

NATIONAL INSTRUMENTS CORP /DE/
Form 10-Q
May 08, 2007

**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, 2007 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

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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
Common Stock - \$0.01 par value

Outstanding at May 7, 2007
79,825,557

NATIONAL INSTRUMENTS CORPORATION

INDEX

	Page No.	
PART I. FINANCIAL INFORMATION		
Item 1	Financial Statements:	
	Consolidated Balance Sheets March 31, 2007 (unaudited) and December 31, 2006	3
	Consolidated Statements of Income (unaudited) for the three months ended March 31, 2007 and March 31, 2006	4
	Consolidated Statements of Cash Flows (unaudited) for the three months ended March 31, 2007 and March 31, 2006	5
	Notes to Consolidated Financial Statements	6
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	14
Item 3	Quantitative and Qualitative Disclosures about Market Risk	20
Item 4	Controls and Procedures	20
PART II. OTHER INFORMATION		
Item 1	Legal Proceedings	22
Item 1A	Risk Factors	22
Item 2	Issuer Purchases of Equity Securities	29
Item 5	Other Information	29
Item 6	Exhibits	30
	Signatures and Certifications	31

PART I FINANCIAL INFORMATION

ITEM 1. *Financial Statements*

NATIONAL INSTRUMENTS CORPORATION

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

	March 31, 2007	December 31, 2006
Assets		
	(unaudited)	
Current assets:		
Cash and cash equivalents	\$ 137,316	\$ 100,287
Short-term investments	107,769	150,190
Accounts receivable, net	110,398	117,235
Inventories, net	77,062	77,138
Prepaid expenses and other current assets	17,527	11,393
Deferred income taxes, net	21,478	20,851
	<u>471,550</u>	<u>477,094</u>
Total current assets	471,550	477,094
Property and equipment, net	146,046	145,425
Goodwill, net	53,437	53,343
Intangible assets, net	42,740	40,065
Other long-term assets	5,933	5,293
	<u>719,706</u>	<u>721,220</u>
Total assets	\$ 719,706	\$ 721,220

	March 31, 2007	December 31, 2006
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 32,821	\$ 32,001
Accrued compensation	18,695	20,912
Deferred revenue	24,358	22,208
Accrued expenses and other liabilities	9,471	12,871
Other taxes payable	9,637	11,527
	<u>94,982</u>	<u>99,519</u>
Total current liabilities	94,982	99,519
Deferred income taxes	20,473	20,472
Other long-term liabilities	7,487	4,643
	<u>122,942</u>	<u>124,634</u>
Total liabilities	122,942	124,634
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; 79,563,134 and 79,883,837 shares issued and outstanding, respectively	796	799
Additional paid-in capital	96,218	109,851
Retained earnings	496,894	483,437
Accumulated other comprehensive income (loss)	2,856	2,499
	<u>596,764</u>	<u>596,586</u>
Total stockholders' equity	596,764	596,586
	<u>\$ 719,706</u>	<u>\$ 721,220</u>
Total liabilities and stockholders' equity	\$ 719,706	\$ 721,220

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 March 31,	
	2007	2006
Net sales	\$ 171,641	\$ 154,752
Cost of sales (1)	42,148	41,505
	<u>129,493</u>	<u>113,247</u>
Gross profit	129,493	113,247
Operating expenses:		
Sales and marketing (2)	63,580	56,400
Research and development (3)	29,236	27,982
General and administrative (4)	14,575	13,039
	<u>107,391</u>	<u>97,421</u>
Total operating expenses	107,391	97,421
Operating income	22,102	15,826

	Three Months Ended March 31,	
	<u>2007</u>	<u>2006</u>
Other income (expense):		
Interest income	2,236	1,253
Net foreign exchange gain (loss)	189	(386)
Other income (expense), net	(106)	189
	<u>24,421</u>	<u>16,882</u>
Income before income taxes		
Provision for income taxes (5)	5,372	4,280
	<u>19,049</u>	<u>12,602</u>
Net income	\$	\$
	<u>0.24</u>	<u>0.16</u>
Basic earnings per share		
	<u>79,842</u>	<u>79,053</u>
Weighted average shares outstanding - basic		
Diluted earnings per share	\$	\$
	<u>0.23</u>	<u>0.15</u>
Diluted earnings per share		
	<u>81,232</u>	<u>81,608</u>
Weighted average shares outstanding - diluted		
Dividends declared per share	\$	\$
	<u>0.07</u>	<u>0.06</u>

The following footnotes apply to the three months ended March 31, 2007 and March 31, 2006:

- (1) including \$184 and \$106, respectively, of non-cash stock compensation.
- (2) including \$1,523 and \$1,481, respectively, of non-cash stock compensation.
- (3) including \$1,357 and \$1,397, respectively, of non-cash stock compensation.
- (4) including \$592 and \$590, respectively, of non-cash stock compensation.
- (5) including \$746 and \$536, respectively, of benefit from non-cash stock compensation.

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

NATIONAL INSTRUMENTS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands) (unaudited)

	Three Months Ended March 31,	
	<u>2007</u>	<u>2006</u>
Cash flow from operating activities:		
Net income	\$ 19,049	\$ 12,602
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,371	8,478
Stock-based compensation	3,732	3,710
Benefit from deferred income taxes	(741)	(455)
Tax benefit from stock option plans	(1,395)	(3,064)
Changes in operating assets and liabilities:		
Accounts receivable	6,837	1,549
Inventories	76	(10,134)
Prepaid expenses and other assets	(6,793)	(3,176)
Accounts payable	820	1,269
Deferred revenue	2,150	966
Taxes and other liabilities	(2,613)	2,438

	Three Months Ended March 31,	
	<u> </u>	<u> </u>
Net cash provided by operating activities	30,493	14,183
Cash flow from investing activities:		
Capital expenditures	(6,216)	(2,683)
Capitalization of internally developed software	(2,452)	(1,207)
Additions to other intangibles	(3,602)	(205)
Purchases of short-term investments	(23,408)	(46,567)
Sales and maturities of short-term investments	65,829	31,115
Net cash provided by (used in) investing activities	30,151	(19,547)
Cash flow from financing activities:		
Proceeds from issuance of common stock	9,824	9,670
Repurchase of common stock	(29,242)	
Dividends paid	(5,592)	(4,707)
Tax benefit from stock option plans	1,395	3,064
Net cash provided by (used in) financing activities	(23,615)	8,027
Net change in cash and cash equivalents	37,029	2,663
Cash and cash equivalents at beginning of period	100,287	55,864
Cash and cash equivalents at end of period	\$ 137,316	\$ 58,527

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, 2006 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 March 31, 2007 and December 31, 2006, and the results of our operations and cash flows for the three-month periods ended March 31, 2007 and March 31, 2006. Operating results for the three-month period ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

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 periods ended March 31, 2007 and 2006, respectively, are as follows (in thousands):

<u>March 31,</u>	
(unaudited)	
2007	2006

Edgar Filing: NATIONAL INSTRUMENTS CORP /DE/ - Form 10-Q

March 31,

Weighted average shares outstanding-basic	79,842	79,053
Plus: Common share equivalents		
Stock options, restricted stock units	1,390	2,555
Weighted average shares outstanding-diluted	81,232	81,608

Stock options to acquire 3,314,000 and 1,697,000 shares for the quarters ended March 31, 2007 and 2006, respectively, were excluded in the computations of diluted EPS because the effect of including the stock options would have been anti-dilutive.

NOTE 3 Inventories

Inventories, net consist of the following (in thousands):

	March 31,	December 31,
	(unaudited)	
	2007	2006
Raw materials	\$ 38,010	\$ 38,270
Work-in-process	3,906	4,321
Finished goods	35,146	34,547
	\$ 77,062	\$ 77,138

NOTE 4 Intangibles

Intangibles at March 31, 2007 and December 31, 2006 are as follows:

	March 31, 2007 (unaudited)			December 31, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Capitalized software development costs	\$ 60,023	\$ (43,931)	\$ 16,092	\$ 57,571	\$ (41,791)	\$ 15,780
Acquired technology	20,837	(10,523)	10,314	20,814	(9,734)	11,080
Patents	13,231	(3,243)	9,988	12,928	(3,076)	9,852
Leasehold equipment and other	9,746	(3,400)	6,346	6,452	(3,099)	3,353
	\$ 103,837	\$ (61,097)	\$ 42,740	\$ 97,765	\$ (57,700)	\$ 40,065

Software development costs capitalized for the three months ended March 31, 2007 and March 31, 2006 were \$2.5 million, and \$1.2 million, respectively, and related amortization was \$2.1 million and \$2.6 million, respectively. Amortization of capitalized software development costs is computed on an individual product basis for those products available for market and is recognized based on the product's estimated economic life, generally three years. Patents are amortized using the straight-line method over their estimated period of benefit, generally ten to seventeen years. Total intangible assets amortization expenses were \$3.4 million and \$3.8 million for the three months ended March 31, 2007 and March 31, 2006, respectively.

Acquired core technology and intangible assets are amortized over their useful lives, which range from three to eight years. Amortization expense for intangible assets acquired was approximately \$797,000 and \$787,000 for the three months ended March 31, 2007 and March 31, 2006, respectively, of which approximately \$677,000 and \$666,000 was recorded in cost of sales for the three months ended March 31, 2007 and March 31, 2006, respectively, and approximately \$120,000 and \$121,000 was recorded in operating expenses for the three months ended March

NOTE 4 Intangibles

Edgar Filing: NATIONAL INSTRUMENTS CORP /DE/ - Form 10-Q

31, 2007 and March 31, 2006, respectively. The estimated amortization expense of intangible assets acquired for the current fiscal year and in future years will be recorded in the consolidated statements of income as follows (in thousands):

Fiscal Year	Cost of Sales	Acquisition related costs and amortization, net	Total
2007	\$ 2,689	\$ 450	\$ 3,139
2008	2,532	412	2,944
2009	2,259	338	2,597
2010	1,725	177	1,902
Thereafter	1,166	271	1,437
Total	\$		