

NATIONAL INSTRUMENTS CORP /DE/
Form 10-Q
October 31, 2014
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: September 30, 2014 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

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(address of principal executive offices)

(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 October 28, 2014
Common Stock - \$0.01 par value	127,586,103

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, 2014 (unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 259,455	\$ 230,263
Short-term investments	188,299	163,149
Accounts receivable, net	187,726	180,680
Inventories, net	170,862	172,109
Prepaid expenses and other current assets	71,735	49,001
Deferred income taxes, net	28,425	33,393
Total current assets	906,502	828,595
Property and equipment, net	261,622	260,568
Goodwill	145,026	146,520
Intangible assets, net	83,151	82,310
Other long-term assets	24,592	25,558
Total assets	\$ 1,420,893	\$ 1,343,551
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 61,893	\$ 56,614
Accrued compensation	37,638	25,189
Deferred revenue - current	101,407	96,117

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Accrued expenses and other liabilities	13,728	17,627
Other taxes payable	34,822	29,808
Total current liabilities	249,488	225,355
Deferred income taxes	41,885	44,620
Liability for uncertain tax positions	10,412	23,572
Deferred revenue - long-term	24,808	21,389
Other long-term liabilities	7,012	5,531
Total liabilities	333,605	320,467
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; 127,585,824 and 125,690,240 shares issued and outstanding, respectively	1,276	1,257
Additional paid-in capital	649,794	604,330
Retained earnings	440,785	414,947
Accumulated other comprehensive (loss) income	(4,567)	2,550
Total stockholders' equity	1,087,288	1,023,084
Total liabilities and stockholders' equity	\$ 1,420,893	\$ 1,343,551

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,	
	2014	2013	2014	2013
Net sales:				
Product	\$ 287,336	\$ 269,582	\$ 837,824	\$ 810,663
Software maintenance	26,365	19,556	73,262	61,089
Total net sales	313,701	289,138	911,086	871,752
Cost of sales:				
Product	79,266	73,541	229,529	224,954
Software maintenance	1,683	1,665	4,443	4,307
Total cost of sales	80,949	75,206	233,972	229,261
Gross profit	232,752	213,932	677,114	642,491
Operating expenses:				
Sales and marketing	116,736	111,253	348,026	337,884
Research and development	58,972	60,791	170,082	180,520
General and administrative	22,741	21,363	68,854	66,363
Acquisition related adjustment	-	-	-	(1,316)
Total operating expenses	198,449	193,407	586,962	583,451
Operating income	34,303	20,525	90,152	59,040
Other income:				
Interest income	362	133	793	495
Net foreign exchange (loss) gain	(452)	456	(1,005)	(2,057)
Other (loss) income, net	(70)	304	283	728
Income before income taxes	34,143	21,418	90,223	58,206
(Benefit from) provision for income taxes	(5,559)	5,654	7,275	9,421

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Net income	\$ 39,702	\$ 15,764	\$ 82,948	\$ 48,785
Basic earnings per share	\$ 0.31	\$ 0.13	\$ 0.65	\$ 0.39
Weighted average shares outstanding - basic	127,478	125,032	126,785	124,244
Diluted earnings per share	\$ 0.31	\$ 0.13	\$ 0.65	\$ 0.39
Weighted average shares outstanding - diluted	127,903	125,608	127,529	125,221
Dividends declared per share	\$ 0.15	\$ 0.14	\$ 0.45	\$ 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, 2014		Nine Months Ended September 30, 2013	
Net income	\$ 39,702	\$ 15,764	\$ 82,948	\$ 48,785
Other comprehensive income, before tax and net of reclassification adjustments:				
Foreign currency translation adjustment	(9,909)	6,307	(10,467)	3,058
Unrealized (loss) gain on securities available-for-sale	(221)	(91)	(129)	(497)
Unrealized gain (loss) on derivative instruments	10,023	(2,371)	8,063	1,281
Other comprehensive loss, before tax	(107)	3,845	(2,533)	3,842
Tax expense related to items of other comprehensive income	5,224	611	4,584	1,964
Other comprehensive (loss) income, net of tax	(5,331)	3,234	(7,117)	1,878
Comprehensive income	\$ 34,371	\$ 18,998	\$ 75,831	\$ 50,663

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,	
	2014	2013
Cash flow from operating activities:		
Net income	\$ 82,948	\$ 48,785
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	51,011	50,897
Stock-based compensation	19,531	21,996
Tax benefit from deferred income taxes	2,222	(1,272)
Tax benefit from stock option plans	(1,189)	(2,185)
Changes in operating assets and liabilities:		
Accounts receivable	(7,046)	4,789
Inventories	1,247	(8,358)
Prepaid expenses and other assets	(24,887)	(18,320)
Accounts payable	5,279	(10,636)
Deferred revenue	8,709	6,192
Taxes, accrued expenses and other liabilities	2,891	2,834
Net cash provided by operating activities	140,716	94,722
Cash flow from investing activities:		
Capital expenditures	(30,645)	(40,795)
Capitalization of internally developed software	(22,055)	(10,566)
Additions to other intangibles	(2,238)	(4,146)
Purchases of short-term investments	(107,664)	(16,039)
Sales and maturities of short-term investments	82,514	35,299
Net cash used in investing activities	(80,088)	(36,247)
Cash flow from financing activities:		
Proceeds from issuance of common stock	24,483	28,809
AWR earnout payment	-	(9,016)
Dividends paid	(57,108)	(52,241)
Tax benefit from stock option plans	1,189	2,185
Net cash used in financing activities	(31,436)	(30,263)

Net change in cash and cash equivalents	29,192	28,212
Cash and cash equivalents at beginning of period	230,263	161,996
Cash and cash equivalents at end of period	\$ 259,455	\$ 190,208

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, 2013, 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, 2014 and December 31, 2013, and the results of our operations and comprehensive income for the three and nine month periods ended September 30, 2014. Operating results for the three and nine month periods ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. 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 nine month periods ended September 30, 2014 and 2013, are as follows:

Three Months Ended September 30, (In thousands)	Nine Months Ended September 30, (In thousands)
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	(Unaudited)		(Unaudited)	
	2014	2013	2014	2013
Weighted average shares outstanding-basic	127,478	125,032	126,785	124,244
Plus: Common share equivalents				
Stock options, RSUs	425	576	744	977
Weighted average shares outstanding-diluted	127,903	125,608	127,529	125,221

Stock awards to acquire 420,000 shares and 682,300 shares for the three months ended September 30, 2014 and 2013, respectively, and 24,300 shares and 58,500 shares for the nine month periods ended September 30, 2014 and 2013, 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, 2014 (Unaudited)				
	Adjusted Cost	Gross Unrealized Gain	Gross Unrealized Loss	Cumulative Translation Adjustment	Fair Value
Cash	\$ 140,155	\$ -	\$ -	\$ -	\$ 140,155
Money Market Accounts	119,300	-	-	-	119,300
Corporate bonds	107,766	87	(168)	(3,924)	103,761
U.S. treasuries and agencies	74,079	3	(38)	-	74,044
Foreign government bonds	8,863	12	-	(1,293)	7,582
Time deposits	2,912	-	-	-	2,912
Cash, cash equivalents, and short-term investments	\$ 453,075	\$ 102	\$ (206)	\$ (5,217)	\$ 447,754

(In thousands)	December 31, 2013				
	Adjusted Cost	Gross Unrealized Gain	Gross Unrealized Loss	Cumulative Translation Adjustment	Fair Value
Cash	\$ 142,058	\$ -	\$ -	\$ -	\$ 142,058
Money Market Accounts	88,205	-	-	-	88,205
Corporate bonds	71,964	16	(146)	(1,218)	70,616
U.S. treasuries and agencies	72,459	26	-	-	72,485
Foreign government bonds	18,409	-	(7)	(1,266)	17,136
Time deposits	2,912	-	-	-	2,912
Cash, cash equivalents, and short-term investments	\$ 396,007	\$ 42	\$ (153)	\$ (2,484)	\$ 393,412

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

(In thousands)	As of September 30, 2014 (Unaudited)	
	Adjusted Cost	Fair Value
Due in less than 1 year	\$ 58,746	\$ 54,971
Due in 1 to 5 years	134,874	133,328
Total available-for-sale debt securities	\$ 193,620	\$ 188,299
Due in less than 1 year	Adjusted Cost	Fair Value
Corporate bonds	\$ 42,278	\$ 39,781
U.S. treasuries and agencies	4,693	4,696
Foreign government bonds	8,863	7,582
Time deposits	2,912	2,912
Total available-for-sale debt securities	\$ 58,746	\$ 54,971
Due in 1 to 5 years	Adjusted Cost	Fair Value
Corporate bonds	\$ 65,488	\$ 63,980
U.S. treasuries and agencies	69,386	69,348
Total available-for-sale debt securities	\$ 134,874	\$ 133,328

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

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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, 2014	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	\$ 119,300	\$ 119,300	\$ -	\$ -