

NATIONAL INSTRUMENTS CORP /DE/  
Form 10-Q  
November 01, 2013  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

T Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended: September 30, 2013 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: 0-25426

NATIONAL INSTRUMENTS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

74-1871327

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

11500 North MoPac Expressway

Austin, Texas

78759

(address of principal executive offices)

(zip code)

Registrant's telephone number, including area code: (512) 338-9119

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 29, 2013
Common Stock - \$0.01 par value	125,157,757

NATIONAL INSTRUMENTS CORPORATION

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## PART I - FINANCIAL INFORMATION

## ITEM 1. Financial Statements

## NATIONAL INSTRUMENTS CORPORATION

## CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	September 30, 2013 (unaudited)	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 190,208	\$ 161,996
Short-term investments	153,906	173,166
Accounts receivable, net	182,723	187,060
Inventories, net	178,904	169,990
Prepaid expenses and other current assets	66,412	48,009
Deferred income taxes, net	26,464	27,479
Total current assets	798,617	767,700
Property and equipment, net	262,966	249,721
Goodwill	147,319	147,258
Intangible assets, net	84,424	93,913
Other long-term assets	28,269	26,177
Total assets	\$ 1,321,595	\$ 1,284,769
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 54,582	\$ 65,080
Accrued compensation	29,559	29,978
Deferred revenue - current	96,043	90,714

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Accrued expenses and other liabilities	20,003	34,373
Other taxes payable	31,021	24,811
Total current liabilities	231,208	244,956
Deferred income taxes	45,046	47,630
Liability for uncertain tax positions	23,399	20,920
Deferred revenue - long-term	21,309	20,446
Other long-term liabilities	9,455	11,689
Total liabilities	330,417	345,641
Commitments and contingencies		
Stockholders' equity:		
Preferred stock: par value \$0.01; 5,000,000 shares authorized; none issued and outstanding	-	-
Common stock: par value \$0.01; 360,000,000 and 180,000,000 shares authorized, respectively; 125,157,034 and 122,878,690 shares issued and outstanding, respectively	1,252	1,229
Additional paid-in capital	586,406	532,845
Retained earnings	400,798	404,210
Accumulated other comprehensive income	2,722	844
Total stockholders' equity	991,178	939,128
Total liabilities and stockholders' equity	\$ 1,321,595	\$ 1,284,769

The accompanying notes are an integral part of the financial statements.

## NATIONAL INSTRUMENTS CORPORATION

## CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net sales:				
Product	\$ 269,582	\$ 267,894	\$ 810,663	\$ 776,208
Software maintenance	19,556	22,080	61,089	65,809
GSA accrual	-	-	-	1,349
Total net sales	289,138	289,974	871,752	843,366
Cost of sales:				
Product	73,541	71,796	224,954	201,374
Software maintenance	1,665	1,698	4,307	4,319
Total cost of sales	75,206	73,494	229,261	205,693
Gross profit	213,932	216,480	642,491	637,673
Operating expenses:				
Sales and marketing	111,253	109,213	337,884	320,021
Research and development	60,791	56,627	180,520	164,928
General and administrative	21,363	20,714	66,363	63,590
Acquisition related adjustment	-	-	(1,316)	-
Total operating expenses	193,407	186,554	583,451	548,539
Operating income	20,525	29,926	59,040	89,134
Other income:				
Interest income	133	133	495	495
Net foreign exchange gain (loss)	456	(235)	(2,057)	(2,139)
Other income (loss), net	304	(899)	728	(644)
Income before income taxes	21,418	28,925	58,206	86,846
Provision for income taxes	5,654	4,585	9,421	17,423

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Net income	\$ 15,764	\$ 24,340	\$ 48,785	\$ 69,423
Basic earnings per share	\$ 0.13	\$ 0.20	\$ 0.39	\$ 0.57
Weighted average shares outstanding - basic	125,032	122,402	124,244	121,710
Diluted earnings per share	\$ 0.13	\$ 0.20	\$ 0.39	\$ 0.57
Weighted average shares outstanding - diluted	125,608	123,074	125,221	122,726
Dividends declared per share	\$ 0.14	\$ 0.14	\$ 0.42	\$ 0.42

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

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## NATIONAL INSTRUMENTS CORPORATION

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	\$ 15,764	\$ 24,340	\$ 48,785	\$ 69,423
Other comprehensive income, before tax and net of reclassification adjustments:				
Foreign currency translation adjustment	6,307	2,708	3,058	1,427
Unrealized (loss) gain on securities available-for-sale	(91)	(724)	(497)	165
Unrealized (loss) gain on derivative instruments	(2,371)	(1,646)	1,281	2,985
Other comprehensive income, before tax	3,845	338	3,842	4,577
Tax expense (benefit) related to items of other comprehensive income	611	(337)	1,964	683
Other comprehensive income, net of tax	3,234	675	1,878	3,894
Comprehensive income	\$ 18,998	\$ 25,015	\$ 50,663	\$ 73,317

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

## NATIONAL INSTRUMENTS CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended September 30,	
	2013	2012
Cash flow from operating activities:		
Net income	\$ 48,785	\$ 69,423
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	50,897	41,029
Stock-based compensation	21,996	20,506
Tax (benefit) expense from deferred income taxes	(1,272)	3,626
Tax benefit from stock option plans	(2,185)	(2,353)
Changes in operating assets and liabilities:		
Accounts receivable	4,789	(25,549)
Inventories	(8,358)	(23,278)
Prepaid expenses and other assets	(18,320)	(10,296)
Accounts payable	(10,636)	11,100
Deferred revenue	6,192	(2,271)
Taxes, accrued expenses and other liabilities	2,834	8,325
Net cash provided by operating activities	94,722	90,262
Cash flow from investing activities:		
Capital expenditures	(40,795)	(52,483)
Capitalization of internally developed software	(10,566)	(11,284)
Additions to other intangibles	(4,146)	(1,426)
Purchases of short-term investments	(16,039)	(48,718)
Sales and maturities of short-term investments	35,299	220,094
Net cash (used in) provided by investing activities	(36,247)	106,183
Cash flow from financing activities:		
Proceeds from issuance of common stock	28,809	21,297
AWR earnout payment	(9,016)	-
Dividends paid	(52,241)	(51,167)
Tax benefit from stock option plans	2,185	2,353
Net cash used in financing activities	(30,263)	(27,517)

Net change in cash and cash equivalents	28,212	168,928
Cash and cash equivalents at beginning of period	161,996	142,608
Cash and cash equivalents at end of period	\$ 190,208	\$ 311,536

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

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NATIONAL INSTRUMENTS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Basis of presentation

The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2012, included in our annual report on Form 10-K, filed with the Securities and Exchange Commission. In our opinion, the accompanying consolidated financial statements reflect all adjustments (consisting only of normal recurring items) considered necessary to present fairly our financial position at September 30, 2013 and December 31, 2012, the results of our operations and comprehensive income for the three and nine month periods ended September 30, 2013 and 2012, and our cash flows for the nine month periods ended September 30, 2013 and September 30, 2012. Operating results for the three and nine month periods ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States.

Following approval by the Company's Board of Directors and stockholders, on May 14, 2013, the Company's certificate of incorporation was amended to increase the authorized shares of common stock by 180,000,000 shares to a total of 360,000,000 shares. As a result of this amendment, the total number of shares which the Company is authorized to issue is 365,000,000 shares, consisting of (i) 5,000,000 shares of preferred stock, par value \$.01 per share, and (ii) 360,000,000 shares of common stock, par value \$.01 per share.

Note 2 – Earnings per share

Basic earnings per share ("EPS") is computed by dividing net income by the weighted average number of common shares outstanding during each period. Diluted EPS is computed by dividing net income by the weighted average number of common shares and common share equivalents outstanding (if dilutive) during each period. The number of common share equivalents, which include stock options and restricted stock units ("RSUs"), is computed using the treasury stock method.

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The reconciliation of the denominators used to calculate basic EPS and diluted EPS for the three and nine month periods ended September 30, 2013 and 2012, are as follows:

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	(In thousands)		(In thousands)	
	(Unaudited)		(Unaudited)	
	2013	2012	2013	2012
Weighted average shares outstanding-basic	125,032	122,402	124,244	121,710
Plus: Common share equivalents				
Stock options, RSUs	576	672	977	1,016
Weighted average shares outstanding-diluted	125,608	123,074	125,221	122,726

Stock awards to acquire 682,300 shares and 1,201,000 shares for the three month periods ended September 30, 2013 and 2012, respectively, and 58,500 shares and 5,030 shares for the nine month periods ended September 30, 2013 and 2012, respectively, were excluded in the computations of diluted EPS because the effect of including the stock awards would have been anti-dilutive.

Note 3 – Cash, cash equivalents and short-term investments

The following tables summarize unrealized gains and losses related to our cash, cash equivalents, and short-term investments designated as available-for-sale:

(In thousands)	As of September 30, 2013				
	(Unaudited)				
	Adjusted Cost	Gross Unrealized Gain	Gross Unrealized Loss	Cumulative Translation Adjustment	Fair Value
Cash	\$ 123,585	\$ -	\$ -	\$ -	\$ 123,585
Money Market Accounts	66,623	-	-	-	66,623
Municipal bonds	-	-	-	-	-
Corporate bonds	17,913	5	(9)	(1,500)	16,409
U.S. treasuries and agencies	117,678	56	-	-	117,734
Foreign government bonds	18,395	-	(4)	(1,540)	16,851
Time deposits	2,912	-	-	-	2,912
Cash, cash equivalents, and short-term investments	\$ 347,106	\$ 61	\$ (13)	\$ (3,040)	\$ 344,114



(In thousands)	December 31, 2012			Cumulative Translation Adjustment	Fair Value
	Adjusted Cost	Gross Unrealized Gain	Gross Unrealized Loss		
Cash	\$ 141,340	\$ -	\$ -	\$ -	\$ 141,340
Money Market Accounts	20,656	-	-	-	20,656
Municipal bonds	1,465	1	-	-	1,466
Corporate bonds	8,708	-	(20)	(910)	7,778
U.S. treasuries and agencies	135,953	-	(28)	-	135,925
Foreign government bonds	27,947	57	-	(2,919)	25,085
Time deposits	2,912	-	-	-	2,912
Cash, cash equivalents, and short-term investments	\$ 338,981	\$ 58	\$ (48)	\$ (3,829)	\$ 335,162

The following tables summarize the contractual maturities of our short-term investments designated as available-for-sale:

(In thousands)	As of September 30, 2013 (Unaudited)	
	Adjusted Cost	Fair Value
Due in less than 1 year	\$ 130,148	\$ 129,401
Due in 1 to 5 years	26,750	24,505
Total available-for-sale debt securities	\$ 156,898	\$ 153,906
Due in less than 1 year	Adjusted Cost	Fair Value
U.S. treasuries and agencies	117,678	117,734
Foreign government bonds	9,558	8,755
Time deposits	2,912	2,912
Total available-for-sale debt securities	\$ 130,148	\$ 129,401
Due in 1 to 5 years	Adjusted Cost	Fair Value
Corporate bonds	17,913	16,409
Foreign government bonds	8,837	8,096
Total available-for-sale debt securities	\$ 26,750	\$ 24,505

## Note 4 – Fair value measurements

We define fair value to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, we consider the principal or most advantageous market that market participants may use when pricing the asset or liability.

We follow a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value measurement is determined based on the lowest level input that is significant to the fair value measurement. The three values of the fair value hierarchy are the following:

Level 1 – Quoted prices in active markets for identical assets or liabilities

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – Inputs that are not based on observable market data

Assets and liabilities measured at fair value on a recurring basis are summarized below:

(In thousands)	Fair Value Measurements at Reporting Date Using (Unaudited)			
	September 30, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description				
Assets				
Cash and cash equivalents available for sale:				
Money Market Funds	\$ 66,623	\$ 66,623	\$ -	\$ -
U.S. treasuries and agencies	-	-	-	-
Short-term investments available for sale:				
Municipal bonds	-	-	-	-
Corporate bonds	16,409	-	16,409	-
U.S. treasuries and agencies	117,734	-	117,734	-
Foreign government bonds	16,851	-	16,851	-
Time deposits	2,912	2,912	-	-
Derivatives	5,908	-	5,908	-
Total Assets	\$ 226,437	\$ 69,535	\$ 156,902	\$ -



Liabilities				
Derivatives	\$ (3,538)	\$ -	\$ (3,538)	\$ -
Total Liabilities	\$ (3,538)	\$ -	\$ (3,538)	\$ -

(In thousands)	Fair Value Measurements at Reporting Date Using			
	December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description				
Assets				
Cash and cash equivalents available for sale:				
Money Market Funds	\$ 20,656	\$ 20,656	\$ -	\$ -
U.S. Treasuries and Agencies	-	-	-	-
Short-term investments available for sale:				
Municipal bonds	1,466	-	1,466	-
Corporate bonds	7,778	-	7,778	-
U.S. treasuries and agencies	135,925	-	135,925	-
Foreign government bonds	25,085	-	25,085	-
Time deposits	2,912	2,912	-	-
Derivatives	4,246	-	4,246	-
Total Assets	\$ 198,068	\$ 23,568	\$ 174,500	\$ -
Liabilities				
Derivatives	\$ (2,804)	\$ -	\$ (2,804)	\$ -
Total Liabilities	\$ (2,804)	\$ -	\$ (2,804)	\$ -

We value our available-for-sale short-term investments based on pricing from third party pricing vendors, who may use quoted prices in active markets for identical assets (Level 1 inputs) or inputs other than quoted prices that are observable either directly or indirectly (Level 2 inputs) in determining fair value. We classify all of our fixed income available-for-sale securities as having Level 2 inputs. The valuation techniques used to measure the fair value of our financial instruments having Level 2 inputs were derived from non-binding market consensus prices that are corroborated by observable market data, quoted market prices for similar instruments, or pricing models, such as discounted cash flow techniques. We believe all of these sources reflect the credit risk associated with each of our available-for-sale short-term investments. Short-term investments available-for-sale consists of debt securities issued by states of the U.S. and political subdivisions of the U.S., corporate debt securities and debt securities issued by U.S. government organizations and agencies as well as debt securities issued by foreign governments. All short-term investments available-for-sale have contractual maturities of less than 24 months.

Derivatives include foreign currency forward and option contracts. Our foreign currency forward contracts are valued using an income approach (Level 2) based on the spot rate less the contract rate multiplied by the notional amount. Our foreign currency option contracts are valued using a market approach based on the quoted market prices which are derived from observable inputs including current and future spot rates, interest rate spreads as well as quoted market prices of similar instruments. We consider counterparty credit risk in the valuation of our derivatives. However, counterparty credit risk did not impact the valuation of our derivatives during the nine month period ended September 30, 2013. There were not any transfers in or out of Level 1 or Level 2 during the nine month period ended September 30, 2013.

Our foreign government bonds consist of German government sovereign debt denominated in Euro with maximum maturities of 24 months. Our short-term investments do not involve sovereign debt from any other country in Europe.

We did not have any items that were measured at fair value on a nonrecurring basis at September 30, 2013 and December 31, 2012.

The carrying value of net accounts receivable and accounts payable contained in the Consolidated Balance Sheets approximates fair value.

#### Note 5 – Derivative instruments and hedging activities

We recognize all of our derivative instruments as either assets or liabilities in our statement of financial position at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, we designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign operation.

We have operations in over 50 countries. Sales outside of the Americas accounted for approximately 56% and 59% of our revenues during each of the three month periods ended September 30, 2013 and 2012, respectively, and 59% and 60% of our revenues during the nine month periods ended September 30, 2013 and 2012, respectively. Our activities expose us to a variety of market risks, including the effects of changes in foreign currency exchange rates. These financial risks are monitored and managed by us as an integral part of our overall risk management program.

We maintain a foreign currency risk management strategy that uses derivative instruments (foreign currency forward and purchased option contracts) to help protect our earnings and cash flows from fluctuations caused by the volatility in currency exchange rates. Movements in foreign currency exchange rates pose a risk to our operations and competitive position, since exchange rate changes may affect our profitability and cash flow, and the business or pricing strategies of our non-U.S. based competitors.

The vast majority of our foreign sales are denominated in the customers' local currency. We purchase foreign currency forward and option contracts as hedges of forecasted sales that are denominated in foreign currencies and as hedges of

foreign currency denominated receivables. These contracts are entered into to help protect against the risk that the eventual dollar-net-cash inflows resulting from such sales or firm commitments will be adversely affected by changes in exchange rates. We also purchase foreign currency forward contracts as hedges of forecasted expenses that are denominated in foreign currencies. These contracts are entered into to help protect against the risk that the eventual dollar-net-cash outflows resulting from foreign currency operating and cost of revenue expenses will be adversely affected by changes in exchange rates.

We designate foreign currency forward and purchased option contracts as cash flow hedges of forecasted revenues or forecasted expenses. In addition, we hedge our foreign currency denominated balance sheet exposures using foreign currency forward contracts that are not designated as hedging instruments. None of our derivative instruments contain a credit-risk-related contingent feature.

#### Cash flow hedges

To help protect against the reduction in value caused by a fluctuation in foreign currency exchange rates of forecasted foreign currency cash flows resulting from international sales over the next one to three years, we have instituted a foreign currency cash flow hedging program. We hedge portions of our forecasted revenue and forecasted expenses denominated in foreign currencies with forward and purchased option contracts. For forward contracts, when the dollar strengthens significantly against the foreign currencies, the change in the present value of future foreign currency cash flows may be offset by the change in the fair value of the forward contracts designated as hedges. For option contracts, when the dollar strengthens significantly against the foreign currencies, the change in the present value of future foreign currency cash flows may be offset by the change in the fair value of the option contracts net of the premium paid designated as hedges. Our foreign currency purchased option contracts are purchased “at-the-money” or “out-of-the-money”. We purchase foreign currency forward and option contracts for up to 100% of our forecasted exposures in selected currencies (primarily in Euro, Japanese yen, and Hungarian forint) and limit the duration of these contracts to 40 months or less.

For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of accumulated other comprehensive income (“OCI”) and reclassified into earnings in the same line item (net sales, operating expenses, or cost of sales) associated with the forecasted transaction and in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings or expenses during the current period and are classified as a component of “net foreign exchange gain (loss)”. Hedge effectiveness of foreign currency forwards and purchased option contracts designated as cash flow hedges are measured by comparing the hedging instrument’s cumulative change in fair value from inception to maturity to the forecasted transaction’s terminal value.

We held forward contracts with the following notional amounts: