

NATIONAL INSTRUMENTS CORP /DE/
Form 10-Q
July 31, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: June 30, 2015 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

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Austin, Texas
(address of principal executive offices)

78759
(zip code)

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

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 July 28, 2015
Common Stock - \$0.01 par value	128,859,698

NATIONAL INSTRUMENTS CORPORATION

INDEX

<u>PART I. FINANCIAL INFORMATION</u>		Page No.
Item 1	Financial Statements:	
	<u>Consolidated Balance Sheets</u> June 30, 2015 (unaudited) and December 31, 2014	2
	<u>Consolidated Statements of Income</u> (unaudited) for the three and six month periods ended June 30, 2015 and 2014	3
	<u>Consolidated Statements of Comprehensive Income</u> (unaudited) for the three and six month periods ended June 30, 2015 and 2014	4
	<u>Consolidated Statements of Cash Flows</u> (unaudited) for the six month periods ended June 30, 2015 and 2014	5
	<u>Notes to Consolidated Financial Statements</u>	6
Item 2	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 3	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	31
Item 4	<u>Controls and Procedures</u>	33
<u>PART II. OTHER INFORMATION</u>		
Item 1	<u>Legal Proceedings</u>	34
Item 1A	<u>Risk Factors</u>	34
Item 2	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	43
Item 5	<u>Other Information</u>	43

Item 6	<u>Exhibits</u>	44
	<u>Signatures and Certifications</u>	45

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

NATIONAL INSTRUMENTS CORPORATION

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	June 30, 2015 (unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 232,784	\$ 274,030
Short-term investments	190,016	197,163
Accounts receivable, net	205,568	202,329
Inventories, net	187,411	173,052
Prepaid expenses and other current assets	80,885	70,075
Deferred income taxes, net	30,016	31,171
Total current assets	926,680	947,820
Property and equipment, net	264,146	264,086
Goodwill	167,491	144,325
Intangible assets, net	76,488	78,282
Other long-term assets	21,397	20,978
Total assets	\$ 1,456,202	\$ 1,455,491
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 57,289	\$ 58,603

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Accrued compensation	27,679	33,774
Deferred revenue - current	109,514	105,964
Accrued expenses and other liabilities	12,985	14,714
Other taxes payable	36,333	34,602
Total current liabilities	243,800	247,657
Deferred income taxes	45,765	47,406
Liability for uncertain tax positions	10,280	10,127
Deferred revenue - long-term	26,705	26,452
Other long-term liabilities	10,026	6,353
Total liabilities	336,576	337,995
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 shares authorized; 128,860,566 shares and 127,849,271 shares issued and outstanding, respectively	1,289	1,278
Additional paid-in capital	693,107	662,889
Retained earnings	449,023	464,993
Accumulated other comprehensive loss	(23,793)	(11,664)
Total stockholders' equity	1,119,626	1,117,496
Total liabilities and stockholders' equity	\$ 1,456,202	\$ 1,455,491

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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net sales:				
Product	\$ 273,807	\$ 288,224	\$ 535,381	\$ 550,488
Software maintenance	27,984	24,487	55,923	46,897
Total net sales	301,791	312,711	591,304	597,385
Cost of sales:				
Product	75,621	80,642	150,502	150,263
Software maintenance	1,054	1,179	2,509	2,760
Total cost of sales	76,675	81,821	153,011	153,023
Gross profit	225,116	230,890	438,293	444,362
Operating expenses:				
Sales and marketing	111,855	119,374	221,408	231,290
Research and development	55,409	55,851	115,929	111,110
General and administrative	23,165	23,640	46,136	46,113
Total operating expenses	190,429	198,865	383,473	388,513
Operating income	34,687	32,025	54,820	55,849
Other income:				
Interest income	341	234	694	431
Net foreign exchange loss	(577)	(603)	(2,251)	(553)
Other income, net	25	265	653	353
Income before income taxes	34,476	31,921	53,916	56,080
Provision for income taxes	9,534	7,398	13,970	12,834

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Net income	\$ 24,942	\$ 24,523	\$ 39,946	\$ 43,246
Basic earnings per share	\$ 0.19	\$ 0.19	\$ 0.31	\$ 0.34
Weighted average shares outstanding - basic	128,682	126,887	128,363	126,433
Diluted earnings per share	\$ 0.19	\$ 0.19	\$ 0.31	\$ 0.34
Weighted average shares outstanding - diluted	129,337	127,512	129,013	127,123
Dividends declared per share	\$ 0.19	\$ 0.15	\$ 0.38	\$ 0.30

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

3

NATIONAL INSTRUMENTS CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	\$ 24,942	\$ 24,523	\$ 39,946	\$ 43,246
Other comprehensive income, before tax and net of reclassification adjustments:				
Foreign currency translation adjustment	4,467	581	(10,484)	(558)
Unrealized (loss) gain on securities available-for-sale	283	(100)	789	92
Unrealized (loss) gain on derivative instruments	(7,718)	(87)	(6,736)	(1,960)
Other comprehensive (loss) gain, before tax	(2,968)	394	(16,431)	(2,426)
Tax (benefit) expense related to items of other comprehensive income	(1,387)	133	(4,302)	(640)
Other comprehensive (loss) gain, net of tax	(1,581)	261	(12,129)	(1,786)
Comprehensive income	\$ 23,361	\$ 24,784	\$ 27,817	\$ 41,460

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

NATIONAL INSTRUMENTS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended June 30,	
	2015	2014
Cash flow from operating activities:		
Net income	\$ 39,946	\$ 43,246
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	36,502	33,357
Stock-based compensation	12,745	12,881
Tax (benefit) expense from deferred income taxes	(1,561)	1,398
Tax benefit from stock option plans	(937)	(1,055)
Changes in operating assets and liabilities:		
Accounts receivable	(2,748)	(30,140)
Inventories	(12,228)	4,815
Prepaid expenses and other assets	(19,544)	(25,942)
Accounts payable	(2,082)	7,368
Deferred revenue	3,692	10,499
Taxes, accrued expenses and other liabilities	(3,002)	12,011
Net cash provided by operating activities	50,783	68,438
Cash flow from investing activities:		
Capital expenditures	(20,626)	(22,109)
Capitalization of internally developed software	(11,446)	(16,797)
Additions to other intangibles	(520)	(1,634)
Acquisitions, net of cash received	(24,523)	-
Purchases of short-term investments	(29,649)	(80,515)
Sales and maturities of short-term investments	36,796	79,647
Net cash used in investing activities	(49,968)	(41,408)
Cash flow from financing activities:		
Proceeds from issuance of common stock	14,416	17,124
Repurchase of common stock	(8,545)	-

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Dividends paid	(48,869)	(37,976)
Tax benefit from stock option plans	937	1,055
Net cash used in financing activities	(42,061)	(19,797)
Net change in cash and cash equivalents	(41,246)	7,233
Cash and cash equivalents at beginning of period	274,030	230,263
Cash and cash equivalents at end of period	\$ 232,784	\$ 237,496

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

5

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, 2014, 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 June 30, 2015 and December 31, 2014, and the results of our operations and comprehensive income for the three and six month periods ended June 30, 2015, and the cash flows for the six month period ended June 30, 2015. Our operating results for the three and six month periods ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States.

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.

The reconciliation of the denominators used to calculate basic EPS and diluted EPS for the three and six month periods ended June 30, 2015 and 2014, are as follows:

Three Months Ended June 30,	Six Months Ended June 30,
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	(In thousands)		(In thousands)	
	(Unaudited)		(Unaudited)	
	2015	2014	2015	2014
Weighted average shares outstanding-basic	128,682	126,887	128,363	126,433
Plus: Common share equivalents				
Stock options and RSUs	655	625	650	690
Weighted average shares outstanding-diluted	129,337	127,512	129,013	127,123

Stock awards to acquire 556,000 shares and 13,500 shares for the three month periods ended June 30, 2015 and 2014, respectively, and 304,000 shares and 29,400 shares for the six month periods ended June 30, 2015 and 2014, 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 June 30, 2015 (Unaudited)				
	Adjusted Cost	Gross Unrealized Gain	Gross Unrealized Loss	Cumulative Translation Adjustment	Fair Value
Cash	\$ 133,791	\$ -	\$ -	\$ -	\$ 133,791
Money Market Accounts	98,993	-	-	-	98,993
Corporate bonds	126,798	60	(132)	(8,922)	117,804
U.S. treasuries and agencies	69,231	69	-	-	69,300
Foreign government bonds	-	-	-	-	-
Time deposits	2,912	-	-	-	2,912
Cash, cash equivalents, and short-term investments	\$ 431,725	\$ 129	\$ (132)	\$ (8,922)	\$ 422,800

(In thousands)	December 31, 2014			Cumulative Translation Adjustment	Fair Value
	Adjusted Cost	Gross Unrealized Gain	Gross Unrealized Loss		
Cash	\$ 149,598	\$ -	\$ -	\$ -	\$ 149,598
Money Market Accounts	124,432	-	-	-	124,432
Corporate bonds	118,242	54	(254)	(4,966)	113,076
U.S. treasuries and agencies	73,919	1	(8)	-	73,912
Foreign government bonds	8,841	8	-	(1,586)	7,263
Time deposits	2,912	-	-	-	2,912
Cash, cash equivalents, and short-term investments	\$ 477,944	\$ 63	\$ (262)	\$ (6,552)	\$ 471,193

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

(In thousands)	As of June 30, 2015 (Unaudited)	
	Adjusted Cost	Fair Value
Due in less than 1 year	\$ 104,303	\$ 104,371
Due in 1 to 5 years	94,638	85,645
Total available-for-sale debt securities	\$ 198,941	\$ 190,016
Due in less than 1 year	Adjusted Cost	Fair Value
Corporate bonds	\$ 36,937	\$ 36,959
U.S. treasuries and agencies	64,454	64,500
Foreign government bonds	-	-
Time deposits	2,912	2,912
Total available-for-sale debt securities	\$ 104,303	\$ 104,371
Due in 1 to 5 years	Adjusted Cost	Fair Value
Corporate bonds	\$ 89,861	\$ 80,845
U.S. treasuries and agencies	4,777	4,800
Total available-for-sale debt securities	\$ 94,638	\$ 85,645

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

7

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

(In thousands)	Fair Value Measurements at Reporting Date Using (Unaudited)			
	June 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash and cash equivalents available for sale:				
Money Market Funds	\$ 98,993	\$ 98,993	\$ -	\$ -
Short-term investments available for sale:				
Corporate bonds	117,804			