

NATIONAL INSTRUMENTS CORP /DE/

Form 10-Q

August 04, 2009

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 fiscal quarter ended: June 30, 2009 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
(State or other jurisdiction of incorporation or organization)

74-1871327
(I.R.S. Employer Identification Number)

11500 North MoPac Expressway
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

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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 August 3, 2009
Common Stock - \$0.01 par value	77,625,779

NATIONAL INSTRUMENTS CORPORATION

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PART I - FINANCIAL INFORMATION

ITEM 1.

Financial Statements

NATIONAL INSTRUMENTS CORPORATION
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	June 30, 2009	December 31, 2008
Assets	(unaudited)	
Current assets:		
Cash and cash equivalents	\$ 221,723	\$ 229,400
Short-term investments	28,991	6,220
Accounts receivable, net	91,393	121,548
Inventories, net	95,269	107,358
Prepaid expenses and other current assets	43,496	43,062
Deferred income taxes, net	23,989	21,435
Total current assets	504,861	529,023
Long-term investments	10,500	10,500
Property and equipment, net	150,620	154,477
Goodwill, net	64,610	64,561
Intangible assets, net	46,719	41,915
Other long-term assets	32,028	32,115
Total assets	\$ 809,338	\$ 832,591
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 24,378	\$ 30,876
Accrued compensation	18,387	22,012
Deferred revenue	47,692	45,514
Accrued expenses and other liabilities	12,333	18,848
Other taxes payable	11,855	13,481
Total current liabilities	114,645	130,731
Deferred income taxes	24,488	25,157
Other long-term liabilities	12,784	12,265
Total liabilities	151,917	168,153

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; 180,000,000 shares authorized; 77,567,862 and 77,193,063 shares issued and outstanding, respectively	775	772
Additional paid-in capital	45,964	39,673
Retained earnings	599,681	613,510
Accumulated other comprehensive income	11,001	10,483
Total stockholders' equity	657,421	664,438
Total liabilities and stockholders' equity	\$ 809,338	\$ 832,591

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

NATIONAL INSTRUMENTS CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data)
(unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Net sales:				
Product	\$ 139,792	\$ 195,562	\$ 283,242	\$ 377,351
Software maintenance	12,371	14,912	26,720	26,041
Total net sales	152,163	210,474	309,962	403,392
Cost of sales:				
Product	\$ 39,202	\$ 51,863	\$ 78,758	\$ 99,530
Software maintenance	1,284	1,577	2,611	2,979
Total cost of sales	40,486	53,440	81,369	102,509
Gross profit	111,677	157,034	228,593	300,883
Operating expenses:				
Sales and marketing	\$ 65,137	\$ 78,729	\$ 133,963	\$ 152,246
Research and development	29,447	33,188	64,236	68,792
General and administrative	14,752	17,283	30,532	33,945
Total operating expenses	109,336	129,200	228,731	254,983
Operating income (loss)	2,341	27,834	(138)	45,900
Other income (expense):				
Interest income	\$ 407	\$ 1,514	\$ 996	\$ 3,651
Net foreign exchange gain (loss)	1,063	(313)	361	1,235
Other income (expense), net	334	(129)	497	(68)
Income before income taxes	4,145	28,906	1,716	50,718
Provision for (benefit from) income taxes	(285)	4,172	(3,072)	8,368
Net income	\$ 4,430	\$ 24,734	\$ 4,788	\$ 42,350
Basic earnings per share	\$ 0.06	\$ 0.32	\$ 0.06	\$ 0.54
Weighted average shares outstanding – basic				
	77,556	78,484	77,417	78,662
Diluted earnings per share	\$ 0.06	\$ 0.31	\$ 0.06	\$ 0.53
Weighted average shares outstanding – diluted				
	77,824	79,549	77,596	79,691

Dividends declared per share	\$ 0.12	\$ 0.11	\$ 0.24	\$ 0.22
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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,	
	2009	2008
Cash flow from operating activities:		
Net income	\$ 4,788	\$ 42,350
Adjustments to reconcile net income to net cash provided by operating activities:		
D e p r e c i a t i o n a n d amortization	19,569	19,852
S t o c k - b a s e d compensation	10,036	9,662
B e n e f i t f r o m d e f e r r e d i n c o m e taxes	(2,610)	(3,585)
T a x e x p e n s e (b e n e f i t f r o m) s t o c k o p t i o n plans	1,379	(492)
Changes in operating assets and liabilities:		
Accounts receivable	30,155	3,524
Inventories	12,089	(12,894)
P r e p a i d e x p e n s e s a n d o t h e r assets	(624)	(839)
Accounts payable	(6,498)	2,425
Deferred revenue	2,178	5,316
T a x e s a n d o t h e r liabilities	(11,922)	3,008
Net cash provided by operating activities	58,540	68,327
Cash flow from investing activities:		
C a p i t a l expenditures	(7,706)	(12,382)
C a p i t a l i z a t i o n o f i n t e r n a l l y d e v e l o p e d software	(9,936)	(7,585)
A d d i t i o n s t o o t h e r intangibles	(2,420)	(1,072)
A c q u i s i t i o n , n e t o f c a s h received	—	(17,310)
P u r c h a s e s o f s h o r t - t e r m a n d l o n g - t e r m investments	(23,989)	(17,245)
Sales and maturities of short-term and long-term investments	1,218	74,682
P u r c h a s e s o f f o r e i g n c u r r e n c y o p t i o n contracts	—	(2,784)
Net cash (used by) provided by investing activities	(42,833)	16,304

Cash flow from financing activities:		
Proceeds from issuance of common stock	11,520	17,077
Repurchase of common stock	(14,908)	(57,644)
Dividends paid	(18,617)	(17,370)
Tax expense (benefit from) stock option plans	(1,379)	492
Net cash (used by) financing activities	(23,384)	(57,445)
Net change in cash and cash equivalents		
	(7,677)	27,186
Cash and cash equivalents at beginning of period	229,400	194,839
Cash and cash equivalents at end of period	\$ 221,723	\$ 222,025

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

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, 2008, 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, 2009 and December 31, 2008, and the results of our operations for the three month and six month periods ended June 30, 2009 and June 30, 2008 and the cash flows for the six month periods ended June 30, 2009 and 2008. Operating results for the three-month and six-month periods ended June 30, 2009, are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

Certain prior year amounts have been reclassified to conform to the 2009 presentation as shown in the following tables:

	Three Months Ended June 30, 2008 (unaudited)	Six Months Ended June 30, 2008 (unaudited)
C o s t o f s a l e s a s p r e v i o u s l y reported	\$ 52,443	\$ 100,690
Technical support costs previously reported as sales and marketing (a)	997	1,819
C o s t o f s a l e s a d j u s t e d f o r reclassification	\$ 53,440	\$ 102,509
S a l e s a n d m a r k e t i n g a s p r e v i o u s l y reported	\$ 79,726	\$ 154,065
Technical support costs as previously reported as sales and marketing (a)	(997)	(1,819)
S a l e s a n d m a r k e t i n g a d j u s t e d f o r reclassification	\$ 78,729	\$ 152,246

- (a) Since December 31, 2008, we have been separately reporting software maintenance revenue and cost of software maintenance revenue in our Consolidated Statements of Income. We added this disclosure due to the increasing percentage of our revenue coming from software maintenance. As part of this expanded disclosure, some technical support costs previously reported as a component of sales and marketing expense are reported as cost of software maintenance. This change has had no impact on our operating income, net income or earnings per share.

We have historically recorded the excess of the purchase price over par or stated value of retired shares of common stock as a reduction of additional paid-in capital. We are evaluating whether a portion of the excess of the purchase price over par or stated value associated with the retirement of shares of common stock is required to be charged to retained earnings in accordance with Accounting Research Bulletin ("ARB") No.43. We are currently evaluating whether we will need to make an adjustment to our consolidated statements of stockholders' equity to reflect this

reclassification. Any resulting reclassification will have no impact on previously reported statements of income, earning per share amounts, statements of cash flows or total stockholders' equity.

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, is computed using the treasury stock method.

The reconciliation of the denominators used to calculate basic EPS and diluted EPS for the three month and six month periods ended June 30, 2009 and 2008, respectively, are as follows (in thousands):

	Three Months Ended June 30, (unaudited)		Six Months Ended June 30, (unaudited)	
	2009	2008	2009	2008
Weighted average shares outstanding-basic	77,556	78,484	77,417	78,662
Plus: Common share equivalents				
Stock options, restricted stock units	268	1,065	179	1,029
Weighted average shares outstanding-diluted	77,824	79,549	77,596	79,691

Stock options to acquire 3,696,000 shares and 2,318,000 shares for the three month periods ended June 30, 2009 and 2008, respectively, and 4,973,000 and 2,678,000 shares for the six month periods ended June 30, 2009 and 2008, respectively, were excluded in the computations of diluted EPS because the effect of including the stock options would have been anti-dilutive.

NOTE 3 – Cash, Cash Equivalents, Short-Term and Long-Term Investments

Cash, cash equivalents, short-term and long-term investments consist of the following (in thousands):

	As of June 30, 2009 (unaudited)	As of December 31, 2008
Cash and cash equivalents:		
Cash	\$ 61,683	\$ 100,967
Cash equivalents:		
Debt securities	—	—
Time deposits	—	73,400
Money market accounts	160,040	55,033
T o t a l c a s h a n d c a s h equivalents	\$ 221,723	\$ 229,400
Short-term investments:		
Debt securities	\$ 28,991	\$ 6,220
Auction rate securities	—	—
Long-term investments:		
Auction rate securities	8,190	6,964
	410	1,636

A u c t i o n r a t e s e c u r i t i e s p u t option		
O t h e r l o n g - t e r m investments	1,900	1,900
Total investments	\$ 39,491	\$ 16,720
T o t a l c a s h , c a s h e q u i v a l e n t s a n d investments	\$ 261,214	\$ 246,120

The following table summarizes unrealized gains and losses related to our investments designated as available-for-sale (in thousands):

As of June 30, 2009
(unaudited)