1) new license revenue growth; (2) annual renewal of support contracts; (3) increase in customers; and (4) fluctuations in currency rates. Substantially all our customers renew their annual support contracts. Over the last three years, our annual revenue renewal rate of customers subscribing to comprehensive support and enhancements has been greater than 90%. CSSE revenue is generally paid in advance and recognized ratably over the term of the agreement, typically twelve months. CSSE renewal revenue is not recognized unless payment is received from the customer.

Hardware and other revenue. Our hardware and other revenue totaled $11.9 million, representing 8% of total revenue with gross margins of 18.9% for the three months ended March 31, 2017. In conjunction with the licensing of our software, and as a convenience for our customers, we resell a variety of hardware products developed and manufactured by third parties. These products include computer hardware, radio frequency terminal networks, RFID chip readers, bar code printers and scanners, and other peripherals. We resell all third-party hardware products and related maintenance pursuant to agreements with manufacturers or through distributor-authorized reseller agreements pursuant to which we are entitled to purchase hardware products and services at discounted prices. We generally purchase hardware from our vendors only after receiving an order from a customer. As a result, we generally do not maintain hardware inventory.

Other revenue represents amounts associated with reimbursements from customers for out-of-pocket expenses. The total amount of expense reimbursement recorded to hardware and other revenue was $4.3 million for the three months ended March 31, 2017.

Product Development

We continue to invest significantly in research and development (R&D) to provide leading solutions that help global manufacturers, wholesalers, distributors, retailers, and logistics providers successfully manage accelerating and fluctuating demands as well as the increasing complexity and volatility of their local and global supply chains, retail store operations and point of sale. Our research and development expenses were $14.2 million for the three months ended March 31, 2017. At March 31, 2017, our R&D organization totaled approximately 680 employees, located in the U.S. and India.

We expect to continue to focus our R&D resources on the development and enhancement of our core supply chain, inventory optimization, omni-channel and point of sale software solutions. We offer what we believe to be the broadest solution portfolio in the supply chain solutions marketplace, to address all aspects of inventory optimization, transportation management, distribution management, planning, and omni-channel operations including order

management, store inventory & fulfillment, call center and point of sale.

We also plan to continue to enhance our existing solutions and to introduce new solutions to address evolving industry standards and market needs. We identify opportunities to further enhance our solutions and to develop and provide new solutions through our customer support organization, as well as through ongoing customer consulting engagements and implementations, interactions with our user groups, association with leading industry analysts and market research firms, and participation on industry standards and research committees. Our solutions address the needs of customers 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.

Cash Flow and Financial Condition

For the three months ended March 31, 2017, we generated cash flow from operating activities of $61.3 million. Our cash and cash equivalents at March 31, 2017 totaled $101.3 million, with no debt on our balance sheet. We currently have no credit facilities.

Our primary uses of cash continue to be funding investment in R&D and operations to drive earnings growth and repurchases of our common stock.

We repurchased 1,003,868 shares of Manhattan Associates' outstanding common stock under our repurchase program during the three months ended March 31, 2017. In April 2017, our Board of Directors approved raising the Company's remaining share repurchase authority to $50.0 million of Manhattan Associates' outstanding common stock.

For the remainder of 2017, we anticipate that our priorities for the use of cash will be in hiring and developing sales and services resources and continued investment in product development and marketing to extend our market leadership and awareness. We expect to continue to evaluate acquisition opportunities that are complementary to our product footprint and technology direction. We also expect to continue to weigh our share repurchase options against cash for acquisitions and investing in the business. We do not anticipate any borrowing requirements in the remainder of 2017 for general corporate purposes.

Results of Operations

The following table summarizes our consolidated results for the three months ended March 31, 2017 and 2016.

	Three Months Ended March 31,	
	2017	2016
	(in thousands, except per share data)	
Revenue	$143,489	$149,860
Costs and expenses	101,769	106,761
Operating income	41,720	43,099
Other (loss) income, net	(371)	520
Income before income taxes	41,349	43,619
Net income	$28,224	$27,480
Diluted earnings per share	$0.40	$0.38
Diluted weighted average number of shares	70,247	73,020

The Company has three geographic reportable segments: the Americas, EMEA, and APAC. Geographic revenue information is based on the location of sale. The revenues represented below are from external customers only. The geographical-based expenses include costs of personnel, direct sales, and marketing expenses, and general and administrative costs to support the business. There are certain corporate expenses included in the Americas segment that are not charged to the other segments, including research and development, certain marketing and general and administrative costs that support the global organization, and the amortization of acquired developed technology. Included in the Americas segment costs are all research and development costs, including the costs associated with the Company's India operations. During the three months ended March 31, 2017 and 2016, we derived the majority of our revenues from sales to customers within our Americas segment. The following table summarizes revenue and operating profit by segment:

	Three Months Ended March 31,			
	2017	2016	% Change vs. Prior Year	
Revenue:	(in thousands)			
Software license				
Americas	$12,121	$19,032	-36	%
EMEA	9,373	736	1174	%
APAC	1,279	839	52	%
Total software license	22,773	20,607	11	%
Services				
Americas	89,712	97,378	-8	%
EMEA	13,547	14,469	-6	%
APAC	5,574	4,416	26	%
Total services	108,833	116,263	-6	%
Hardware and Other				
Americas	11,282	12,397	-9	%
EMEA	440	481	-9	%
APAC	161	112	44	%
Total hardware and other	11,883	12,990	-9	%
Total Revenue				
Americas	113,115	128,807	-12	%
EMEA	23,360	15,686	49	%
APAC	7,014	5,367	31	%
Total revenue	$143,489	$149,860	-4	%
Operating income:				
Americas	$28,713	$37,454	-23	%
EMEA	10,754	4,439	142	%

APAC	2,253	1,206	87	%
Total operating income	$41,720	$43,099	-3	%

Summary of the First Quarter 2017 Condensed Consolidated Financial Results

- Diluted earnings per share was $0.40 in the first quarter of 2017, compared to $0.38 in the first quarter of 2016.
- Consolidated revenue was $143.5 million in the first quarter of 2017, compared to $149.9 million in the first quarter of 2016. License revenue was $22.8 million in the first quarter of 2017, compared to $20.6 million in the first quarter of 2016.
- Operating income was $41.7 million in the first quarter of 2017, compared to $43.1 million in the first quarter of 2016.
- Cash flow from operations was $61.3 million in the first quarter of 2017, compared to $40.4 million in the first quarter of 2016. Days sales outstanding was 53 days at March 31, 2017, compared to 63 days at December 31, 2016.
- Cash and investments on-hand was $101.3 million at March 31, 2017, compared to $95.6 million at December 31, 2016.

- During the three months ended March 31, 2017, we repurchased 1,003,868 shares of Manhattan Associates common stock, reducing shares of common stock outstanding by 1%, under the share repurchase program authorized by our Board of Directors, for a total investment of $50.0 million. In April 2017, our Board of Directors approved raising our share repurchase authority to an aggregate of $50.0 million of our outstanding common stock.

The consolidated results of our operations for the first quarters of 2017 and 2016 are discussed below.

Revenue

	Three Months Ended March 31,			% of Total Revenue	
	2017	2016	% Change vs. Prior Year	2017	2016
	(in thousands)				
Software license	$22,773	$20,607	11 %	16 %	14 %
Services	108,833	116,263	-6 %	76 %	77 %
Hardware and other	11,883	12,990	-9 %	8 %	9 %
Total revenue	$143,489	$149,860	-4 %	100 %	100 %

Our revenue consists of fees generated from the licensing and hosting of software; fees from professional services, customer support services and software enhancements; hardware sales of complementary equipment; and other revenue representing amounts associated with reimbursements from customers for out-of-pocket expenses.

License revenue. License revenue increased $2.2 million, or 11%, in the first quarter of 2017 compared to the same quarter in the prior year. Our license revenue performance depends on the number and relative value of large deals we close in the period. We recognized license revenue of $1.0 million or greater on four new separate contracts in the first quarter of 2017. The license sales percentage mix across our product suite in the first quarter ended March 31, 2017 was approximately 65% warehouse management solutions and 35% non-warehouse management solutions.

Services revenue. Services revenue decreased $7.4 million, or 6%, in the first quarter of 2017 compared to the same quarter in the prior year due to a $9.0 million decrease in professional services revenue, partially offset by a $1.6 million increase in customer support and software enhancements. The decline in services revenue was primarily due to delays in implementation services, primarily in the retail industry, despite continued growth in license revenue. Services revenue for the Americas and EMEA segments decreased $7.7 million and $0.9 million, respectively, and services revenue for the APAC segment increased $1.2 million in the first quarter of 2017 compared to the same quarter of 2016.

Hardware and other. Hardware sales decreased by $1.2 million to $7.6 million in the first quarter of 2017 compared to $8.8 million for the first quarter of 2016. The majority of hardware sales are derived from our Americas segment. Sales of hardware are largely dependent upon customer-specific desires, which fluctuate. Other revenue represents reimbursements for professional service travel expenses that are required to be classified as revenue and are included in hardware and other revenue. Reimbursements by customers for out-of-pocket expenses were

approximately $4.3 million and $4.2 million for the quarters ended March 31, 2017 and 2016, respectively.

Cost of Revenue

	Three Months Ended March 31,		
	2017	2016	% Change vs. Prior Year
Cost of license	$2,240	$3,152	-29 %
Cost of services	49,743	51,904	-4 %
Cost of hardware and other	9,638	9,757	-1 %
Total cost of revenue	$61,621	$64,813	-5 %

Cost of license. Cost of license consists of the costs associated with software reproduction; hosting services; media, packaging and delivery, documentation, and other related costs; and royalties on third-party software sold with or as part of our products. Cost of

license decreased by $0.9 million in the first quarter of 2017 compared to the same quarter of 2016 primarily due to decreased sales of third-party software.

Cost of services. Cost of services consists primarily of salaries and other personnel-related expenses of employees dedicated to professional and technical services and customer support services. The $2.2 million, or 4%, decrease in cost of services in the quarter ended March 31, 2017 compared to the same quarter in the prior year was principally due to a $1.3 million decrease in performance-based compensation expense and a $0.7 million decrease in compensation and other personnel-related expenses driven mainly by decreased payroll tax expense.

Cost of hardware and other. Cost of hardware and other decreased by $0.2 million to $9.6 million in the first quarter of 2017 compared to $9.8 million in the same quarter of 2016. Cost of hardware and other includes professional services billed travel expenses reimbursed by customers of approximately $4.3 million and $4.1 million for the quarters ended March 31, 2017 and 2016, respectively.

Operating Expenses

	Three Months Ended March 31,		
	2017	2016	% Change vs. Prior Year
	(in thousands)		
Research and development	$14,225	$14,706	-3 %
Sales and marketing	11,789	12,588	-6 %
General and administrative			